

**FRIENDSWOOD INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2009



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

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CERTIFICATE OF BOARD

Friendswood Independent School District

Name of School District

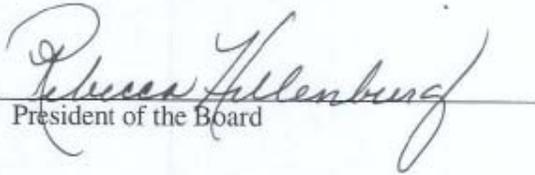
Galveston

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, 2009, at a meeting of the board of trustees of such school district on December 8, 2009.



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, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, 2009, 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 2, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 to 12 and pages 53 through 54, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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.

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

Texas City, Texas
December 2, 2009

Management's Discussion and Analysis

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Friendswood Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2009.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$19,747,780. Of this amount, \$8,123,863 may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net assets increased by \$2,317,217 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 \$82,680,760, decrease of \$26,974,827 in comparison with the prior year. The decrease in governmental fund balances was primarily due to the construction of facilities in the capital projects fund.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$6,529,972, or 17% of total general fund expenditures.
- The District's bonded debt decreased by \$2,272,452 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.

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 \$19,747,780 at the close of the most recent fiscal year.

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

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

	Governmental Activities	
	2009	2008
Current and other assets	\$ 98,056,617	\$ 116,071,840
Capital and non current assets	57,306,828	31,997,716
Total Assets	155,363,445	148,069,556
Current liabilities	12,669,223	5,329,480
Long term liabilities	122,946,442	125,309,470
Total Liabilities	135,615,665	130,638,950
Net Assets:		
Invested in capital assets net of related debt	7,020,945	3,859,402
Restricted	4,602,972	5,001,477
Unrestricted	8,123,863	8,569,727
Total Net Assets	\$ 19,747,780	\$ 17,430,606

Net assets are restricted for various purposes as follows:

	Governmental Activities	
	2009	2008
Federal and state programs	\$ 256,716	\$ 248,326
Food Service	162,173	131,632
Debt Service	3,423,423	4,361,160
Capital Projects		(421,024)
Campus Activities	760,660	681,383
	\$ 4,602,972	\$ 5,001,477

The remaining balance of unrestricted net assets \$8,123,863 may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District reports positive balances in all three categories of net assets. The District's net assets increased by \$2,317,217 during the current fiscal year.

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

Comparative Schedule of Changes in Net Assets

	Governmental Activities	
	2009	2008
Program Revenues		
Charges for services	\$ 2,601,013	\$ 2,763,664
Operating grants	4,498,316	4,643,710
General Revenues		
Property taxes	27,193,245	22,469,177
State Aid - Formula Grants	14,788,213	14,814,177
Grants and contributions not restricted	185,663	9,548
Interest earnings	3,260,974	1,129,488
Other	682,024	434,779
Total Revenues	53,209,448	46,264,543
Expenses		
Instruction	26,938,091	26,482,814
Instructional resources and media services	1,003,002	1,007,042
Curriculum and staff development	142,077	250,490
Instructional leadership	811,358	719,317
School leadership	2,326,724	2,403,147
Guidance, counseling, and evaluation services	963,477	1,034,552
Social work services	62,339	58,816
Health services	469,674	443,165
Student transportation	1,319,989	1,304,195
Food service	2,139,996	2,029,320
Extracurricular activities	1,528,049	1,401,811
General administration	2,058,480	2,118,599
Plant, maintenance and operations	3,280,997	4,059,857
Security and monitoring services	142,881	92,461
Data processing services	884,922	853,314
Community services	122,180	99,487
Interest on long-term debt	5,326,170	2,691,100
Debt issuance costs and fees	1,201	11,316
Facilities acquisition and construction	3,141	
Payments related to shared services arrangements	1,093,283	44,384
Payments to Juvenile Justice Alternative Education Programs	20,324	18,895
Other governmental charges	253,876	199,889
Total Expenses	50,892,231	47,323,971
Excess (deficiency) before special items and transfers	2,317,217	(1,059,428)
Transfers		2,352
Increase (Decrease) in Net Assets	2,317,217	(1,057,076)
Beginning net assets	17,430,563	18,487,639
Ending Net Assets	\$ 19,747,780	\$ 17,430,563

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

Governmental Activities

Governmental activities increased the District's net assets by \$2,317,217. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 87.4 percent of total revenues. The remaining 12.6 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

	Total Revenues	% of Total Revenues
Property taxes	\$ 27,193,245	51%
State Aid - Formula Grants	14,788,213	28%
Operating grants and contributions	4,683,979	9%
Other revenue	6,544,011	12%
Total Revenues	\$ 53,209,448	100%

The primary functional expenses of the District are instruction and interest on long-term debt, which represents 63 percent of total expenses. The remaining individual functional categories of expenses are each less than 10 percent of total expenses.

	Total Expenses	% of Total Expenses
Instruction	\$ 26,938,091	53%
Interest on long-term debt	5,326,170	10%
Other expenses	18,627,970	37%
Total Expenses	\$ 50,892,231	100%

Financial Analysis of the Government's Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$82,680,760, a decrease of \$26,974,827 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 \$6,529,972, while total fund balance reached \$7,355,181. 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 \$117,544 over the prior year, while total fund expenditures showed a decrease of \$111,531. The total fund balance of the District's general fund decreased by \$459,531 during the current fiscal year.

The debt service fund has a total fund balance of \$3,577,044, all of which is reserved for the payment of debt service. The net decrease in the debt service fund balance during the current year of \$2,375,837 was in line with budgeted expectations.

The capital projects fund has a total fund balance of \$70,568,986, all of which is reserved for authorized construction and technology projects/enhancements. The net decrease in fund balance during the current year of \$24,219,667 was due to the construction of new facilities.

General Fund Budgetary Highlights

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

	Budget	
	Original	Final Amended
Total revenues	\$ 38,068,598	\$ 39,762,680
Total expenditures	38,224,453	39,652,774
Net change in fund balance	\$ (155,855)	\$ 109,906

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2009, 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 \$27,536,387. The following table summarizes the investment in capital assets as of August 31, 2009 and 2008.

	2009	2008
Land	\$ 1,990,385	\$ 1,985,030
Buildings and improvements	50,489,723	50,521,285
Furniture and equipment	4,583,006	4,388,017
Leased assets under capital lease	144,147	144,147
Construction in progress	28,938,134	1,609,448
Total	86,145,395	58,647,927
Accumulated depreciation	(28,838,567)	(26,650,212)
Net capital assets	\$ 57,306,828	\$ 31,997,715

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 \$118,484,978 in bonded debt outstanding, a decrease of \$2,400,576 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, 2009, are as follows:

Outstanding 09/01/08	Issued	Retired	Outstanding 08/31/09
<u>\$ 120,794,978</u>	<u>\$ 10,000,000</u>	<u>\$ (12,310,000)</u>	<u>\$ 118,484,978</u>

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

Economic Factors and Next Year's Budgets and Rates

- The Tax Rate for 2009-2010 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.
- Operating Expense per student is \$6,800 for 2009-2010 based on the general operating budget.
- The District's 2009-2010 refined average daily attendance is projected to be 5,805 which is an increase of 1% from the previous year.

