

**FRIENDSWOOD INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORT**

**For The Year Ended August 31, 2008**



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Texas City, Texas 77590  
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**CERTIFICATE OF BOARD**

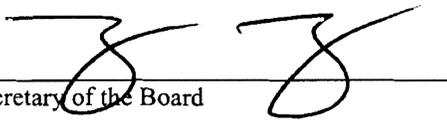
Friendswood Independent School District  
Name of School District

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, 2008, at a meeting of the board of trustees of such school district on December 9, 2008.

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

  
\_\_\_\_\_  
Secretary 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, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2008, 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 09, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements of the District. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Texas City, Texas  
December 09, 2008

## **Management's Discussion and Analysis**

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## **FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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, 2008.

#### **Financial Highlights**

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$17,430,606. Of this amount, \$8,569,727 may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net assets decreased by \$1,057,077 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 \$109,655,589, an increase of \$96,915,591 in comparison with the prior year. The increase in governmental fund balances was primarily due to the issuance of bonds in the capital projects fund.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$6,647,516, or 17% of total general fund expenditures.
- The District's bonded debt increased by \$94,665,000 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 provide separate information for the Workers Compensation Fund and the Health Insurance 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.

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

**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 \$17,430,606 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.

**Comparative Schedule of Net Assets**

	<b>Governmental Activities</b>	
	<b>2008</b>	<b>2007</b>
Current and other assets	\$ 116,071,840	\$ 18,299,383
Capital and non current assets	31,997,716	31,700,903
<b>Total Assets</b>	<b>148,069,556</b>	<b>50,000,286</b>
Current liabilities	5,329,480	5,286,448
Long term liabilities	125,309,470	28,748,758
<b>Total Liabilities</b>	<b>130,638,950</b>	<b>34,035,206</b>
Net Assets:		
Invested in capital assets net of related debt	3,859,402	2,922,595
Restricted	5,001,477	5,023,173
Unrestricted	8,569,727	8,019,312
<b>Total Net Assets</b>	<b>\$ 17,430,606</b>	<b>\$ 15,965,080</b>

Net assets are restricted for various purposes as follows:

	<b>Governmental Activities</b>	
	<b>2008</b>	<b>2007</b>
Federal and state programs	\$ 248,326	\$ 77,054
Food Service	131,632	114,197
Debt Service	4,361,160	2,562,214
Capital Projects	(421,024)	1,705,918
Campus Activities	681,383	563,790
	<b>\$ 5,001,477</b>	<b>\$ 5,023,173</b>

The remaining balance of unrestricted net assets \$8,569,727 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 \$1,057,077 during the current fiscal year.

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

**Comparative Schedule of Changes in Net Assets**

	<b>Governmental Activities</b>	
	<b>2008</b>	<b>2007</b>
<b>Program Revenues</b>		
Charges for services	\$ 2,763,664	\$ 2,493,777
Operating grants	4,643,710	4,508,824
<b>General Revenues</b>		
Property taxes	22,469,177	27,408,648
State Aid - Formula Grants	14,814,177	9,103,632
Grants and contributions not restricted	9,548	6,978
Interest earnings	1,129,488	923,834
Other	434,779	279,528
<b>Total Revenues</b>	<u>46,264,543</u>	<u>44,725,221</u>
<b>Expenses</b>		
Instruction	26,482,814	23,448,798
Instructional resources and media services	1,007,042	944,155
Curriculum and staff development	250,490	356,221
Instructional leadership	719,317	789,843
School leadership	2,403,147	2,003,723
Guidance, counseling, and evaluation services	1,034,552	905,059
Social work services	58,816	31,960
Health services	443,165	433,712
Student transportation	1,304,195	1,443,594
Food service	2,029,320	1,835,290
Extracurricular activities	1,401,811	1,129,757
General administration	2,118,599	2,173,947
Plant, maintenance and operations	4,059,857	4,498,689
Security and monitoring services	92,461	134,784
Data processing services	853,314	717,404
Community services	99,487	81,677
Interest on long-term debt	2,691,100	1,197,310
Debt issuance costs and fees	11,316	5,961
Payments related to shared services arrangements	44,384	56,133
Payments to Juvenile Justice Alternative Education Programs	18,895	14,571
Other governmental charges	199,889	
<b>Total Expenses</b>	<u>47,323,971</u>	<u>42,202,588</u>
Excess (deficiency) before special items and transfers	(1,059,428)	2,522,633
<b>Special items</b>		
Transfers	2,352	
<b>Increase (Decrease) in Net Assets</b>	<u>(1,057,077)</u>	<u>2,522,633</u>
<b>Beginning net assets</b>	<u>18,487,683</u>	<u>15,965,050</u>
<b>Ending Net Assets</b>	<u>\$ 17,430,606</u>	<u>\$ 18,487,683</u>

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

**Governmental Activities**

Governmental activities decreased the District's net assets by \$1,057,077. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 90.6 percent of total revenues. The remaining 9.4 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

	<b>Total Revenues</b>	<b>% of Total Revenues</b>
Property taxes	\$ 22,469,177	49%
State Aid - Formula Grants	14,814,177	32%
Operating grants and contributions	4,653,258	10%
Other revenue	4,327,931	9%
<b>Total Revenues</b>	<b>\$ 46,264,543</b>	<b>100%</b>

The primary functional expenses of the District are instruction and plant maintenance and operations, which represents 65 percent of total expenses. The remaining individual functional categories of expenses are each less than 10 percent of total expenses.

	<b>Total Expenses</b>	<b>% of Total Expenses</b>
Instruction	\$ 26,482,814	56%
Plant maintenance and operations	4,059,857	9%
Other expenses	16,781,300	35%
<b>Total Expenses</b>	<b>\$ 47,323,971</b>	<b>100%</b>

**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 \$109,655,589, an increase of \$96,915,591 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 \$6,647,516, while total fund balance reached \$8,534,097. 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 \$420,409 over the prior year, while total fund expenditures showed an increase of \$3,315,452. The total fund balance of the District's general fund decreased by \$434,148 during the current fiscal year.

The debt service fund has a total fund balance of \$5,952,882, all of which is reserved for the payment of debt service. The net increase in the debt service fund balance during the current year of \$3,383,949 was in line with budgeted expectations.

The capital projects fund has a total fund balance of \$94,788,652, all of which is reserved for authorized construction and technology projects/enhancements. The net increase in fund balance during the current year of \$93,863,820 was due to the issuance of a new bond series.

**General Fund Budgetary Highlights**

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

	<b>Budget</b>	
	<b>Original</b>	<b>Final Amended</b>
Total revenues	\$ 37,156,809	\$ 37,615,040
Total expenditures	37,430,191	39,522,832
<b>Net change in fund balance</b>	<b>\$ (273,382)</b>	<b>\$ (1,907,792)</b>

**Capital Assets and Long-Term Liabilities**

**Capital Assets**

The District's investment in capital assets for its governmental type activities as of August 31, 2008, 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 \$3,233,352. The following table summarizes the investment in capital assets as of August 31, 2008 and 2007.

	<b>2008</b>	<b>2007</b>
Land	\$ 1,985,030	\$ 1,289,174
Buildings and improvements	50,521,286	49,624,023
Furniture and equipment	4,388,017	4,355,540
Leased assets under capital lease	144,147	110,278
Construction in progress	1,609,448	269,664
<b>Total</b>	<b>58,647,928</b>	<b>55,648,679</b>
Accumulated depreciation	(26,650,212)	(24,698,193)
<b>Net capital assets</b>	<b>\$ 31,997,716</b>	<b>\$ 30,950,486</b>

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 \$120,885,554 in bonded debt outstanding, an increase of \$94,665,000 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, 2008, are as follows:

<b>Outstanding</b> <b>09/01/07</b>	<b>Issued</b>	<b>Retired</b>	<b>Outstanding</b> <b>08/31/08</b>
<u>\$ 26,220,554</u>	<u>\$ 96,750,000</u>	<u>\$ (2,085,000)</u>	<u>\$ 120,885,554</u>

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

**Economic Factors and Next Year's Budgets and Rates**

- The Tax Rate for 2008-2009 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 Expense per student is \$8,625 for 2008-2009 based on the total budget.
- The District's 2008-2009 refined average daily attendance is budgeted to be 5,749 which is an increase of 2.3% from the previous year.

These indicators were taken into account when adopting the budget for 2008-2009. The total Friendswood Independent School District adopted budget for 2008-2009 is \$49,588,851.

Expenditures are budgeted to increase 14.8% to \$49.5 million. The majority of the increase is due to the repayment of the 2008 bond beginning in the 2008-2009 year.

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

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

The District passed a \$99,465,000 bond issue to include improvements of school buildings and school sites, new junior high building, natatorium, and improvements to the High School football stadium. These projects are currently in the design and development stages.