These indicators were taken into account when adopting the budget for 2009-2010. The total Friendswood Independent School District adopted budget for 2009-2010 is \$39,477,780.

Expenditures are budgeted to increase 3% to \$39.4 million. HB 3646 required all school districts to increase base pay for teachers, nurses, libraries, counselors, and speech pathologists by a minimum of the higher of \$80/month or \$60/WADA and an additional step according to any published schedule by the district. This mandate required Friendswood ISD to raise each teachers pay by a minimum of \$1,010 annually plus an additional step which ranged anywhere from \$100 to \$1,105. All other staff received a 2% cost of living increase. This pay increase along with increases to property casualty insurance for the district accounted for most of the 3% increase in expenditures.

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.

Basic Financial Statements

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET ASSETS

August 31, 2009

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	Assets	
1110	Cash and cash equivalents	\$ 33,411,060
1225	Property taxes receivables, net	746,717
1240	Due from other governments	324,809
1250	Accrued interest	685,748
1267	Due from fiduciary funds	20,000
1290	Other receivables, net	136,119
1300	Inventories	209,026
1420	Capital bond and other debt issuance costs	1,030,789
	Capital assets not subject to depreciation:	
1510	Land	1,990,385
1580	Construction in progress	28,938,134
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	25,311,444
1530	Furniture and equipment, net	922,718
1550	Leased assets under capital lease, net	144,147
1910	Long-term investments	61,492,349
1000	Total Assets	<u>155,363,445</u>
	Liabilities	
2110	Accounts payable	9,752,061
2140	Interest payable	248,976
2150	Payroll deductions and withholdings	27,661
2160	Accrued wages payable	2,148,778
2300	Unearned revenue	208,280
2400	Payable from restricted assets	283,467
	Noncurrent Liabilities:	
2501	Due within one year	2,649,787
2502	Due in more than one year	120,296,655
2000	Total Liabilities	<u>135,615,665</u>
	Net Assets	
3200	Invested in capital assets, net of related debt	7,020,945
	Restricted for:	
3820	Federal and state programs	256,716
3840	Food service	162,173
3850	Debt service	3,423,423
3870	Campus activity	760,660
3900	Unrestricted	8,123,863
	Total Net Assets	<u>\$ 19,747,780</u>

See Notes to Basic Financial Statements

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2009

Exhibit A-2

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
	Governmental activities:				
11	Instruction	\$ 26,938,091	\$ 44,823	\$ 3,138,885	\$ (23,754,383)
12	Instructional resources and media services	1,003,002		28,844	(974,158)
13	Curriculum and staff development	142,077		74,499	(67,578)
21	Instructional leadership	811,358		112,768	(698,590)
23	School leadership	2,326,724		123,179	(2,203,545)
31	Guidance, counseling, and evaluation	963,477		92,689	(870,788)
32	Social work services	62,339		3,467	(58,872)
33	Health services	469,674		91,300	(378,374)
34	Student transportation	1,319,989		92,463	(1,227,526)
35	Food service	2,139,996	1,776,596	241,663	(121,737)
36	Extracurricular activities	1,528,049	745,776	60,580	(721,693)
41	General administration	2,058,480		87,415	(1,971,065)
51	Plant, maintenance and operations	3,280,997	33,818	263,739	(2,983,440)
52	Security and monitoring services	142,881			(142,881)
53	Data processing services	884,922		85,336	(799,586)
61	Community services	122,180		1,489	(120,691)
72	Interest on long-term debt	5,326,170			(5,326,170)
73	Debt issuance costs and fees	1,201			(1,201)
81	Facilities acquisition and construction	3,141			(3,141)
93	Payments related to shared services	1,093,283			(1,093,283)
95	Payments to Juvenile Justice Alternative	20,324			(20,324)
99	Other governmental charges	253,876			(253,876)
TG	Total governmental activities	<u>\$ 50,892,231</u>	<u>\$ 2,601,013</u>	<u>\$ 4,498,316</u>	<u>(43,792,902)</u>

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	20,694,068
DT	Property taxes, levied for debt service	6,499,177
SF	State-aid formula grants	14,788,213
GC	Grants and contributions not restricted	185,663
IE	Investment earnings	3,260,974
MI	Miscellaneous	682,024
TR	Total general	<u>46,110,119</u>
CN	Change in net assets	2,317,217
NB	Net assets - beginning	<u>17,430,563</u>
NE	Net assets - ending	<u>\$ 19,747,780</u>

See Notes to Basic Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2009

Data Control Codes	General Fund	Debt Service Fund	Capital Projects Fund
Assets			
1110 Cash and temporary investments	\$ 9,563,464	\$ 3,541,733	\$ 17,815,941
Receivables:			
1220 Property taxes - delinquent	710,420	139,132	
1230 Allowance for uncollectible (credit)	(91,183)	(11,652)	
1240 Receivables from other governments	54,976		
1250 Accrued interest			685,748
1260 Due from other funds	157,155		
1290 Other receivables	136,119		
1300 Inventories, at cost	209,026		
1910 Long-term investments			61,492,349
Total Assets	\$ 10,739,977	\$ 3,669,213	\$ 79,994,038
Liabilities and Fund Balances			
Liabilities:			
2110 Accounts payable	\$ 149,201	\$	\$ 9,417,591
2150 Payroll withholdings payable	27,661		
2160 Accrued wages payable	2,093,563		7,461
2170 Due to other funds	117,720		
2200 Accrued expenses	289,787		
2300 Deferred revenues	706,864	92,169	
2000 Total Liabilities	3,384,796	92,169	9,425,052
Fund Balances:			
Reserved for:			
3410 Investments in inventories	209,026		
3420 Retirement of funded indebtedness		3,577,044	
3440 Encumbrances	16,610		
3450 Food service operations			
3470 Capital projects			70,568,986
3490 Other purposes	599,573		
Unreserved, Undesignated Reported in:			
3600 General fund	6,529,972		
3610 Special revenue funds			
3000 Total Fund Balance	7,355,181	3,577,044	70,568,986
4000 Total Liabilities and Fund Balances	\$ 10,739,977	\$ 3,669,213	\$ 79,994,038

See Notes to Basic Financial Statements

Exhibit A-3

Other Governmental Funds	Total Governmental Funds
\$ 1,145,922	\$ 32,067,060
	849,552
	(102,835)
269,833	324,809
	685,748
119,026	276,181
	136,119
	209,026
	61,492,349
<u>\$ 1,534,781</u>	<u>\$ 95,938,009</u>

\$ 146,907	\$ 9,713,699
	27,661
47,754	2,148,778
138,461	256,181
	289,787
22,110	821,143
<u>355,232</u>	<u>13,257,249</u>

	209,026
	3,577,044
	16,610
162,173	162,173
	70,568,986
	599,573
	6,529,972
<u>1,017,376</u>	<u>1,017,376</u>
<u>1,179,549</u>	<u>82,680,760</u>
<u>\$ 1,534,781</u>	<u>\$ 95,938,009</u>