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

**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, 2008

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	<b>Assets</b>	
1110	Cash and cash equivalents	\$ 49,768,659
1225	Property taxes receivables, net	615,687
1240	Due from other governments	2,121,666
1250	Accrued interest	714,255
1267	Due from fiduciary funds	20,000
1290	Other receivables, net	112,275
1300	Inventories	198,655
1410	Deferred expenses	240,929
1420	Capital bond and other debt issuance costs	951,822
	<b>Capital assets not subject to depreciation:</b>	
1510	Land	1,985,030
1580	Construction in progress	1,609,450
	<b>Capital assets net of depreciation:</b>	
1520	Buildings and improvements, net	27,199,392
1530	Furniture and equipment, net	1,059,697
1910	Long-term investments	61,327,892
1000	<b>Total Assets</b>	<u>148,069,556</u>
	<b>Liabilities</b>	
2110	Accounts payable	880,559
2140	Interest payable	1,901,967
2150	Payroll deductions and withholdings	1,000
2160	Accrued wages payable	1,881,136
2200	Accrued expenditures	1,800
2300	Deferred revenue	338,118
2400	Payable from restricted assets	324,900
	<b>Noncurrent Liabilities:</b>	
2501	Due within one year	2,483,784
2502	Due in more than one year	122,825,686
2000	<b>Total Liabilities</b>	<u>130,638,950</u>
	<b>Net Assets</b>	
3200	Invested in capital assets, net of related debt	3,859,402
	<b>Restricted for:</b>	
3820	Federal and state programs	248,326
3840	Food service	131,632
3850	Debt service	4,361,160
3860	Capital projects	(421,024)
3870	Campus activity	681,383
3880	Scholarships	
3900	Unrestricted	8,569,727
	<b>Total Net Assets</b>	<u>\$ 17,430,606</u>

See Notes to Basic Financial Statements

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**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

*Exhibit A-2*

**STATEMENT OF ACTIVITIES**

*For the Year Ended August 31, 2008*

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
<b>Governmental activities:</b>					
11	Instruction	\$ 26,482,814	\$ 580,973	\$ 3,183,533	\$ (22,718,308)
12	Instructional resources and media services	1,007,042		28,580	(978,462)
13	Curriculum and staff development	250,490		92,423	(158,067)
21	Instructional leadership	719,317		117,750	(601,567)
23	School leadership	2,403,147	13,769	132,363	(2,257,015)
31	Guidance, counseling, and evaluation services	1,034,552		129,579	(904,973)
32	Social work services	58,816		3,870	(54,946)
33	Health services	443,165		79,041	(364,124)
34	Student transportation	1,304,195		83,508	(1,220,687)
35	Food service	2,029,320	1,734,989	174,835	(119,496)
36	Extracurricular activities	1,401,811	197,810	39,879	(1,164,122)
41	General administration	2,118,599	46,661	78,233	(1,993,705)
51	Plant, maintenance and operations	4,059,857	58,654	95,433	(3,905,770)
52	Security and monitoring services	92,461			(92,461)
53	Data processing services	853,314		84,786	(768,528)
61	Community services	99,487	75,731	4,315	(19,441)
72	Interest on long-term debt	2,691,100	55,077	315,582	(2,320,441)
73	Debt issuance costs and fees	11,316			(11,316)
93	Payments related to shared services	44,384			(44,384)
95	Payments to Juvenile Justice Alternative	18,895			(18,895)
99	Other governmental charges	199,889			(199,889)
<b>TG</b>	<b>Total governmental activities</b>	<u>\$ 47,323,972</u>	<u>\$ 2,763,664</u>	<u>\$ 4,643,710</u>	<u>(39,916,598)</u>

**Data Control Codes**

**General revenues:**

Taxes:

<b>MT</b>	Property taxes, levied for general purposes	19,854,046
<b>DT</b>	Property taxes, levied for debt service	2,615,131
<b>SF</b>	State-aid formula grants	14,814,177
<b>GC</b>	Grants and contributions not restricted	9,548
<b>IE</b>	Investment earnings	1,129,488
<b>MI</b>	Miscellaneous	434,779
<b>FR</b>	Transfers	2,352
<b>TR</b>	<b>Total general</b>	<u>38,859,521</u>
<b>CN</b>	Change in net assets	(1,057,077)
<b>NB</b>	<b>Net assets - beginning</b>	<u>18,487,683</u>
<b>NE</b>	<b>Net assets - ending</b>	<u>\$ 17,430,606</u>

See Notes to Basic Financial Statements

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

August 31, 2008

<b>Data Control Codes</b>	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	
<b>Assets</b>				
1110	Cash and temporary investments	\$ 8,947,405	\$ 6,157,691	\$ 33,124,250
1120	Investments			
<b>Receivables:</b>				
1220	Property taxes - delinquent	648,728	70,080	
1230	Allowance for uncollectible (credit)	(93,756)	(9,365)	
1240	Receivables from other governments	1,949,630	44,721	
1250	Accrued interest			714,255
1260	Due from other funds	69,121		
1290	Other receivables	2,553		3,144
1300	Inventories, at cost	198,655		
1410	Prepaid items	240,929		
1910	Long-term investments			61,327,892
	<b>Total Assets</b>	<u>\$ 11,963,265</u>	<u>\$ 6,263,127</u>	<u>\$ 95,169,541</u>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
2110	Accounts payable	\$ 346,252	\$	\$ 380,889
2140	Interest payable		252,716	
2150	Payroll withholdings payable	1,000		
2160	Accrued wages payable	1,803,718		
2170	Due to other funds	141,647		
2200	Accrued expenses	291,587		
2300	Deferred revenues	844,964	57,529	
2000	<b>Total Liabilities</b>	<u>3,429,168</u>	<u>310,245</u>	<u>380,889</u>
 <b>Fund Balances:</b>				
<b>Reserved for:</b>				
3410	Investments in inventories	198,655		
3420	Retirement of funded indebtedness		5,952,882	
3430	Prepaid items	240,929		
3440	Encumbrances	55,384		
3450	Food service operations			
3470	Capital projects			33,460,761
3490	Other purposes	710,452		61,327,891
<b>Unreserved, Designated for:</b>				
3590	Other purposes	681,161		
<b>Unreserved, Undesignated Reported in:</b>				
3600	General fund	6,647,516		
3610	Special revenue funds			
3000	<b>Total Fund Balance</b>	<u>8,534,097</u>	<u>5,952,882</u>	<u>94,788,652</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 11,963,265</u>	<u>\$ 6,263,127</u>	<u>\$ 95,169,541</u>

See Notes to Basic Financial Statements

*Exhibit A-3*

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 208,498	\$ 48,437,844
	718,808
	(103,121)
127,315	2,121,666
	714,255
119,026	188,147
106,578	112,275
	198,655
	240,929
	<u>61,327,892</u>
<u>\$ 561,417</u>	<u>\$ 113,957,350</u>
\$ 52,541	\$ 779,682
	252,716
	1,000
77,418	1,881,136
51,500	193,147
	291,587
	<u>902,493</u>
<u>181,459</u>	<u>4,301,761</u>
	198,655
	5,952,882
	240,929
	55,384
131,632	131,632
	33,460,761
	62,038,343
	681,161
	6,647,516
<u>248,326</u>	<u>248,326</u>
<u>379,958</u>	<u>109,655,589</u>
<u>\$ 561,417</u>	<u>\$ 113,957,350</u>

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**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO STATEMENT OF NET ASSETS**  
*August 31, 2008*

*Exhibit A-4*

<b>Data Control Codes</b>		
	<b>Total fund balance, governmental funds</b>	\$ 109,655,589
	Amounts reported for governmental <i>activities</i> in the statement of net assets are different because:	
<b>1</b>	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable	31,997,716
<b>2</b>	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	564,375
	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:	
<b>3</b>	General obligation bonds	(120,885,554)
<b>4</b>	Premiums on issuance	(3,494,726)
<b>5</b>	Bond issuance costs	951,822
<b>6</b>	Deferred charges on refunding	125,157
<b>7</b>	Accreted interest on premium compound interest bonds	(15,692)
<b>8</b>	Capital leases payable	(28,997)
<b>9</b>	Accrued compensated absences	(719,871)
<b>9</b>	Accrued interest payable	(1,649,251)
<b>10</b>	Addition of Internal Service fund net assets	<u>930,038</u>
	<b>Total net assets - governmental activities</b>	<u><u>\$ 17,430,606</u></u>

See Notes to Basic Financial Statements

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**For the Year Ended August 31, 2008**

<b>Data Control Codes</b>		<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>
<b>Revenues</b>				
5700	Local, intermediate, and out-of-state	\$ 21,799,351	\$ 2,739,585	\$ 560,211
5800	State program revenues	16,648,527	315,582	
5900	Federal program revenues			
5020	<b>Total Revenues</b>	<u>38,447,878</u>	<u>3,055,167</u>	<u>560,211</u>
<b>Expenditures</b>				
<b>Current:</b>				
0011	Instruction	23,153,178		365,354
0012	Instruction resources and media services	946,587		
0013	Curriculum and instructional staff development	154,923		
0021	Instructional leadership	607,094		
0023	School leadership	2,269,421		
0031	Guidance, counseling and evaluation services	904,050		
0032	Social work services	55,615		
0033	Health services	363,192		
0034	Student transportation	1,204,489		
0035	Food services			
0036	Extracurricular activities	1,324,772		
0041	General administration	2,011,066		
0051	Plant maintenance and operations	3,892,683		
0052	Security and monitoring services	87,612		
0053	Data processing services	765,821		
0061	Community services	94,118		
<b>Debt service:</b>				
0071	Principal on long-term debt	46,286	2,085,000	
0072	Interest on long-term debt	3,316	1,088,165	
0073	Bond issuance costs and fees			838,136
<b>Capital outlay:</b>				
0081	Capital outlay	695,856		2,299,181
<b>Intergovernmental:</b>				
0093	Payments related to shared services arrangements	44,384		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	18,895		
0099	Other intergovernmental charges	199,889		
6030	<b>Total Expenditures</b>	<u>38,843,247</u>	<u>3,173,165</u>	<u>3,502,671</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(395,369)</u>	<u>(117,998)</u>	<u>(2,942,460)</u>
<b>Other Financing Sources (Uses)</b>				
7911	Capital-related debt issued (regular bonds)		3,501,947	93,248,053
7913	Proceeds from capital lease	33,869		
7915	Transfers in	2,352		
7916	Premium on issuance of bonds			3,558,227
8911	Transfers out	(75,000)		
7080	<b>Total other financing sources (uses)</b>	<u>(38,779)</u>	<u>3,501,947</u>	<u>96,806,280</u>
1200	Net change in fund balances	(434,148)	3,383,949	93,863,820
0100	<b>Fund Balance - September 1 (Beginning)</b>	<u>8,968,245</u>	<u>2,568,933</u>	<u>924,832</u>
3000	<b>Fund Balance - August 31 (Ending)</b>	<u>\$ 8,534,097</u>	<u>\$ 5,952,882</u>	<u>\$ 94,788,652</u>

See Notes to Basic Financial Statements

*Exhibit A-5*

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,869,108	\$ 26,968,255
744,503	17,708,612
<u>1,649,746</u>	<u>1,649,746</u>
<u>4,263,357</u>	<u>46,326,613</u>
1,839,685	25,358,217
	946,587
86,816	241,739
85,553	692,647
5,003	2,274,424
79,074	983,124
	55,615
59,364	422,556
32,509	1,236,998
1,922,472	1,922,472
	1,324,772
595	2,011,661
	3,892,683
	87,612
50,316	816,137
	94,118
	2,131,286
	1,091,481
	838,136
	2,995,037
	44,384
	18,895
	<u>199,889</u>
<u>4,161,387</u>	<u>49,680,470</u>
<u>101,970</u>	<u>(3,353,857)</u>
	96,750,000
	33,869
	2,352
	3,558,227
	<u>(75,000)</u>
	<u>100,269,448</u>
101,970	96,915,591
<u>277,988</u>	<u>12,739,998</u>
<u>\$ 379,958</u>	<u>\$ 109,655,589</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, 2008*

*Exhibit A-6*

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from A-5)	\$ 96,915,591
	Amounts reported for governmental activities in the statement of activities (A-2) are different because:	
1	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation.	1,056,989
2	Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.	(9,758)
3	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(108,127)
4	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	2,131,286
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.	(96,783,869)
6	Premium received on the sale of bonds	(3,558,227)
7	Bond issuance costs paid during the current year will be amortized over the life of the bonds.	841,280
	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	Increase in interest payable not recognized in fund statements	(1,599,554)
9	Changes in bond issuance premiums	60,724
10	Bond issuance costs	(33,793)
11	Amortization of deferred loss on defeasance of bonds	(34,765)
12	Accreted interest on capital appreciation bonds and amortization of bond issuance costs	(6,690)
13	(Increase) decrease in long-term portion of workers' compensation benefits payable	
14	(Increase) decrease in long-term portion of accrued compensated absences payable	(77,415)
15	Internal service funds are used by management to charge the costs of certain activities, such as insurance and printing, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental funds.	149,251
	Change in net assets of governmental activities	<u>\$ (1,057,077)</u>

See Notes to Basic Financial Statements

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

*Exhibit A-7*

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

*August 31, 2008*

<u>Data Control Codes</u>	<u>Governmental Activities - Internal Service Funds</u>
<b>Assets</b>	
<b>Current Assets:</b>	
1110-75 Cash and cash equivalents	\$ 1,330,815
<b>Receivables:</b>	
1260 Due from other funds	25,000
<b>Total Current Assets</b>	<u>1,355,815</u>
1000 <b>Total Assets</b>	<u>\$ 1,355,815</u>
<b>Liabilities</b>	
<b>Current Liabilities:</b>	
2110 Accounts payable	\$ 100,877
<b>Total Current Liabilities</b>	<u>100,877</u>
<b>Non-current Liabilities:</b>	
2590 Claims and judgments	324,900
<b>Total Non-current Liabilities</b>	<u>324,900</u>
2000 <b>Total Liabilities</b>	<u>425,777</u>
<b>Net Assets</b>	
3900 Unrestricted net assets	930,038
3000 <b>Total Net Assets</b>	<u>930,038</u>
4000 <b>Total Liabilities and Net Assets</b>	<u>\$ 1,355,815</u>

See Notes to Basic Financial Statements.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
*For the Year Ended August 31, 2008*

*Exhibit A-8*

<u>Data Control Codes</u>		<u>Governmental Activities - Internal Service Funds</u>
	<b>Operating Revenues</b>	
5749	Miscellaneous revenue from local sources	\$ 29,299
5754	Quasi-external interfund transactions	<u>186,618</u>
5020	<b>Total Operating Revenues</b>	<u>215,917</u>
	<b>Operating Expenses</b>	
6400	Claims expense and other operating expenses	<u>187,725</u>
6030	<b>Total Operating Expenses</b>	<u>187,725</u>
1200	<b>Operating Income (Loss)</b>	<u>28,192</u>
	<b>Non-Operating Revenues (Expenses)</b>	
7955	Investment earnings	<u>46,059</u>
	<b>Total Nonoperating Revenues (Expenses)</b>	<u>46,059</u>
	Income (Loss) before Transfers	74,251
	<b>Transfers</b>	
7915	Transfers in	<u>75,000</u>
1200	Change in Net Assets	149,251
0100	<b>Net Assets - September 1 (Beginning)</b>	<u>780,787</u>
3300	<b>Net Assets - August 31 (Ending)</b>	<u>\$ 930,038</u>

See Notes to Basic Financial Statements.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended August 31, 2008

*Exhibit A-9*

	<b>Non-major Internal Service Funds</b>
	<u>                    </u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers:	\$ 29,299
Cash receipts from quasi-external operating activities with other funds	161,618
Cash payments for insurance claims	<u>(647,336)</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>(456,419)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Advances from other funds	<u>75,000</u>
<b>Net Cash Provided by (Used for) Non-Capital Financing Activities</b>	<u>75,000</u>
<b>Cash Flows from Investing Activities:</b>	
Interest on investments	<u>46,059</u>
<b>Net Cash Provided by Investing Activities</b>	<u>46,059</u>
Net Increase in Cash and Cash Equivalents	(335,360)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>1,666,175</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 1,330,815</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 28,192
Change in Assets and Liabilities:	
Decrease (increase) in Receivables	590
Decrease (increase) in Interfund Receivables	(25,000)
Increase (decrease) in Accounts Payable	(143,588)
Increase (decrease) in Accrued Expenses	<u>(316,613)</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u><u>\$ (456,419)</u></u>

See Notes to Basic Financial Statements.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

*Exhibit A-10*

**STATEMENT OF FIDUCIARY NET ASSETS**

*August 31, 2008*

<b>Data Control Codes</b>		<b>Private Purpose Trust Funds</b>	<b>Agency Fund</b>
	<b>Assets</b>		
1110	Cash and cash equivalents	\$ 14,528	\$ 851,209
	Receivables:		
1290	Other receivables		20,000
	<b>Total Assets</b>	<u>\$ 14,528</u>	<u>\$ 871,209</u>
	<b>Liabilities</b>		
2150	Payroll deductions and withholdings		48,983
2170	Due to other funds		20,000
2190	Due to student groups		802,226
2000	<b>Total Liabilities</b>		<u>\$ 871,209</u>
	<b>Net Assets</b>		
3800	Restricted	<u>\$ 14,528</u>	

See Notes to Basic Financial Statements.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
*For the Year Ended August 31, 2008*

*Exhibit A-11*

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

See Notes to Basic 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, 2008. 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, 2008. 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 2008, 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:

	<u>Fair Market Value</u>	<u>Weighted Average Maturity (In days)</u>
<b>Governmental Activities:</b>		
Cash and deposits	\$ 1,327,559	N/A
<b>Investments</b>		
Local Government Investment Pools:		
Lone Star	5,624,947	39
MBIA Texas Class	38,661,041	40
Texpool	1,054,256	42
TexStar	1,499,264	36
	<u>46,839,508</u>	
Investment Securities:		
ICT Money Market Mutual Fund	1,601,592	44
Federal Farm Credit Bank	6,063,257	540
Federal Home Loan Bank	8,244,865	741
Federal Home Loan Mortgage Corp.	26,123,618	531
Federal National Mortgage Assoc.	20,896,152	557
	<u>62,929,484</u>	
<b>Total Investments</b>	<u>109,768,992</u>	336
<b>Total Governmental Activities</b>	<u>111,096,551</u>	
<b>Fiduciary Funds:</b>		
Cash and deposits	865,737	
<b>Total Fiduciary Funds</b>	<u>865,737</u>	
<b>Total</b>	<u>\$ 111,962,288</u>	

**Interest Rate Risk**

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

**Note 2 - Deposits and Investments (Continued)**

**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, 2008, the District's investments were rated as follows:

<u>Investment</u>	<u>Rating</u>	<u>Rating Agency</u>
Lone Star	AAAf	Standard and Poor's
MBIA	AAA	Fitch Ratings, Ltd.
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, 2008 consisted of the following:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Percentage of Portfolio</u>
Lone Star	\$ 5,624,947	5%
MBIA Texas Class	38,661,041	35%
Texpool	1,054,256	1%
TexStar	1,499,264	1%
ICT Money Market Mutual Fund	1,601,592	1%
Federal Farm Credit Bank	6,063,257	6%
Federal Home Loan Bank	8,244,865	8%
Federal Home Loan Mortgage Corp.	26,123,618	24%
Federal National Mortgage Assoc.	20,896,152	19%

The investments are reported by the District at fair value. The amount of decrease in the fair value of these investments during the year ended August 31, 2008, is included in investment earnings as follows:

Investment earnings	\$ 1,327,169
Net increase (decrease) in investment values	(197,681)
<b>Total Investment earnings</b>	<u><u>\$ 1,129,488</u></u>

**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	\$ 648,728	\$ 70,080	\$	\$	\$ 718,808
Due from other governments	1,949,630	44,721		127,315	2,121,666
Interest			714,255		714,255
Other	2,553		3,144	106,578	112,275
Gross receivables	2,600,911	114,801	717,399	233,893	3,667,004
Less allowance for doubtful accounts	(93,756)	(9,365)			(103,121)
<b>Net total receivables</b>	<u>\$ 2,507,155</u>	<u>\$ 105,436</u>	<u>\$ 717,399</u>	<u>\$ 233,893</u>	<u>\$ 3,563,883</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)	\$ 506,846	\$	\$ 506,846
Delinquent property taxes receivable (Debt Service Fund)	57,529		57,529
Advanced collection of tuition and fees		338,118	338,118
	<u>\$ 564,375</u>	<u>\$ 338,118</u>	<u>\$ 902,493</u>