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

Exhibit A-4

August 31, 2009

Data
Control
Codes

Total fund balance, governmental funds \$ 82,680,760

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

1 Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable 57,306,828

2 Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts). 612,863

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

3	General obligation bonds	(118,484,978)
4	Premiums on issuance	(3,490,730)
5	Bond issuance costs	1,030,789
6	Deferred charges on refunding	90,050
7	Accreted interest on premium compound interest bonds	(113,240)
8	Accrued compensated absences	(657,757)
9	Accrued interest payable	(248,976)
10	Addition of Internal Service fund net assets	<u>1,022,171</u>

Total net assets - governmental activities \$ 19,747,780

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, 2009

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Revenues				
5700	Local, intermediate, and out-of-state	\$ 21,674,592	\$ 6,518,554	\$ 3,123,780
5800	State program revenues	16,651,776	178,655	
5900	Federal program revenues			
5020	Total Revenues	<u>38,326,368</u>	<u>6,697,209</u>	<u>3,123,780</u>
Expenditures				
Current:				
0011	Instruction	23,512,700		9,522
0012	Instruction resources and media services	968,800		
0013	Curriculum and instructional staff development	58,496		
0021	Instructional leadership	699,668		
0023	School leadership	2,197,441		
0031	Guidance, counseling and evaluation services	869,282		
0032	Social work services	73,286		
0033	Health services	379,063		
0034	Student transportation	1,218,683		
0035	Food services			
0036	Extracurricular activities	1,475,772		
0041	General administration	1,944,319		
0051	Plant maintenance and operations	3,009,540		
0052	Security and monitoring services	135,222		
0053	Data processing services	778,944		5,240
0061	Community services			
Debt service:				
0071	Principal on long-term debt	28,997	2,165,000	
0072	Interest on long-term debt	5,524	6,828,496	
Capital outlay:				
0081	Capital outlay	8,496		27,328,685
Intergovernmental:				
0093	Payments related to shared services arrangements	1,093,283		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	20,324		
0099	Other intergovernmental charges	253,876		
6030	Total Expenditures	<u>38,731,716</u>	<u>8,993,496</u>	<u>27,343,447</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(405,348)</u>	<u>(2,296,287)</u>	<u>(24,219,667)</u>
Other Financing Sources (Uses)				
7911	Capital-related debt issued (regular bonds)		10,000,000	
7915	Transfers in	30,726		
7916	Premium on issuance of bonds		125,052	
8911	Transfers out	(84,909)		
8949	Payment to Bond Refunding Escrow Agent		(10,204,602)	
7080	Total other financing sources (uses)	<u>(54,183)</u>	<u>(79,550)</u>	
1200	Net change in fund balances	(459,531)	(2,375,837)	(24,219,667)
0100	Fund Balance - September 1 (Beginning)	8,534,097	5,952,881	94,788,653
	Prior Period Adjustment	(719,385)		
3000	Fund Balance - August 31 (Ending)	<u>\$ 7,355,181</u>	<u>\$ 3,577,044</u>	<u>\$ 70,568,986</u>

See Notes to Basic Financial Statements

Exhibit A-5

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,359,276	\$ 33,676,202
884,058	17,714,489
1,760,789	1,760,789
<u>5,004,123</u>	<u>53,151,480</u>
2,225,239	25,747,461
	968,800
80,269	138,765
73,602	773,270
9,928	2,207,369
47,080	916,362
	73,286
69,964	449,027
35,470	1,254,153
2,037,443	2,037,443
6,798	1,482,570
7,320	1,951,639
147,558	3,157,098
	135,222
57,978	842,162
122,180	122,180
	2,193,997
	6,834,020
3,086	27,340,267
	1,093,283
	20,324
	<u>253,876</u>
<u>4,923,915</u>	<u>79,992,574</u>
<u>80,208</u>	<u>(26,841,094)</u>
	10,000,000
	30,726
	125,052
	(84,909)
	<u>(10,204,602)</u>
	<u>(133,733)</u>
80,208	(26,974,827)
379,956	109,655,587
<u>719,385</u>	
<u>\$ 1,179,549</u>	<u>\$ 82,680,760</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, 2009

Exhibit A-6

Data
Control
Codes

	Net change in fund balances - total governmental funds (from A-5)	\$ (26,974,827)
	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.	25,309,112
3	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	48,488
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.	2,193,997
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.	204,602
6	Premium received on the sale of bonds	(125,052)
7	Bond issuance costs paid during the current year will be amortized over the life of the bonds.	148,713
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
8	Decrease in interest payable not recognized in fund statements	1,400,275
9	Changes in bond issuance premiums	129,088
10	Bond issuance costs	(50,909)
11	Amortization of deferred loss on defeasance of bonds	(113,546)
12	Accreted interest on capital appreciation bonds and amortization of bond issuance costs	(6,972)
13	(Increase) decrease in long-term portion of workers' compensation benefits payable	
14	(Increase) decrease in long-term portion of accrued compensated absences payable	62,114
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.	92,134
	Change in net assets of governmental activities	<u>\$ 2,317,217</u>

See Notes to Basic Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT*Exhibit A-7***STATEMENT OF NET ASSETS****PROPRIETARY FUNDS***August 31, 2009*

Data Control Codes		Governmental Activities - Internal Service Funds
	Assets	
	Current Assets:	
1110-75	Cash and cash equivalents	\$ 1,344,000
	Total Current Assets	<u>1,344,000</u>
1000	Total Assets	<u>1,344,000</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	38,361
	Total Current Liabilities	<u>38,361</u>
	Non-current Liabilities:	
2590	Claims and judgments	283,467
	Total Non-current Liabilities	<u>283,467</u>
2000	Total Liabilities	<u>321,828</u>
	Net Assets	
3900	Unrestricted net assets	1,022,172
3000	Total Net Assets	<u>\$ 1,022,172</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, 2009

Exhibit A-8

Data Control Codes		Governmental Activities - Internal Service Funds
	Operating Revenues	
5749	Miscellaneous revenue from local sources	\$
5754	Quasi-external interfund transactions	154,937
5020	Total Operating Revenues	<u>154,937</u>
	Operating Expenses	
6400	Claims expense and other operating expenses	129,551
6030	Total Operating Expenses	<u>129,551</u>
1200	Operating Income (Loss)	<u>25,386</u>
	Non-Operating Revenues (Expenses)	
7955	Investment earnings	12,567
	Total Nonoperating Revenues (Expenses)	<u>12,567</u>
	Income (Loss) before Transfers	37,953
	Transfers	
7915	Transfers in	84,909
8911	Transfers out	<u>(30,726)</u>
1200	Change in Net Assets	92,136
0100	Net Assets - September 1 (Beginning)	930,036
3300	Net Assets - August 31 (Ending)	<u>\$ 1,022,172</u>

See Notes to Basic Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT*Exhibit A-9***COMBINING STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***For the Year Ended August 31, 2009*

	Non-major Internal Service Funds
Cash Flows from Operating Activities:	
Cash receipts from quasi-external operating activities with other funds	\$ 154,937
Cash payments for insurance claims	(233,502)
Net Cash Provided by (Used for) Operating Activities	<u>(78,565)</u>
Cash Flows from Non-Capital Financing Activities:	
Advances from other funds	109,909
Advances to other funds	(30,726)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>79,183</u>
Cash Flows from Investing Activities:	
Interest on investments	12,566
Net Cash Provided by Investing Activities	<u>12,566</u>
Net Increase in Cash and Cash Equivalents	13,184
Cash and Cash Equivalents at Beginning of Year	<u>1,330,816</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,344,000</u>
Reconciliation to Balance Sheet	
Cash and Cash Equivalents Per Cash Flow	\$ 1,344,000
Cash and Cash Equivalents per Balance Sheet	<u>\$ 1,344,000</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 25,386
Change in Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(62,518)
Increase (decrease) in Accrued Expenses	(41,433)
Net Cash Provided by (Used for) Operating Activities	<u>\$ (78,565)</u>

See Notes to Basic Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
August 31, 2009

Exhibit A-10

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 14,528	\$ 869,101
	Receivables:		
1290	Other receivables		20,000
	Total Assets	<u>14,528</u>	<u>\$ 889,101</u>
	Liabilities		
2150	Payroll deductions and withholdings		56,186
2170	Due to other funds		20,000
2190	Due to student groups		812,629
2000	Total Liabilities		<u>\$ 889,101</u>
	Net Assets		
3800	Restricted	<u>\$ 14,528</u>	

See Notes to Basic Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit A-11

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended August 31, 2009

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

See Notes to 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, 2009. 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, 2009. 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 2009, the District invested in Investor's Cash Trust Money Market Mutual Fund, the State of Texas Texpool, the State of Texas TexSTAR Investment Pool, MBIA Government Class Investment Pool, and the Texas Association of School Boards Lone Star Investment Pool. Texpool is duly chartered and overseen by the State Comptroller's Office and administered by Lehman Brothers and Federated Investors, Inc. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by Standish Mellon and American Beacon Advisors. The Bank of New York is the custodial bank. Lone Star Investment Pool is restricted to invest in obligations of the United States or its agencies and instrumentalities; other obligations insured by the United States; fully collateralized repurchase agreements having a defined termination date, secured by obligations described previously; and SEC-registered no-load money market mutual funds, the assets which consist exclusively of the obligations described above. The Money Market Mutual Fund listed below consists of shares owned in Investors Cash Trust; an SEC registered money market fund with the stated objective of maintaining a stable net asset value of \$1.00. TexSTAR Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered and managed by JPMorgan Fleming Asset Management, Inc. and First Southwest Asset Management, Inc. JP Morgan Chase Bank and/or its subsidiary JP Morgan Investor Services Co. is the custodial bank.

Note 2 - Deposits and Investments (continued)

Investments (continued)

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

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

	Fair Market Value	Weighted Average Maturity (In days)
Governmental Activities:		
Cash and deposits	\$ 2,447,695	N/A
Investments		
Local Government Investment Pools:		
Lone Star	5,072,064	52
MBIA Texas Class	22,198,995	40
Texpool	564,675	48
TexStar	1,513,258	49
	<u>29,348,992</u>	54
Investment Securities:		
ICT Money Market Mutual Fund	1,614,374	1
Federal Farm Credit Bank	6,053,594	179
Federal Home Loan Bank	8,369,682	38
Federal Home Loan Mortgage Corp.	26,054,641	166
Federal National Mortgage Assoc.	21,014,431	173
	<u>63,106,722</u>	159
Total Investments	<u>92,455,714</u>	125
Total Governmental Activities	<u>94,903,409</u>	
Fiduciary Funds:		
Cash and deposits	883,629	
Total Fiduciary Funds	<u>883,629</u>	
Total	<u>\$ 95,787,038</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, 2009, the District's investments were rated as follows:

<u>Investment</u>	<u>Rating</u>	<u>Rating Agency</u>
Lone Star	AAAm	Standard and Poor's
MBIA	AAA	Fitch Ratings, Ltd.
Texpool	AAAm	Standard and Poor's
TexStar	AAAf	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, 2009 consisted of the following:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Percentage of Portfolio</u>
Lone Star	\$ 5,072,064	5.49%
MBIA Texas Class	22,198,995	24.01%
Federal Farm Credit Bank	6,053,594	6.55%
Federal Home Loan Bank	8,369,682	9.05%
Federal Home Loan Mortgage Corp.	26,054,641	28.18%
Federal National Mortgage Assoc.	21,014,431	22.73%

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, 2009, is included in investment earnings as follows:

Investment earnings	\$ 2,423,629
Net increase (decrease) in investment values	837,345
Total Investment earnings	\$ 3,260,974

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	\$ 710,420	\$ 139,132	\$	\$	\$ 849,552
Due from other governments	54,976			269,833	324,809
Interest			685,748		685,748
Other	136,119				136,119
Gross receivables	901,515	139,132	685,748	269,833	1,996,228
Less allowance for doubtful accounts	(91,183)	(11,652)			(102,835)
Net total receivables	<u>\$ 810,332</u>	<u>\$ 127,480</u>	<u>\$ 685,748</u>	<u>\$ 269,833</u>	<u>\$ 1,893,393</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)	\$ 520,694	\$	\$ 520,694
Delinquent property taxes receivable (Debt Service Fund)	92,169		92,169
Advanced collection of tuition and fees		208,280	208,280
	<u>\$ 612,863</u>	<u>\$ 208,280</u>	<u>\$ 821,143</u>

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2009, was as follows:

	<u>Balance August 31, 2008</u>	<u>Additions</u>	<u>(Retirements and Transfers)</u>	<u>Balance August 31, 2009</u>
Capital assets, not being depreciated				
Land	\$ 1,985,030	\$ 5,355	\$	\$ 1,990,385
Construction in progress	1,609,448	27,328,686		28,938,134
Total Capital assets, not being depreciated	<u>3,594,478</u>	<u>27,334,041</u>		<u>30,928,519</u>
Capital assets, being depreciated				
Buildings and improvements	50,521,285		(31,562)	50,489,723
Furniture and equipment	4,532,164	202,346	(7,357)	4,727,153
Total Capital assets, being depreciated	<u>55,053,449</u>	<u>202,346</u>	<u>(38,919)</u>	<u>55,216,876</u>
Less accumulated depreciation for:				
Buildings and improvements	(23,321,893)	(1,887,948)	31,562	(25,178,279)
Furniture and Equipment	(3,328,319)	(339,326)	7,357	(3,660,288)
Total Accumulated depreciation	<u>(26,650,212)</u>	<u>(2,227,274)</u>	<u>38,919</u>	<u>(28,838,567)</u>
Governmental Capital Assets	<u>\$ 31,997,715</u>	<u>\$ 25,309,113</u>	<u>\$</u>	<u>\$ 57,306,828</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	\$ 1,332,345
Instructional resources and media services	54,875
Curriculum and staff development	3,313
Instructional leadership	39,631
School leadership	124,467
Guidance, counseling and evaluation services	49,238
Social work services	4,151
Health services	21,471
Student transportation	69,029
Food Services	109,997
Extracurricular activities	83,541
General administration	110,371
Plant maintenance and operations	173,065
Security and monitoring services	7,659
Data processing services	44,121
	<u>\$ 2,227,274</u>