**Note 4 - Capital Assets**

Capital asset activity for the year ended August 31, 2008, was as follows:

	<u>Balance August 31, 2007</u>	<u>Additions</u>	<u>(Retirements) and Transfers</u>	<u>Balance August 31, 2008</u>
Capital assets, not being depreciated				
Land	\$ 1,289,174	\$ 695,856	\$	\$ 1,985,030
Construction in progress	269,664	1,609,450	(269,664)	1,609,450
<b>Total Capital assets, not being depreciated</b>	<u>1,558,838</u>	<u>2,305,306</u>	<u>(269,664)</u>	<u>3,594,480</u>
Capital assets, being depreciated				
Buildings and improvements	49,624,022	633,594	263,669	50,521,285
Furniture and equipment	4,465,818	314,827	(248,482)	4,532,163
<b>Total Capital assets, being depreciated</b>	<u>54,089,840</u>	<u>948,421</u>	<u>15,187</u>	<u>55,053,448</u>
Less accumulated depreciation for:				
Buildings and improvements	(21,459,184)	(1,868,704)	5,995	(23,321,893)
Furniture and Equipment	(3,239,009)	(337,792)	248,482	(3,328,319)
<b>Total Accumulated depreciation</b>	<u>(24,698,193)</u>	<u>(2,206,496)</u>	<u>254,477</u>	<u>(26,650,212)</u>
<b>Governmental Capital Assets</b>	<u>\$ 30,950,485</u>	<u>\$ 1,047,231</u>	<u>\$</u>	<u>\$ 31,997,716</u>

**Note 4 - Capital Assets (Continued)**

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

<u>Function</u>	<u>Depreciation Expense</u>
Instruction	\$ 1,282,556
Instructional resources and media services	52,564
Curriculum and staff development	8,603
Instructional leadership	33,689
School leadership	125,907
Guidance, counseling and evaluation services	50,157
Social work services	3,085
Health services	20,150
Student transportation	66,857
Food Services	106,867
Extracurricular activities	75,459
General administration	111,792
Plant maintenance and operations	216,204
Security and monitoring services	4,870
Data processing services	42,512
Community services	5,224
	<u>\$ 2,206,496</u>

**Construction Commitments**

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
Junior High Construction	\$ 41,844,100	\$ 1,136,200	\$ 40,707,900
High School renovations	20,485,110	410,500	20,074,610
Natatorium construction	6,007,800	55,550	5,952,250
Baseball/softball construction	2,966,700	2,200	2,964,500
Hackney property	5,000	5,000	
	<u>\$ 71,308,710</u>	<u>\$ 1,609,450</u>	<u>\$ 69,699,260</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, \$75,000 was transferred from the general fund to the health insurance internal service fund to reduce the deficit net asset balance.

**Note 5 - Interfund Receivables, Payables, and Transfers (Continued)**

The composition of interfund balances as of August 31, 2008, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
<b>Governmental Funds:</b>			
General Fund	\$ 69,121	\$ 141,647	\$ (72,526)
Nonmajor Governmental Funds	119,026	51,500	67,526
<b>Total Governmental Funds</b>	<u>188,147</u>	<u>193,147</u>	<u>(5,000)</u>
<b>Proprietary Funds</b>			
Internal Service Fund	25,000		25,000
<b>Total Proprietary Funds</b>	<u>25,000</u>		<u>25,000</u>
<b>Fiduciary Funds</b>			
Agency Fund		20,000	(20,000)
<b>Total Fiduciary Funds</b>		<u>20,000</u>	<u>(20,000)</u>
<b>Total</b>	<u>\$ 213,147</u>	<u>\$ 213,147</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, 2007	\$ 932,243
Additions: New entrants and salary increments	252,822
Deductions: Payments to participants	<u>(175,407)</u>
Balance, August 31, 2008	<u>\$1,009,658</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, 2008, the legal debt margin was \$77,315,394.

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, 2008.

**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, 2008 were as follows:

Issue	Original issuance amount	Interest Rate (%)	Maturity Date	Debt Outstanding
Unlimited Tax Schoolhouse Bonds, Series 1998	\$ 17,800,000	4.25% to 6.25%	2/15/2018	\$ 11,950,000
Unlimited Tax Refunding Bonds, Series 1999	9,285,000	4.00% to 4.40%	2/15/2012	4,435,000
Unlimited Tax Schoolhouse Bonds, Series 2006	5,590,554	3.78%	2/15/2017	5,590,554
Unlimited Tax Refunding Bonds, Series 2006	2,725,000	3.60%	2/15/2013	2,160,000
Unlimited Tax Schoolhouse Bonds, Series 2008	96,750,000	4.00% to 5.00%	2/15/2037	96,750,000
				<u>\$ 120,885,554</u>

Debt service requirements to maturity are as follows:

Year Ending August 31,	Principal	Interest	Totals
2009	\$ 2,165,000	\$ 7,159,561	\$ 9,324,561
2010	2,360,000	5,683,184	8,043,184
2011	2,455,000	5,582,846	8,037,846
2012	2,545,000	5,477,929	8,022,929
2013	2,530,554	5,396,860	7,927,414
2014	2,685,000	5,242,082	7,927,082
2015	2,800,000	5,128,141	7,928,141
2016	2,920,000	5,009,292	7,929,292
2017	3,025,000	4,885,520	7,910,520
2018	3,060,000	4,757,175	7,817,175
2019	3,030,000	4,616,163	7,646,163
2020	3,215,000	4,460,038	7,675,038
2021	3,375,000	4,295,288	7,670,288
2022	3,550,000	4,122,162	7,672,162
2023	3,735,000	3,940,038	7,675,038
2024	3,925,000	3,748,538	7,673,538
2025	4,130,000	3,547,163	7,677,163
2026	4,340,000	3,335,413	7,675,413
2027	4,560,000	3,112,913	7,672,913
2028	4,795,000	2,879,038	7,674,038
2029	5,040,000	2,633,163	7,673,163
2030	5,295,000	2,378,463	7,673,463
2031	5,560,000	2,114,934	7,674,934
2032	5,835,000	1,838,928	7,673,928
2033	6,130,000	1,544,500	7,674,500
2034	6,445,000	1,230,125	7,675,125
2035	6,770,000	899,750	7,669,750
2036	7,125,000	552,375	7,677,375
2037	7,485,000	187,125	7,672,125
	<u>\$ 120,885,554</u>	<u>\$ 105,758,707</u>	<u>\$ 226,644,261</u>

**Note 7 - Long-term Liabilities (Continued)**

**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	\$ 75,670	\$ 59,978	\$ 15,692	\$ 200,000	2013
	<u>\$ 75,670</u>	<u>\$ 59,978</u>	<u>\$ 15,692</u>	<u>\$ 200,000</u>	

**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, 2008, \$6,210,000 of previously refunded debt outstanding was considered defeased.

**Capital Lease Obligations**

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

The following schedule presents the payment requirements to maturity:

<u>Year Ending</u> <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 28,997	\$ 3,316	\$ 32,313
	<u>\$ 28,997</u>	<u>\$ 3,316</u>	<u>\$ 32,313</u>

**Changes in Long-Term Liabilities**

The following is a summary of changes in the District's total governmental long-term liabilities for the year ended August 31, 2008:

	<u>Balance</u> <u>August 31, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2008</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 26,220,554	\$ 96,750,000	\$ (2,085,000)	\$ 120,885,554	\$ 2,165,000
Less deferred amounts:					
For issuance premiums/discounts	(2,777)	3,558,227	(60,724)	3,494,726	
Gain or loss on refunding bonds	(159,922)		34,765	(125,157)	
Accreted interest on premium compound interest bonds	9,002	6,690		15,692	
Capital lease payable	41,414	33,869	(46,286)	28,997	28,997
Accrued compensated absences	932,243	252,822	(175,407)	1,009,658	289,787
	<u>\$ 27,040,514</u>	<u>\$ 100,601,608</u>	<u>\$ (2,332,652)</u>	<u>\$ 125,309,470</u>	<u>\$ 2,483,784</u>

**Note 8 - Fund Balance**

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

Retirement / Sick Leave Benefits	\$710,452
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Other designated fund balance includes the following designations of funds:

Campus Activities	\$681,161
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**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>Other Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 19,963,388	\$ 2,590,322	\$	\$	\$ 22,553,710
Investment Income	397,550	125,668	560,211		1,083,429
Co-curricular student activities	818,423				818,423
Food Sales				1,735,210	1,735,210
Other	619,990	23,595		133,898	777,483
	<u>\$ 21,799,351</u>	<u>\$ 2,739,585</u>	<u>\$ 560,211</u>	<u>\$ 1,869,108</u>	<u>\$ 26,968,255</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, 2008. The imputed interest on the leases is not readily determinable.

Rental expenditures during the year amounted to \$351,125.

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

**Note 11 - Pension Information (continued)**

**Funding Policy**

State law provides for fiscal years 2008, 2007, and 2006, a state contribution rate of 6.0 percent and a member contribution rate of 6.4 percent. In certain instances, the reporting district is required to make all or a portion of the state's 6.0 percent contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10.0 percent of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2008, 2007 and 2006 were \$1,530,935, \$1,308,884, and \$1,169,517, respectively. The District paid additional state contributions for the years ended August 31, 2008, 2007 and 2006 in the amounts of \$277,834, \$199,624, and \$194,572, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the state.

**Note 12 - On-Behalf Payments**

The amounts recognized for state revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended August 31, 2008 was as follows:

Contributions to pension plan	\$ 1,530,935
Insurance contributions (TRS Care)	232,665
Insurance contributions (Medicare Part D)	<u>63,702</u>
	<u><u>\$ 1,827,302</u></u>

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, 2008, 2007, and 2006, the subsidy payments received by TRS-Care on-behalf of the District were \$63,702, \$54,343, and \$35,661, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

**Note 13 - Risk Management**

**Property/Liability**

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance.

In addition, the District is a member of the Texas Association of School Boards Joint Account Self-Insurance Fund (Fund). The Fund was created to formulate, develop and administer a program of modified self-funding for the property and/or liability coverage for its membership, provide claims administration, and develop a comprehensive loss control program. The District pays contributions to the Fund for its general and develop 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 13 - Risk Management (Continued)**

**Workers' Compensation (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>
2007	\$ 418,828	\$ 497,300	\$ 368,317	\$ 547,811
2008	547,811	(64,722)	158,189	324,900

**Note 14 - Shared Service Arrangements / Joint Ventures**

The District participates in a shared services arrangement for Juvenile Justice Alternative Education Program with eight other school districts. Although 4.1 percent of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Dickinson ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Friendswood ISD. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the revenues and expenditures attributable to the District's participation.

**Revenues:**

Local revenue	<u>\$ 18,895</u>
---------------	------------------

**Expenditures:**

Payroll costs	\$ 17,278
Contract services	377
Supplies and materials	1,146
Other operating costs	<u>94</u>

<b>Total expenditures</b>	<u>\$ 18,895</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 3.5 percent of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Clear Creek ISD, nor does the District have a net equity interest in the fiscal agent.

**Revenues:**

Local revenue	<u>\$ 44,384</u>
---------------	------------------

**Expenditures:**

Payroll costs	\$ 35,622
Contract services	5,841
Supplies and materials	2,503
Other operating costs	<u>417</u>

<b>Total expenditures</b>	<u>\$ 44,384</u>
---------------------------	------------------

**Note 15 - Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

**Note 16 - Arbitrage**

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has estimated that it does not have any arbitrage liability as of August 31, 2008.

**Note 17 - Other Post-employment Benefits**

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

**Required Supplementary Information**

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**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE**

**GENERAL FUND**

For the Year Ended August 31, 2008

*Exhibit B-1*

Data Control Codes		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
<b>Revenues</b>					
5700	Local revenues	\$20,864,403	\$ 21,322,634	\$21,799,351	\$ 476,717
5800	State program revenues	16,292,406	16,292,406	16,648,527	356,121
	<b>Total Revenues</b>	<u>37,156,809</u>	<u>37,615,040</u>	<u>38,447,878</u>	<u>832,838</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	22,842,271	23,230,430	23,153,168	77,262
0012	Instruction resources and media services	904,366	991,753	946,587	45,166
0013	Curriculum and instructional staff	144,475	164,661	154,923	9,738
0021	Instructional leadership	642,848	616,680	607,094	9,586
0023	School leadership	2,006,257	2,276,044	2,269,421	6,623
0031	Guidance, counseling and evaluation services	867,289	908,527	904,050	4,477
0032	Social work services	51,230	61,230	55,615	5,615
0033	Health services	350,733	365,733	363,192	2,541
0034	Student transportation	1,392,569	1,259,599	1,204,489	55,110
0036	Extracurricular activities	998,336	1,349,622	1,324,772	24,850
0041	General administration	1,886,792	2,195,152	2,011,066	184,086
0051	Plant maintenance and operations	4,341,048	3,941,049	3,892,683	48,366
0052	Security and monitoring services	113,842	127,842	87,612	40,230
0053	Data processing services	737,384	787,384	765,821	21,563
0061	Community services	66,951	96,951	94,118	2,833
<b>Debt Service:</b>					
0071	Principal on long-term debt		55,000	49,602	5,398
<b>Capital outlay:</b>					
0081	Facilities acquisition and construction		793,400	695,856	97,544
<b>Intergovernmental:</b>					
0093	Payments related to shared services arrangements	42,000	52,000	44,384	7,616
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	41,800	41,800	18,895	22,905
0099	Other intergovernmental charges		207,975	199,889	8,086
	<b>Total Expenditures</b>	<u>37,430,191</u>	<u>39,522,832</u>	<u>38,843,237</u>	<u>679,595</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(273,382)</u>	<u>(1,907,792)</u>	<u>(395,359)</u>	<u>1,512,433</u>
<b>Other Financing Sources (Uses)</b>					
7915	Transfers in			2,352	2,352
7913	Proceeds from capital lease			33,869	33,869
8911	Transfers out		(100,000)	(75,000)	25,000
	<b>Total other financing sources and uses</b>		<u>(100,000)</u>	<u>(38,779)</u>	<u>61,221</u>
	Net change in fund balances	(273,382)	(2,007,792)	(434,138)	1,573,654
	<b>Fund balances - beginning</b>	<u>8,968,244</u>	<u>8,968,244</u>	<u>8,968,244</u>	
	<b>Fund balances - ending</b>	<u>\$ 8,694,862</u>	<u>\$ 6,960,452</u>	<u>\$ 8,534,106</u>	<u>\$ 1,573,654</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, 2008.

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, 2007. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

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

**B. Expenditures in Excess of Appropriations**

N/A

**Other Supplementary Information**

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

*COMBINING BALANCE SHEET*

*ALL NONMAJOR GOVERNMENTAL FUNDS*

*August 31, 2008*

<b>Data Control Codes</b>		<b>204</b>	<b>211</b>	<b>224</b>
	<b>Vocational Ed - Tech Prep</b>	<b>ESEA Title I, Part A</b>	<b>IDEA-B Formula</b>	
	<b>Assets</b>			
1110	Cash and temporary investments	\$	\$ (875)	\$
	<b>Receivables:</b>			
1240	Receivables from other governments		875	35,390
1260	Due from other funds			
1290	Other receivables			
1000	<b>Total Assets</b>	\$	\$	\$ 35,390
	<b>Liabilities and Fund Balances</b>			
	<b>Liabilities:</b>			
	<b>Current Liabilities:</b>			
2110	Accounts payable	\$	\$	\$ 2,899
2160	Accrued wages payable			28,676
2170	Due to other funds			3,815
2000	<b>Total Liabilities</b>			35,390
	<b>Fund Balances:</b>			
	<b>Reserved for:</b>			
3440	Encumbrances			
3450	Food service operations			
	<b>Unreserved, Undesignated Reported in:</b>			
3600	General fund			
3610	Special revenue funds			
3000	<b>Total Fund Balances</b>			
4000	<b>Total Liabilities and Fund Balances</b>	\$	\$	\$ 35,390

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
\$	\$	\$ 39,806	\$	\$	\$	\$
994	22,309	2,370 119,026			27,730	
<u>\$ 994</u>	<u>\$ 22,309</u>	<u>\$ 161,202</u>	<u>\$</u>	<u>\$</u>	<u>\$ 27,730</u>	<u>\$</u>
\$	\$ 20,040	\$ 15,871	\$	\$	\$	\$
916		12,627				
78	2,269	1,072			27,730	
<u>994</u>	<u>22,309</u>	<u>29,570</u>			<u>27,730</u>	
		131,632				
		<u>131,632</u>				
<u>\$ 994</u>	<u>\$ 22,309</u>	<u>\$ 161,202</u>	<u>\$</u>	<u>\$</u>	<u>\$ 27,730</u>	<u>\$</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

*COMBINING BALANCE SHEET*

*ALL NONMAJOR GOVERNMENTAL FUNDS*

*August 31, 2008*

<b>Data Control Codes</b>		<b>269</b>	<b>282</b>	<b>350</b>
		<b>Title V, Part A</b>	<b>ESEA, Title IV - Safe and Drug Free Nat'l</b>	<b>SSA-Title III, Part A, ELA</b>
	<b>Assets</b>			
1110	Cash and temporary investments	\$	\$	\$
	<b>Receivables:</b>			
1240	Receivables from other governments		14,463	
1260	Due from other funds			
1290	Other receivables			
1000	<b>Total Assets</b>	\$	\$ 14,463	\$
	<b>Liabilities and Fund Balances</b>			
	<b>Liabilities:</b>			
	<b>Current Liabilities:</b>			
2110	Accounts payable	\$	\$ 224	\$
2160	Accrued wages payable			
2170	Due to other funds		14,239	
2000	<b>Total Liabilities</b>	\$	14,463	\$
	<b>Fund Balances:</b>			
	<b>Reserved for:</b>			
3440	Encumbrances			
3450	Food service operations			
	<b>Unreserved, Undesignated Reported in:</b>			
3600	General fund			
3610	Special revenue funds			
3000	<b>Total Fund Balances</b>	\$	14,463	\$
4000	<b>Total Liabilities and Fund Balances</b>	\$	\$ 14,463	\$

<b>393</b>	<b>397</b>	<b>404</b>	<b>411</b>	<b>429</b> <b>State</b> <b>Funded</b> <b>Special</b> <b>Revenue</b> <b>Funds</b>	<b>480</b>	<b>Total Nonmajor</b> <b>Governmental</b> <b>Funds</b>
<b>Texas</b> <b>Successful</b> <b>Schools</b>	<b>Advanced</b> <b>Placement</b> <b>Incentive</b>	<b>Student</b> <b>Succ. Init-</b> <b>Acc REA</b>	<b>Technology</b> <b>Allotment</b>		<b>Education</b> <b>Foundation</b> <b>Grants</b>	
\$	\$ 28,497	\$	\$ 35,435	\$ 56,907	\$ 48,728	\$ 208,498
		2,297	6,315	14,572		127,315
					106,578	119,026
					106,578	106,578
<u>\$</u>	<u>\$ 28,497</u>	<u>\$ 2,297</u>	<u>\$ 41,750</u>	<u>\$ 71,479</u>	<u>\$ 155,306</u>	<u>\$ 561,417</u>
\$	\$ 485	\$	\$ 11,217	\$ 35,199	\$ 1,805	\$ 52,541
		2,297				77,418
		2,297				51,500
	485	2,297	11,217	35,199	1,805	181,459
						131,632
	28,012		30,533	36,280	153,501	248,326
	28,012		30,533	36,280	153,501	379,958
<u>\$</u>	<u>\$ 28,497</u>	<u>\$ 2,297</u>	<u>\$ 41,750</u>	<u>\$ 71,479</u>	<u>\$ 155,306</u>	<u>\$ 561,417</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2008*