Construction Commitments

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
Baseball/Softball Construction	\$ 2,966,700	\$ 22,292	\$ 2,944,408
Cline Elementary Renovations	3,342,000	813,972	2,528,028
Early Child Care	7,263,000	40,856	7,222,144
High School Renovations	23,427,000	7,866,094	15,560,906
Junior High Construction	48,505,000	16,393,429	32,111,570
Natatorium Construction	6,500,000	2,663,661	3,836,339
Westwood Elementary Renovations	2,228,000	1,137,830	1,090,170
	<u>\$ 94,231,700</u>	<u>\$ 28,938,134</u>	<u>\$ 65,293,565</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, \$84,909 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, 2009, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
Governmental Funds			
General Fund	\$ 157,155	\$ 117,720	\$ 39,435
Nonmajor Governmental Funds	119,026	138,461	(19,435)
Total Governmental Funds	<u>276,181</u>	<u>256,181</u>	<u>20,000</u>
Fiduciary Funds			
Agency Fund		20,000	(20,000)
Total Fiduciary Funds		<u>20,000</u>	<u>(20,000)</u>
Total	<u>\$ 276,181</u>	<u>\$ 276,181</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, 2008	\$ 1,009,658
Additions: New entrants and salary increments	77,138
Deductions: Payments to participants	<u>(139,252)</u>
Balance, August 31, 2009	<u>\$ 947,544</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, 2009, the legal debt limit was \$197,433,709 and the legal debt margin was \$79,011,855.

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, 2009

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, 2009 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	\$ 1,030,000
Unlimited Tax Refunding Bonds, Series 1999	9,285,000	4.00% to 4.40%	2/15/2012	3,420,000
Unlimited Tax Schoolhouse Bonds, Series 2006	5,590,554	3.78%	2/15/2017	5,499,978
Unlimited Tax Refunding Bonds, Series 2006	2,725,000	3.60%	2/15/2013	1,785,000
Unlimited Tax Schoolhouse Bonds, Series 2008	96,750,000	4.00% to 5.00%	2/15/2037	96,750,000
Unlimited Tax Refunding Bonds, Series 2009	10,000,000	2.00% to 3.00%	2/15/2018	10,000,000
				<u>\$ 118,484,978</u>

Debt service requirements to maturity are as follows:

Year Ending August 31,	Principal	Interest	Totals
2010	\$ 2,360,000	\$ 5,598,774	\$ 7,958,774
2011	2,515,000	5,404,336	7,919,336
2012	2,590,000	5,316,431	7,906,431
2013	2,459,978	5,208,841	7,668,819
2014	2,680,000	5,129,821	7,809,821
2015 - 2019	14,570,000	24,189,595	38,759,595
2020 - 2024	17,800,000	20,566,065	38,366,065
2025 - 2029	22,865,000	15,507,690	38,372,690
2030 - 2034	29,265,000	9,106,950	38,371,950
2035 - 2039	21,380,000	1,639,250	23,019,250
	<u>\$ 118,484,978</u>	<u>\$ 97,667,753</u>	<u>\$ 216,152,731</u>

Accreted Interest on Capital Appreciation Bonds

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

Series	Accreted Value	Principal	Accreted Interest	Maturity Value	Maturity Dates
2006	\$ 173,218	\$ 59,978	\$ 113,240	\$ 200,000	2013
	<u>\$ 173,218</u>	<u>\$ 59,978</u>	<u>\$ 113,240</u>	<u>\$ 200,000</u>	

Note 7 - Long-term Liabilities (continued)

Current Refunding

The District issued \$10,000,000 of unlimited tax refunding bonds for a current refunding of \$10,145,000 of unlimited tax schoolhouse bonds. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$78,439. This amount is being netted against the new debt and amortized over the life of the new debt's life.

Prior Years' Refunding of Long-Term Debt

In prior years the District defeased certain general obligation debt by placing the proceeds of the new bonds, in an irrevocable trust to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2009, \$4,850,000 of previously refunded debt outstanding was considered defeased.

Changes in Long-Term Liabilities

The following is a summary of changes in the District's total governmental long-term liabilities for the year ended August 31, 2009:

	<u>Balance</u> <u>August 31, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2009</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 120,794,978	\$ 10,000,000	\$ (12,310,000)	\$ 118,484,978	\$ 2,360,000
Less deferred amounts:					
For issuance premiums/discounts	3,494,726	125,052	(129,048)	3,490,730	
Gain or loss on refunding bonds	(125,157)		35,107	(90,050)	
Accreted interest on premium compound interest bonds	15,692	97,548		113,240	
Capital lease payable	28,997		(28,997)		
Accrued compensated absences	1,009,658	77,138	(139,252)	947,544	289,787
	<u>\$ 125,218,894</u>	<u>\$ 10,299,738</u>	<u>\$ (12,572,190)</u>	<u>\$ 122,946,442</u>	<u>\$ 2,649,787</u>

Note 8 - Fund Balance

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

Retirement / Sick Leave Benefits	\$599,573
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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	\$ 20,683,406	\$ 6,419,865	\$	\$	\$ 27,103,271
Investment Income	67,425	57,202	3,123,780		3,248,407
Co-curricular student activities	163,839				163,839
Food Sales				1,776,596	1,776,596
Other	759,922	41,487		582,680	1,384,089
	<u>\$ 21,674,592</u>	<u>\$ 6,518,554</u>	<u>\$ 3,123,780</u>	<u>\$ 2,359,276</u>	<u>\$ 33,676,202</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, 2009. The imputed interest on the leases is not readily determinable.

Rental expenditures during the year amounted to \$306,606.

Note 11 - Pension Information

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

Funding Policy: State law provides for a member contribution rate of 6.4% for fiscal years 2009, 2008, and 2007, and a state contribution rate of 6.58% for fiscal year 2009 and 6.0% for 2008 and 2007. In certain instances, the reporting district is required to make all or a portion of the state's 6.58% contribution for fiscal year 2009 and 6.0% for fiscal years 2008 and 2007. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10.0 percent of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Note 11 - Pension Information (continued)

Contributions: Staff members of the District are required to pay 6.4% of their eligible gross earnings to the TRS pension plan. The State of Texas contributes 6.58% (6.0% for fiscal years 2007 and 2006) of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedule adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.58% (6.00% for fiscal years 2007 and 2006). Contributions made by the State, District, and staff members for the years ended August 31, 2009, 2008, and 2007 are as follows:

For the Year Ended August 31	State TRS Contributions Made on Behalf of the District	District Required Contributions to TRS	Staff Members' Contributions to TRS
2009	\$ 1,620,412	\$ 309,017	\$ 1,847,912
2008	1,530,935	277,834	1,785,103
2007	1,308,884	199,624	1,652,257

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

Note 12 - Retiree Health Plan

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

Note 12 - Retiree Health Plan (continued)

Funding Policy: Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2008, 2007, and 2006. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0%. Contributions made by the State, District, and staff members for the years ended August 31, 2009, 2008, and 2007 are as follows:

For the Year Ended August 31	State TRS Care Contributions Made on Behalf of the District	District Required Contributions to TRS Care	Staff Members' Contributions to TRS Care
2009	\$ 242,130	\$ 158,804	\$ 187,681
2008	232,665	153,412	181,301
2007	218,158	141,996	167,809

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

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2009, 2008, and 2007, the subsidy payments received by TRS-Care on-behalf of the District were \$65,616, \$63,702, and \$54,343, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Note 13 - On-Behalf Payments