	204	211	224
<b>Data Control Codes</b>	<b>Title IV, Safe &amp; Drug Free</b>	<b>ESEA Title I, Part A</b>	<b>IDEA-B Formula</b>
<b>Revenues</b>			
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues			
5900 Federal program revenues	15,087	161,928	847,957
5020 <b>Total Revenues</b>	<u>15,087</u>	<u>161,928</u>	<u>847,957</u>
<b>Expenditures</b>			
<b>Current:</b>			
0011 Instruction		158,466	814,373
0013 Curriculum and instructional staff development		3,462	950
0021 Instructional leadership			125
0023 School leadership			
0031 Guidance, counseling and evaluation services	15,087		
0033 Health services			
0034 Student transportation			32,509
0035 Food service			
0041 General administration			
0053 Data processing services			
6030 <b>Total Expenditures</b>	<u>15,087</u>	<u>161,928</u>	<u>847,957</u>
1100 Excess (deficiency) of revenues over expenditures			
1200 Net change in fund balances			
0100 <b>Fund balance - September 1 (beginning)</b>			
3000 <b>Fund balance - August 31 (ending)</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>

225	226	240	243	244	255	262
<u>IDEA-B Preschool Grant</u>	<u>IDEA-B Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed - Tech Prep</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Enhancing Ed Through Tech</u>
\$	\$	\$ 1,762,530	\$	\$	\$	\$
		5,945				
14,134	245,120	168,890	9,067	32,191	79,716	1,022
<u>14,134</u>	<u>245,120</u>	<u>1,937,365</u>	<u>9,067</u>	<u>32,191</u>	<u>79,716</u>	<u>1,022</u>
14,134	185,756		9,067	32,191		
					73,171	83
					1,190	101
					4,165	838
	59,364					
		1,922,472				
					595	
					595	
<u>14,134</u>	<u>245,120</u>	<u>1,922,472</u>	<u>9,067</u>	<u>32,191</u>	<u>79,716</u>	<u>1,022</u>
		14,893				
		14,893				
		116,739				
<u>\$</u>	<u>\$</u>	<u>\$ 131,632</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2008*

<b>Data Control Codes</b>	<b>269</b>	<b>282</b>	<b>350</b>
	<b>Title V, Part A</b>	<b>ESEA, Title IV - Safe and Drug Free Nat'l</b>	<b>SSA-Title III, Part A, ELA</b>
	<hr/>	<hr/>	<hr/>
<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$
5800	State program revenues		
5900	Federal program revenues	4,411	63,987
5020	<b>Total Revenues</b>	<hr/> 4,411	<hr/> 63,987
		<hr/>	<hr/>
<b>Expenditures</b>			
<b>Current:</b>			
0011	Instruction	4,411	4,314
0013	Curriculum and instructional staff development		1,922
0021	Instructional leadership		
0023	School leadership		
0031	Guidance, counseling and evaluation services		63,987
0033	Health services		
0034	Student transportation		
0035	Food service		
0041	General administration		
0053	Data processing services		
6030	<b>Total Expenditures</b>	<hr/> 4,411	<hr/> 63,987
		<hr/>	<hr/>
1100	Excess (deficiency) of revenues over expenditures		
1200	Net change in fund balances		
0100	<b>Fund balance - September 1 (beginning)</b>	<hr/>	<hr/>
3000	<b>Fund balance - August 31 (ending)</b>	<hr/> \$	<hr/> \$
		<hr/>	<hr/>

<b>393</b>	<b>397</b>	<b>404</b>	<b>411</b>	<b>429</b>	<b>480</b>	
<b>Texas Successful Schools</b>	<b>Advanced Placement Incentive</b>	<b>Student Succ. Init- Acc REA</b>	<b>Technology Allotment</b>	<b>State Funded Special Revenue Funds</b>	<b>Education Foundation Grants</b>	<b>Total-Other Governmental Funds</b>
\$	\$	\$	\$	\$	\$	\$
	16,490	22,974	166,471	532,623	106,578	1,869,108
						744,503
						1,649,746
	16,490	22,974	166,471	532,623	106,578	4,263,357
2,067	9,959	22,974	100,952	433,129	47,892	1,839,685
	2,024		3,699	1,505		86,816
				84,137		85,553
						5,003
						79,074
						59,364
						32,509
						1,922,472
						595
			49,721			50,316
2,067	11,983	22,974	154,372	518,771	47,892	4,161,387
(2,067)	4,507		12,099	13,852	58,686	101,970
(2,067)	4,507		12,099	13,852	58,686	101,970
2,067	23,505		18,434	22,428	94,815	277,988
\$	\$	\$	\$	\$	\$	\$
	28,012		30,533	36,280	153,501	379,958

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**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

*Exhibit C-3*

**COMBINING STATEMENTS OF NET ASSETS**

**INTERNAL SERVICE FUNDS**

August 31, 2008

<b>Data Control Codes</b>		<b>753 Employee Insurance Fund</b>	<b>755 Workers Comp Fund</b>	<b>Total</b>
	<b>Assets</b>			
	<b>Current assets:</b>			
1110	Cash and cash equivalents	\$ (1,447)	\$ 1,332,262	\$ 1,330,815
	<b>Receivables:</b>			
1260	Due from other funds		25,000	25,000
	<b>Total Current Assets</b>	(1,447)	1,357,262	1,355,815
1000	<b>Total Assets</b>	\$ (1,447)	\$ 1,357,262	\$ 1,355,815
	<b>Liabilities</b>			
	<b>Current Liabilities:</b>			
2110	Accounts payable	\$ 56,910	\$ 43,967	\$ 100,877
	<b>Total current liabilities</b>	56,910	43,967	100,877
	<b>Non-current Liabilities:</b>			
2590	Claims and judgments		324,900	324,900
	<b>Total Non-current Liabilities</b>		324,900	324,900
2000	<b>Total Liabilities</b>	56,910	368,867	425,777
	<b>Net Assets</b>			
3900	Unrestricted net assets	(58,357)	988,395	930,038
3000	<b>Total Net Assets</b>	(58,357)	988,395	930,038
4000	<b>Total Liabilities and Net Assets</b>	\$ (1,447)	\$ 1,357,262	\$ 1,355,815

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
*For the Year Ended August 31, 2008*

*Exhibit C-4*

<u>Data Control Codes</u>	<u>753 Employee Insurance Fund</u>	<u>755 Workers Comp Fund</u>	<u>Total</u>
<b>Operating Revenues</b>			
5749	Miscellaneous revenue from local sources	\$ 29,299	\$ 29,299
5754	Quasi-external interfund transactions	85,618	186,618
5020	<b>Total operating revenues</b>	<u>114,917</u>	<u>215,917</u>
<b>Operating Expenses</b>			
6400	Claims expense and other operating expenses	282,024	187,725
6030	<b>Total Operating Expenses</b>	<u>282,024</u>	<u>187,725</u>
1200	Operating Income (Loss)	<u>(167,107)</u>	<u>28,192</u>
<b>Non-Operating Revenues (Expenses)</b>			
7955	Earnings - temporary deposits and investments	405	46,059
	<b>Total Nonoperating Revenues</b>	<u>405</u>	<u>46,059</u>
	Income (Loss) before Transfers	(166,702)	74,251
<b>Transfers</b>			
7915	Transfers in	75,000	75,000
1200	Change in Net Assets	<u>(91,702)</u>	<u>149,251</u>
<b>Net Assets</b>			
0100	<b>Net Assets - September 1 (Beginning)</b>	<u>33,345</u>	<u>780,787</u>
3300	<b>Net Assets - August 31 (Ending)</b>	<u>\$ (58,357)</u>	<u>\$ 930,038</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
For the Year Ended August 31, 2008

*Exhibit C-5*

	<b>753</b>	<b>755</b>	
	<b>Employee Insurance Fund</b>	<b>Workers Comp Fund</b>	<b>Total</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities:</b>			
Cash received from user charges	\$ 29,299	\$	\$ 29,299
Cash receipts from quasi-external operating activities with other funds	85,618	76,000	161,618
Cash payments for insurance claims	(489,148)	(158,188)	(647,336)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>(374,231)</u>	<u>(82,188)</u>	<u>(456,419)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Transfers in	75,000		75,000
<b>Net Cash Provided by (Used for) Non-Capital Financing Activities</b>	<u>75,000</u>		<u>75,000</u>
<b>Cash Flows from Investing Activities:</b>			
Interest on investments	405	45,654	46,059
<b>Net Cash Provided by Investing Activities</b>	<u>405</u>	<u>45,654</u>	<u>46,059</u>
Net Increase in Cash and Cash Equivalents	(298,826)	(36,534)	(335,360)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>297,379</u>	<u>1,368,796</u>	<u>1,666,175</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ (1,447)</u>	<u>\$ 1,332,262</u>	<u>\$ 1,330,815</u>
<b>Reconciliation to Balance Sheet</b>			
Cash and Cash Equivalents Per Cash Flow	\$ (1,447)	\$ 1,332,262	\$ 1,330,815
Cash and Cash Equivalents per Balance Sheet	<u>\$ (1,447)</u>	<u>\$ 1,332,262</u>	<u>\$ 1,330,815</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	\$ (167,107)	\$ 195,299	\$ 28,192
Change in Assets and Liabilities:			
Decrease (increase) in Receivables		590	590
Decrease (increase) in Interfund Receivables		(25,000)	(25,000)
Increase (decrease) in Accounts Payable	(113,422)	(30,166)	(143,588)
Increase (decrease) in Accrued Expenses	(93,702)	(222,911)	(316,613)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ (374,231)</u>	<u>\$ (82,188)</u>	<u>\$ (456,419)</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT***Exhibit C-6***COMBINING STATEMENT OF FIDUCIARY NET ASSETS***August 31, 2008*