The amounts recognized for state revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended August 31, 2009 was as follows:

Contributions to pension plan	\$ 1,620,412
Insurance contributions (TRS Care)	242,130
Insurance contributions (Medicare Part D)	65,616
	<u>\$ 1,928,158</u>

Note 14 - Risk Management

Property/Liability

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

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

Health Insurance

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

Workers' Compensation

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

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

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

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

Note 14 - Risk Management (continued)

Changes in the balances of claims liabilities during the past two years are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Claims Payments</u>	<u>End of Year Accrual</u>
2008	\$ 547,811	\$ (64,722)	\$ 158,189	\$ 324,900
2009	324,900	129,288	170,721	283,467

Note 15 - Shared Service Arrangements / Joint Ventures

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

Revenues:

Local revenue	\$ 19,072
---------------	-----------

Expenditures:

Payroll costs	\$ 18,394
Contract services	494
Supplies and materials	109
Other operating costs	75

Total expenditures	\$ 19,072
---------------------------	------------------

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

Revenues:

Local revenue	\$ 44,548
---------------	-----------

Expenditures:

Payroll costs	\$ 35,416
Contract services	6,545
Supplies and materials	1,685
Other operating costs	902

Total expenditures	\$ 44,548
---------------------------	------------------

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

The District participates in the Energy for Schools shared services arrangement. Energy for Schools is a state electricity procurement cooperative with more than 140 member districts across the state. Member Districts are charged for their electric consumption at contracted rates. Although 1.23 percent of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in the financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Deer Park ISD, nor does the District have a net equity interest in the fiscal agent. Revenues attributable to the District's participation were \$1,048,735. Expenditures in the same amount were attributable to contract services for energy costs.

Note 16 - Contingent Liabilities

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

Note 17 - Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has estimated that it does not have any arbitrage liability as of August 31, 2009.

Note 18 - Other Post-employment Benefits

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

Note 19 - Prior Period Adjustment

The District, during the fiscal year ended August 31, 2009, determined that fund balance in the General fund and Special Revenue funds needed to be adjusted to properly account for Campus Activity Funds. The restatement of fund balance is as follows:

	General Fund	Special Revenue Funds
Beginning Fund Balance - as Originally Presented	\$ 8,534,097	\$ 379,956
Restatement Due to Reporting of Campus Activity Funds in the General Fund Incorrectly	(719,385)	719,385
Beginning Fund Balance - as Restated	<u>\$ 7,814,712</u>	<u>\$ 1,099,341</u>

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Required Supplementary Information

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit B-1

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2009

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local revenues	\$ 21,655,472	\$ 21,938,790	\$ 21,674,592	\$ (264,198)
5800	State program revenues	16,413,126	17,823,890	16,651,776	(1,172,114)
	Total Revenues	38,068,598	39,762,680	38,326,368	(1,436,312)
Expenditures					
Current:					
0011	Instruction	23,171,369	23,561,479	23,512,700	48,779
0012	Instruction resources and media services	895,922	996,162	968,800	27,362
0013	Curriculum and instructional staff development	119,305	102,145	58,496	43,649
0021	Instructional leadership	766,212	778,012	699,668	78,344
0023	School leadership	2,117,042	2,201,581	2,197,441	4,140
	Guidance, counseling and evaluation services	877,613	878,851	869,282	9,569
0031					
0032	Social work services	54,834	80,434	73,286	7,148
0033	Health services	378,810	382,149	379,063	3,086
0034	Student transportation	1,337,730	1,337,730	1,218,683	119,047
0036	Extracurricular activities	1,202,639	1,502,122	1,475,772	26,350
0041	General administration	2,001,737	1,951,102	1,944,319	6,783
0051	Plant maintenance and operations	3,102,207	3,307,671	3,009,540	298,131
0052	Security and monitoring services	113,842	138,842	135,222	3,620
0053	Data processing services	747,031	786,791	778,944	7,847
0061	Community services	1,860	1,860		1,860
Debt Service:					
0071	Principal on long-term debt		39,521	28,997	10,524
0072	Interest on long-term debt		10,000	5,524	4,476
Capital outlay:					
0081	Facilities acquisition and construction		20,000	8,496	11,504
Intergovernmental:					
	Payments related to shared services arrangements	1,294,500	1,269,522	1,093,283	176,239
0093					
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	41,800	41,800	20,324	21,476
0099	Other intergovernmental charges		265,000	253,876	11,124
	Total Expenditures	38,224,453	39,652,774	38,731,716	921,058
1100	Excess (deficiency) of revenues over expenditures	(155,855)	109,906	(405,348)	(515,254)
Other Financing Sources (Uses)					
7915	Transfers in			30,726	30,726
8911	Transfers out			(84,909)	(84,909)
	Total other financing sources and uses			(54,183)	(54,183)
	Net change in fund balances	(155,855)	109,906	(459,531)	(569,437)
	Fund balances - beginning	8,534,097	8,534,097	8,534,097	
	Prior Period Adjustment			(719,385)	(719,385)
	Fund balances - ending	\$ 8,378,242	\$ 8,644,003	\$ 7,355,181	\$(1,288,822)

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, 2009.

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, 2008. 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, 2009

<u>Data Control Codes</u>	204	211	224
	<u>Vocational Ed - Tech Prep</u>	<u>ESEA Title I, Part A</u>	<u>IDEA-B Formula</u>
Assets			
1110 Cash and temporary investments	\$	\$	\$
Receivables:			
1240 Receivables from other governments		79	3,694
1260 Due from other funds			
1000 Total Assets	<u>\$</u>	<u>\$ 79</u>	<u>\$ 3,694</u>
Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110 Accounts payable	\$	\$	\$
2140 Interest payable			
2150 Payroll deduction and withholdings payable			
2160 Accrued wages payable			
2170 Due to other funds		79	3,694
2300 Deferred revenues			
2000 Total Liabilities		<u>79</u>	<u>3,694</u>
Fund Balances:			
Reserved for:			
3450 Food service operations			
Unreserved, Undesignated Reported in:			
3610 Special revenue funds			
3000 Total Fund Balances			
4000 Total Liabilities and Fund Balances	<u>\$</u>	<u>\$ 79</u>	<u>\$ 3,694</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>
\$	\$	\$ 87,002	\$	\$	\$	\$
		2,370		3,403	35,035	
		119,026				
<u>\$</u>	<u>\$</u>	<u>\$ 208,398</u>	<u>\$</u>	<u>\$ 3,403</u>	<u>\$ 35,035</u>	<u>\$</u>
\$	\$	\$ 37,259	\$	\$	\$	\$
		8,966		3,403	35,035	
		46,225		3,403	35,035	
		162,173				
		162,173				
<u>\$</u>	<u>\$</u>	<u>\$ 208,398</u>	<u>\$</u>	<u>\$ 3,403</u>	<u>\$ 35,035</u>	<u>\$</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2009

Data Control Codes		281 REMS - Readiness & Emergency Management for Schools	282 ESEA, Title IV - Safe and Drug Free Nat'l	283 IDEA Part B, Forumula - ARRA
	Assets			
1110	Cash and temporary investments	\$	\$	\$
	Receivables:			
1240	Receivables from other governments	1,498		87,114
1260	Due from other funds			
1000	Total Assets	\$ 1,498	\$	\$ 87,114
	 Liabilities and Fund Balances			
	Liabilities:			
	Current Liabilities:			
2110	Accounts payable	\$	\$	\$ 82,850
2140	Interest payable			
2150	Payroll deduction and withholdings payable			
2160	Accrued wages payable			
2170	Due to other funds	1,498		4,264
2300	Deferred revenues			
2000	Total Liabilities	1,498	\$	87,114
	 Fund Balances:			
	Reserved for:			
3450	Food service operations			
	Unreserved, Undesignated Reported in:			
3610	Special revenue funds			
3000	Total Fund Balances	\$	\$	\$
4000	Total Liabilities and Fund Balances	\$ 1,498	\$	\$ 87,114

284	289	350	393	397	404
<u>IDEA Part B, Preschool - ARRA</u>	<u>Emergency Impact Aid</u>	<u>SSA-Title III, Part A, ELA</u>	<u>Texas Successful Schools</u>	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>
\$	\$	\$	\$	\$ 57,572	\$
945	111,361				4,505
<u>\$ 945</u>	<u>\$ 111,361</u>	<u>\$</u>	<u>\$</u>	<u>\$ 57,572</u>	<u>\$ 4,505</u>
\$	\$	\$	\$	\$ 1,775	\$
945	85,038				4,505
<u>945</u>	<u>85,038</u>	<u></u>	<u></u>	<u>1,775</u>	<u>4,505</u>
	26,323			55,797	
	26,323			55,797	
<u>\$ 945</u>	<u>\$ 111,361</u>	<u>\$</u>	<u>\$</u>	<u>\$ 57,572</u>	<u>\$ 4,505</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2009

<u>Data Control Codes</u>	411	428	429
	<u>Technology Allotment</u>	<u>High School Allotment</u>	<u>State Funded Special Revenue Fund</u>
Assets			
1110 Cash and temporary investments	\$ 24,493	\$ 93,388	\$ 88
Receivables:			
1240 Receivables from other governments	5,257	14,572	
1260 Due from other funds			
1000 Total Assets	<u>\$ 29,750</u>	<u>\$ 107,960</u>	<u>\$ 88</u>
 Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110 Accounts payable	\$ 5,085	\$	\$
2140 Interest payable			
2150 Payroll deduction and withholdings payable			
2160 Accrued wages payable		37,566	
2170 Due to other funds			
2300 Deferred revenues			
2000 Total Liabilities	<u>5,085</u>	<u>37,566</u>	
 Fund Balances:			
Reserved for:			
3450 Food service operations			
Unreserved, Undesignated Reported in:			
3610 Special revenue funds	24,665	70,394	88
3000 Total Fund Balances	<u>24,665</u>	<u>70,394</u>	<u>88</u>
4000 Total Liabilities and Fund Balances	<u>\$ 29,750</u>	<u>\$ 107,960</u>	<u>\$ 88</u>

Exhibit C-1
Page 3 of 3

461	480	
Campus Activity	Education Foundation Grants	Total Nonmajor Governmental Funds
\$ 802,359	\$ 81,020	\$ 1,145,922
		269,833
		119,026
<u>\$ 802,359</u>	<u>\$ 81,020</u>	<u>\$ 1,534,781</u>
\$ 18,367	\$ 1,571	\$ 146,907
1,222		47,754
		138,461
22,110		22,110
<u>41,699</u>	<u>1,571</u>	<u>355,232</u>
		162,173
<u>760,660</u>	<u>79,449</u>	<u>1,017,376</u>
<u>760,660</u>	<u>79,449</u>	<u>1,179,549</u>
<u>\$ 802,359</u>	<u>\$ 81,020</u>	<u>\$ 1,534,781</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, 2009

	204	211	224
Data Control Codes	Title IV, Safe & Drug Free	ESEA Title I, Part A	IDEA-B Formula
Revenues			
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues			
5900 Federal program revenues	10,492	110,498	812,840
5020 Total Revenues	<u>10,492</u>	<u>110,498</u>	<u>812,840</u>
Expenditures			
Current:			
0011 Instruction		110,498	745,581
0013 Curriculum and instructional staff development			
0021 Instructional leadership			
0023 School leadership			
0031 Guidance, counseling and evaluation services	10,492		
0033 Health services			32,146
0034 Student transportation			35,113
0035 Food service			
0036 Extracurricular activities			
0041 General administration			
0051 Plant maintenance and operations			
0053 Data processing services			
0061 Community services			
Capital outlay:			
0081 Capital outlay			
6030 Total Expenditures	<u>10,492</u>	<u>110,498</u>	<u>812,840</u>
1200 Net change in fund balances			
0100 Fund balance - September 1 (beginning)			
Prior period adjustment			
3000 Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>	<u>\$</u>

225	226	240	243	244	255	262
IDEA-B Preschool Grant	IDEA-B Discretionary	Child Nutrition	Vocational Ed - Tech Prep	Vocational Ed -Basic	Title II, Part A	Enhancing Ed Through Tech
\$	\$	\$ 1,827,223 6,077	\$	\$	\$	\$
44,268	153,849	188,575	10,671	34,034	102,137	1,042
44,268	153,849	2,021,875	10,671	34,034	102,137	1,042
44,268	116,031		10,671	34,034	25,103 67,650 3,892 5,492	942 100
	37,818					
		1,991,332				
44,268	153,849	1,991,332	10,671	34,034	102,137	1,042
		30,543				
		131,630				
\$	\$	\$ 162,173	\$	\$	\$	\$

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2009

<u>Data Control Codes</u>	281 REMS - Readiness & Emergency Management for Schools	282 ESEA, Title IV - Safe and Drug Free Nat'l	283 IDEA Part B, Forumula - ARRA
Revenues			
5700	Local, intermediate, and out-of-state	\$	\$
5800	State program revenues		
5900	Federal program revenues	1,498	87,114
5020	Total Revenues	<u>1,498</u>	<u>87,114</u>
Expenditures			
Current:			
0011	Instruction		84,028
0013	Curriculum and instructional staff development		
0021	Instructional leadership	1,498	
0023	School leadership		
0031	Guidance, counseling and evaluation services	35,551	
0033	Health services		
0034	Student transportation		
0035	Food service		
0036	Extracurricular activities		
0041	General administration		
0051	Plant maintenance and operations		
0053	Data processing services		
0061	Community services		
Capital outlay:			
0081	Capital outlay		3,086
6030	Total Expenditures	<u>1,498</u>	<u>87,114</u>
1200	Net change in fund balances		
0100	Fund balance - September 1 (beginning)		
	Prior period adjustment		
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>

284	289	350	393	397	404
<u>IDEA Part B, Preschool - ARRA</u>	<u>Emergency Impact Aid</u>	<u>SSA-Title III, Part A, ELA</u>	<u>Texas Successful Schools</u>	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>
\$	\$ 5,464 33,500	\$	\$	\$ 33,791	\$ 47,825
945	160,085	7,190			
<u>945</u>	<u>199,049</u>	<u>7,190</u>		<u>33,791</u>	<u>47,825</u>
945	3,969	4,047 3,108 35		6,006	47,825
	357 6,724 6,798 7,320 147,558				
<u>945</u>	<u>172,726</u>	<u>7,190</u>		<u>6,006</u>	<u>47,825</u>
	26,323			27,785	
				28,012	
<u>\$</u>	<u>\$ 26,323</u>	<u>\$</u>	<u>\$</u>	<u>\$ 55,797</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, 2009