<b>Data Control Codes</b>		<b>891 Cline Scholarship Fund</b>	<b>892 Winston Scholarship Fund</b>	<b>Total Private Purpose Trust Funds</b>
	<b>Assets</b>			
1110	Cash and cash equivalents	\$ 2,232	\$ 12,296	\$ 14,528
	<b>Total Assets</b>	<u>\$ 2,232</u>	<u>\$ 12,296</u>	<u>\$ 14,528</u>
	<b>Net Assets</b>			
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, 2008*

*Exhibit C-7*

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

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**

*For the Year Ended August 31, 2008*

<b>Last Ten Fiscal Years</b>	<b>1</b>		<b>2</b>	<b>3</b>	<b>10</b>
	<b>Tax Rates</b>		<b>Net Assessed/Appraised Value For School Tax Purposes</b>	<b>Beginning Balance 8/31/07</b>	
	<b>Maintenance</b>	<b>Debt Service</b>			
1999 and prior	Various	Various	Various	\$ 36,240	
2000	\$ 1.388000	\$ 0.147000	996,486,515	9,586	
2001	1.448000	0.137000	1,084,906,369	8,711	
2002	1.480000	0.137000	1,199,063,080	17,944	
2003	1.500000	0.137000	1,322,337,607	39,221	
2004	1.500000	0.137000	1,457,665,058	52,437	
2005	1.500000	0.137000	1,529,840,326	52,023	
2006	1.500000	0.137000	1,624,895,916	71,341	
2007	1.370000	0.137000	1,789,587,724	363,001	
2008	1.040000	0.137000	1,956,333,264		
<b>1000 Totals</b>				<u>\$ 650,504</u>	

*Exhibit D-1*

<b>20</b>	<b>30</b>	<b>30a</b>	<b>40</b>	<b>50</b>
<b>Current Year's Total Levy</b>	<b>Maintenance Total Collections</b>	<b>Debt Service Total Collections</b>	<b>Entire Year's Adjustments</b>	<b>Ending Balance 8/31/08</b>
\$	\$	\$	\$ (2,437)	\$ 33,803
			(156)	9,430
	1,928	182	(407)	6,194
	1,963	182	(502)	15,297
	5,580	510	(15,306)	17,825
	8,077	738	(9,813)	33,809
	13,412	1,225	(3,498)	33,888
	17,439	1,593	(4,241)	48,068
	255,669	25,567	(15,074)	66,691
<u>22,323,956</u>	<u>19,530,040</u>	<u>2,572,707</u>		<u>221,209</u>
<u>\$ 22,323,956</u>	<u>\$ 19,834,108</u>	<u>\$ 2,602,704</u>	<u>\$ (51,434)</u>	486,214
				<u>232,594</u>
				<u>\$ 718,808</u>

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF**  
**INDIRECT COSTS FOR 2009-2010**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
**For the Year Ended August 31, 2008**

*Exhibit D-2*

<b>Account Number</b>	<b>(1) 701</b>	<b>(2) 702</b>	<b>(3) 703</b>	<b>(4) 720</b>	<b>(5) 750</b>	<b>(6) (other)</b>	<b>(7)</b>
	<b>Supt's Office</b>	<b>School Board</b>	<b>Tax Collection</b>	<b>Direct Cost</b>	<b>Indirect Cost</b>	<b>Misc.</b>	<b>Total</b>
6100 Payroll Costs	\$ 391,210	\$ 1,522	\$ 59,656	\$ 75,120	\$ 712,998	\$ 112,260	\$ 1,352,767
6211 Legal Services		195,679					195,679
6212 Audit Services					57,500		57,500
6213 Collection			14,960			199,889	214,849
621X Other Professional Services		2,293		17,273	13,905		33,471
6240 Repairs	140				335		475
6260 Rentals	1,009		16,500		2,338		19,847
6290 Miscellaneous Contracts	1,923	850	36,375	611	60,384	11,400	111,544
63XX Other Supplies	11,289	1,446	7,166	23,339	45,489		88,728
6410 Travel, Subsistence and Stipends	6,696	4,019	260	2,534	20,858	39	34,405
6420 Insurance and Bonding	14,382		4,417				18,799
6430 Election Expense		6,659					6,659
6490 Operating	23,811	1,870	450	21,658	22,533	18	70,340
6600 Capital outlay				6,487			6,487
<b>Total</b>	<b>\$ 450,461</b>	<b>\$ 214,338</b>	<b>\$ 139,783</b>	<b>\$147,022</b>	<b>\$ 936,341</b>	<b>\$ 323,606</b>	<b>\$ 2,211,550</b>

**Other Information:**

Total expenditures for General and Special Revenue Funds (Exhibit A-2) (9) \$ 42,940,922

LESS: Deductions of Unallowable Costs:

**Fiscal Year**

Total Capital Outlay (6600)	(10)	917,803
Total Debt & Lease (6500)	(11)	49,602
Plant Maintenance (Function 51, 6100-6400)	(12)	3,842,855
Food (Function 35, 6341 and 6499)	(13)	2,420
Stipends (6413)	(14)	
Column 5 above - Total Indirect Cost		<u>936,341</u>

Subtotal

5,749,021

**Net Allowable Direct Cost**

\$ 37,191,901

**Cumulative**

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 50,521,285
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)	4,532,163
Historical Cost of Furniture & Equipment over 16 years old	(19)	350,000
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	

Includes \$0 of function 53 expenditures.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)**  
**GENERAL FUND**  
*For the Year Ended August 31, 2008*

*Exhibit D-3*

1.	Total General Fund Balance 8-31-2008 (Exhibit A-3 object 3000 for the General Fund only)	\$ 8,534,097
2.	Total Reserved Fund Balance 8-31-2008 (from Exhibit A-3 - total of object 3400s for the General Fund only)	1,205,420
3.	Total Designated Fund Balance (from Exhibit A-3 - total of object 3500s for the General Fund only)	681,161
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 one month average cash disbursements during the regular school session (9-1-2007 to 5-31-2008)	3,125,000
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).	<hr/>
10.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9)	<hr/> 5,011,581
11.	Excess or Deficit Undesignated Unreserved General Fund Fund Balance (1-10)	<hr/> <hr/> \$ 3,522,516

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

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

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

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE**

**FOOD SERVICE AND DEBT SERVICE FUNDS**

*For the Year Ended August 31, 2008*

Data Control Codes		Food Service			Variance Favorable (Unfavorable)
		Budget		Actual	
		Original	Final		
	<b>Revenues</b>				
5700	Local, Intermediate, and Out-of-State	\$ 1,963,868	\$ 1,963,868	\$ 1,762,530	\$ (201,338)
5800	State Program Revenues			5,945	5,945
5900	Federal Program Revenues			168,890	168,890
5030	<b>Total Revenues</b>	<u>1,963,868</u>	<u>1,963,868</u>	<u>1,937,365</u>	<u>(26,503)</u>
	<b>Expenditures</b>				
	<b>Current:</b>				
0035	Food Services	1,963,868	1,963,868	1,922,472	41,396
	<b>Debt Service:</b>				
0071	Principal				
0072	Interest and Fiscal Agent Fees				
6030	<b>Total Expenditures</b>	<u>1,963,868</u>	<u>1,963,868</u>	<u>1,922,472</u>	<u>41,396</u>
1100	Excess (Deficiency) Revenues Over Expenditures			14,893	14,893
	<b>Other Financing Sources (Uses)</b>				
7911	Capital related debt issued (regular bonds)				
1200	Increase (Decrease) in Fund Balance			14,893	14,893
0100	<b>Fund Balance - September 1 (Beginning)</b>	<u>116,741</u>	<u>116,741</u>	<u>116,741</u>	
3000	<b>Fund Balance - August 31 (Ending)</b>	<u>\$ 116,741</u>	<u>\$ 116,741</u>	<u>\$ 131,634</u>	<u>\$ 14,893</u>

*Exhibit D-4*

<b>Debt Service Fund</b>			
<b>Budget</b>			<b>Variance</b>
<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Favorable (Unfavorable)</b>
\$ 2,600,260	\$ 2,600,260	\$ 2,739,585	\$ 139,325
277,327	277,327	315,582	38,255
<u>2,877,587</u>	<u>2,877,587</u>	<u>3,055,167</u>	<u>177,580</u>
1,910,799	1,910,799	2,085,000	(174,201)
1,250,406	1,270,406	1,088,165	182,241
<u>3,161,205</u>	<u>3,181,205</u>	<u>3,173,165</u>	<u>8,040</u>
(283,618)	(303,618)	(117,998)	185,620
		<u>3,501,947</u>	<u>3,501,947</u>
(283,618)	(303,618)	3,383,949	3,687,567
<u>2,568,934</u>	<u>2,568,934</u>	<u>2,568,934</u>	
<u>\$ 2,285,316</u>	<u>\$ 2,265,316</u>	<u>\$ 5,952,883</u>	<u>\$ 3,687,567</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, 2008 which collectively comprise the District's basic financial statements and have issued our report thereon dated December 09, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding numbers 08-01, 08-02 and 08-03 to be significant deficiencies.

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

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

### **Compliance and Other Matters**

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

### **Closing**

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

Texas City, Texas  
December 09, 2008

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

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

### **Compliance**

We have audited the compliance of Friendswood Independent School District (the "District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 08-04.

### **Internal Control over Compliance**

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding number 08-04 to be a significant deficiency

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

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

### **Closing**

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

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

Texas City, Texas  
December 09, 2008

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For the Year Ended August 31, 2008*

**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, #08-01, #08-02, #08-03
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, #08-04
Type of auditors' report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	Yes
Identification of major programs	
Name of Federal Program or Cluster	CFDA Numbers
<b>US Department of Education</b>	
Special Education Cluster:	
IDEA - Part B – Formula	84.027
IDEA – Part B – Discretionary	84.027
IDEA – B Preschool	84.173
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
*For the Year Ended August 31, 2008*

**II. Financial Statement Findings**

**Significant Deficiencies**

**Finding 08-01**

**Condition:** There is not an accurate sub-ledger available to support the Fixed Asset values (cost).

**Criteria:** Each category of Fixed Assets, such as buildings, furniture and equipment should be supported by a detailed listing of the items that are included in these totals.

**Cause:** Software limitations have caused assets that are fully depreciated to be dropped off of the Fixed Asset listing.

**Effect:** Without an accurate sub-ledger of fixed assets for each category, reconciliation between the sub-ledger and totals is not possible. A proper inventory of fixed assets is not possible without this sub-ledger.

**Recommendation:** The Business Office staff should work with the software vendor to determine the necessary steps to be taken to resolve this issue.

**Finding 08-02**

**Condition:** Business Office does not review tax office bank reconciliations. The reconciled balance in the Tax Office bank account was not reflected on the Balance Sheet.

**Criteria:** All bank accounts and monthly reconciliations should be reviewed by Business Office. Balances in the Tax Office account reflect refunds due to taxpayers that have not been claimed. Any balances remaining in this account should be reconciled and a detailed listing prepared that includes the name of the taxpayer, date of tax payment and refund amount. If the taxpayers do not claim the refunds in a certain time period there should be procedures in place to handle the funds.

**Cause:** Tax Office began reconciling this account and the review procedure was not implemented.

**Effect:** If bank account reconciliations are not approved there is no way for the Business Office to ensure proper reconciliation and reflection in the General Ledger of the proper balance.

**Recommendation:** The Tax Office should prepare a detailed listing each month of the reconciled balance in the bank account that includes name and amounts due to taxpayers for refunds. The Business Office should approve this reconciliation and record the balance in the General Ledger each month. Steps should be established to handle the unclaimed taxpayer refunds after a certain time period.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
*For the Year Ended August 31, 2008*

**II. Financial Statement Findings (Continued)**

**Significant Deficiencies (Continued)**

**Finding 08-03**

**Condition:** The Employee Insurance cash balance at year end was materially overstated.

**Criteria:** All cash general ledger accounts should be reconciled monthly to the bank statement and necessary adjustments made.

**Cause:** Activity in the Employee Insurance cash account was not recorded in the General Ledger.

**Effect:** Cash balance on the General Ledger was overstated. Material adjustments were recorded to reflect claims payments during the year.

**Recommendation:** Bank account should be reconciled monthly to the General ledger balances.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
*For the Year Ended August 31, 2008*

**III. Federal Awards Findings and Questioned Costs**

**Finding 08-04**

**Condition:** The District does not verify that vendors paid with federal funds are not listed on the Excluded Parties List System (EPLS).

**Criteria:** When a the district enters into procurement contracts for goods and services awarded under a grant that is expected to equal or exceed \$25,000, the district must verify that the entity is not suspended or debarred or otherwise excluded.

**Cause:** The District was unaware of this requirement.

**Effect:** Although there were no vendors found to be paid with federal dollars that were listed on the EPLS, without this verification process, it is possible that the District may enter into contracts using federal funds with vendors on the EPLS.

**Recommendation:** The District should implement a verification process for all vendors paid with federal funds. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

**Questioned Costs:** None.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
*For the Year Ended August 31, 2008*

**IV. Summary Schedule of Prior Audit Findings**

<b>Finding #</b>	<b>Corrective Action Taken</b>
<b>Finding 07-01- Accounts Payable access to vendor master files</b>	Accounts Payable staff no longer edits or enters vendor information as of January 2008. This access is has also been removed at the user level in the Pentamation financial system as of September 29, 2008
<b>Finding 07-02 - Timely deposit of cash/checks</b>	Check scanners were implemented so that checks from parents were scanned in on a daily basis and cash was taken to the bank on a daily basis. Cash handling procedures have also been prepared and presented to administrators during the annual administrative in-service held in August 2008.
<b>Finding 07-03-Journal entries lack support and approval</b>	Journal entries are now being signed off on by the Executive Director of Business before being entered. The preparer is listed and documentation is filed with the entry as back-up.
<b>Finding 07-04-Periodic time certifications not prepared for IDEA-B personnel</b>	Special Services staff has been informed of the certification requirements and these documents are being prepared, signed, and completed on a semester basis by the federal program directors.
<b>Finding 07-05-District budget exceeded in several functional expenditure categories</b>	Budgets are being monitored on a monthly basis by the Executive Director of Business to ensure correct coding and proper spending. Major year-end entries were also completed, or accounted for, by Business Office staff prior to the final budget amendment.
<b>Finding 07-06-PEIMS reporting</b>	The Batting Cage fund has been terminated and the Educational Foundation Grant fund has been included in the PEIMS submission from this point forward

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**CORRECTIVE ACTION PLAN**  
*For the Year Ended August 31, 2008*

**V. Corrective Action Plan**

<b>Finding:</b>	<b>Corrective Action Plan</b>	<b>Contact Person</b>	<b>Estimated Completion Date</b>
<b>08-01</b> No accurate sub-ledger is available to support the fixed asset values.	FISD will work with Pentamation and other districts using Pentamation to implement a system that tracks assets once depreciated.	(a)	(b)
<b>08-02</b> Business Office does not review tax office bank reconciliations.	Business Office will require monthly reconciliations from the tax office be sent over for approval and will be reconciled monthly to the general ledger.	(a)	(b)
<b>08-03</b> Employee Insurance Fund cash balance at year end was materially overstated.	The Executive Director of Business will be responsible for reconciling the Employee Insurance Fund to the general ledger.	(a)	(b)
<b>08-04</b> Federal fund vendors should be verified by the Excluded Parties List System (EPLS) before purchases are made.	The Special Education Director and Purchasing department are now aware of the list and the vendors will be checked before purchases are made.	(a)	(b)

- (a) Alison Rendon, Executive Director of Finance
- (b) March 31, 2009

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the Year Ended August 31, 2008*

*Exhibit E-1*

<b>Pass Through Entity Identifying Number</b>	<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>District Fund Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Education</b>				
<b>Direct Program:</b>				
Q184D070026	<i>Safe and Drug Free Schools and Communities</i>	282	84.184D	\$ 63,987
<b>Total direct programs</b>				<u>63,987</u>
<b>Passed Through Texas Education Agency:</b>				
8691001084911	<i>ESEA Title IV, Part A, Safe &amp; Drug Free Schools</i>	204	84.186A	15,087
8610101084911	<i>ESEA Title I Part A</i>	211	84.010A	161,053
9610101084911	<i>ESEA Title I Part A</i>	211	84.010A	875
86600010849116600	<i>IDEA - Part B, Formula *</i>	224	84.027A	815,698
96600010849116600	<i>IDEA - Part B, Formula *</i>	224	84.027A	32,259
86610010849116600	<i>IDEA - Part B, Preschool *</i>	225	84.173A	13,217
96610010849116600	<i>IDEA - Part B, Preschool *</i>	225	84.173A	917
86600060849116680	<i>IDEA - Part B, High Cost Risk Pool *</i>	226	84.027A	66,778
86600020849116677	<i>IDEA - Part B, Discretionary *</i>	226	84.027A	178,342
8420006084911104	<i>Career and Technology Education - Carl D.</i>	244	84.048A	32,191
9694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	51,986
8694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	27,730
8630001084911	<i>ESEA Title II, Part D - Enhancing Education</i>	262	84.318X	1,022
8685001084911	<i>ESEA, Title V, Part A, Innovative Program</i>	269	84.298A	4,411
084-911	<i>ESEA, Title III, LEP/Immigrant</i>	350	84.365	6,236
<b>Total passed through Texas Education Agency</b>				<u>1,407,802</u>
<b>Passed through Texas Higher Ed. Coordinating to North Harris Montgomery Community</b>				
084-911	<i>Vocational Education - Tech. Prep.</i>	243	84.243A	9,067
<b>Total passed through Texas Higher Ed.</b>				<u>9,067</u>
<b>Total Passed through Programs</b>				<u>1,416,869</u>
<b>Total Department of Education</b>				<u>1,480,856</u>
<b>U.S. Department of Agriculture</b>				
<b>Passed Through State Department of Education:</b>				
81400701	<i>National School Lunch Program *</i>	240	10.555	103,177
81300601	<i>School Breakfast Program *</i>	240	10.553	6,521
<b>Direct Program:</b>				
101916	<i>USDA Donation Commodities *</i>	240	10.550	59,192
<b>Total Department of Agriculture</b>				<u>168,890</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 1,649,746</u>

\* Clustered programs under OMB Circular A-133.

**FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the Year Ended August 31, 2008*

**Note 1 -Basis of Accounting**

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

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

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

**Note 2 - Reconciliation to Basic Financial Statements**

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

<b>Total expenditures of federal awards per SEFA</b>	<u>\$ 1,649,746</u>
<b>Related expenditures on Exhibit A-5</b>	
Special Revenue Funds	<u>\$ 1,649,746</u>