Data Control Codes		411	428	429
		Technology Allotment	High School Allotment	State Funded Special Revenue Fund
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues	167,895	549,506	39,475
5900	Federal program revenues			
5020	Total Revenues	<u>167,895</u>	<u>549,506</u>	<u>39,475</u>
	Expenditures			
	Current:			
0011	Instruction	115,785	445,142	
0013	Curriculum and instructional staff development		2,544	
0021	Instructional leadership		67,705	
0023	School leadership			
0031	Guidance, counseling and evaluation services			
0033	Health services			
0034	Student transportation			
0035	Food service			39,387
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0053	Data processing services	57,978		
0061	Community services			
	Capital outlay:			
0081	Capital outlay			
6030	Total Expenditures	<u>173,763</u>	<u>515,391</u>	<u>39,387</u>
1200	Net change in fund balances	(5,868)	34,115	88
0100	Fund balance - September 1 (beginning)	30,533	36,279	
	Prior period adjustment			
3000	Fund balance - August 31 (ending)	<u>\$ 24,665</u>	<u>\$ 70,394</u>	<u>\$ 88</u>

461	480	
Campus Activity	Education Foundation Grants	Total-Other Governmental Funds
\$ 526,589	\$	\$ 2,359,276
5,989		884,058
<hr/>	<hr/>	<hr/>
532,578		1,760,789
		<hr/>
		5,004,123
357,253	74,053	2,225,239
6,025		80,269
372		73,602
4,436		9,928
1,037		47,080
		69,964
		35,470
		2,037,443
		6,798
		7,320
		147,558
		57,978
122,180		122,180
		3,086
<hr/>	<hr/>	<hr/>
491,303	74,053	4,923,915
41,275	(74,053)	80,208
	153,502	379,956
<hr/>	<hr/>	<hr/>
719,385		719,385
<hr/>	<hr/>	<hr/>
\$ 760,660	\$ 79,449	\$ 1,179,549

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit C-3

COMBINING STATEMENTS OF NET ASSETS

INTERNAL SERVICE FUNDS

August 31, 2009

Data Control Codes	753 Employee Insurance Fund	755 Workers Comp Fund	Total	
Assets				
Current assets:				
1110	Cash and cash equivalents	\$	\$ 1,344,000	\$ 1,344,000
	Total Current Assets		<u>1,344,000</u>	<u>1,344,000</u>
1000	Total Assets		<u>1,344,000</u>	<u>1,344,000</u>
Liabilities				
Current Liabilities:				
2110	Accounts payable		38,361	38,361
	Total current liabilities		<u>38,361</u>	<u>38,361</u>
Non-current Liabilities:				
2590	Claims and judgments		283,467	283,467
	Total Non-current Liabilities		<u>283,467</u>	<u>283,467</u>
2000	Total Liabilities		<u>321,828</u>	<u>321,828</u>
Net Assets				
3900	Unrestricted net assets		1,022,172	1,022,172
3000	Total Net Assets	\$	<u>\$ 1,022,172</u>	<u>\$ 1,022,172</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit C-4

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

INTERNAL SERVICE FUNDS

For the Year Ended August 31, 2009

Data Control Codes	753 Employee Insurance Fund	755 Workers Comp Fund	Total
Operating Revenues			
5749	Miscellaneous revenue from local sources	\$	\$
5754	Quasi-external interfund transactions	4,437	150,500
5020	Total operating revenues	<u>4,437</u>	<u>150,500</u>
Operating Expenses			
6400	Claims expense and other operating expenses	263	129,288
6030	Total Operating Expenses	<u>263</u>	<u>129,288</u>
1200	Operating Income (Loss)	<u>4,174</u>	<u>21,212</u>
Non-Operating Revenues (Expenses)			
7955	Earnings - temporary deposits and investments	<u>12,567</u>	<u>12,567</u>
	Total Nonoperating Revenues	<u>12,567</u>	<u>12,567</u>
	Income (Loss) before Transfers	4,174	33,779
Transfers			
7915	Transfers in	84,909	84,909
8911	Transfers out	(30,726)	(30,726)
	Total Transfers	<u>54,183</u>	<u>54,183</u>
1200	Change in Net Assets	58,357	33,779
Net Assets			
0100	Net Assets - September 1 (Beginning)	<u>(58,357)</u>	<u>988,393</u>
3300	Net Assets - August 31 (Ending)	<u>\$</u>	<u>\$ 1,022,172</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended August 31, 2009

Exhibit C-5

	753	755	
	<u>Employee Insurance Fund</u>	<u>Workers Comp Fund</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash receipts from quasi-external operating activities with other funds	\$ 4,437	\$ 150,500	\$ 154,937
Cash payments for insurance claims	(57,174)	(176,328)	(233,502)
Net Cash Provided by (Used for) Operating Activities	<u>(52,737)</u>	<u>(25,828)</u>	<u>(78,565)</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers in	84,909	25,000	109,909
Transfer out	(30,726)		(30,726)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>54,183</u>	<u>25,000</u>	<u>79,183</u>
Cash Flows from Investing Activities:			
Interest on investments		12,566	12,566
Net Cash Provided by Investing Activities		<u>12,566</u>	<u>12,566</u>
Net Increase in Cash and Cash Equivalents	1,446	11,738	13,184
Cash and Cash Equivalents at Beginning of Year	<u>(1,446)</u>	<u>1,332,262</u>	<u>1,330,816</u>
Cash and Cash Equivalents at End of Year	<u>\$</u>	<u>\$ 1,344,000</u>	<u>\$ 1,344,000</u>
Reconciliation to Balance Sheet			
Cash and Cash Equivalents Per Cash Flow	\$	\$ 1,344,000	\$ 1,344,000
Cash and Cash Equivalents per Balance Sheet	<u>\$</u>	<u>\$ 1,344,000</u>	<u>\$ 1,344,000</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 4,174	\$ 21,212	\$ 25,386
Change in Assets and Liabilities:			
Increase (decrease) in Accounts Payable	(56,911)	(5,607)	(62,518)
Increase (decrease) in Accrued Expenses		(41,433)	(41,433)
Net Cash Provided by (Used for) Operating Activities	<u>\$ (52,737)</u>	<u>\$ (25,828)</u>	<u>\$ (78,565)</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit C-6

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

August 31, 2009

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

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended August 31, 2009

Exhibit C-7

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

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2009

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>10 Beginning Balance 8/31/08</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
	1	2		
2000 and prior	Various	Various	Various	\$ 43,233
2001	\$ 1.388000	\$ 0.147000	1,084,906,369	6,194
2002	1.448000	0.137000	1,199,063,080	15,297
2003	1.480000	0.137000	1,322,337,607	17,825
2004	1.500000	0.137000	1,457,665,058	33,808
2005	1.500000	0.137000	1,529,840,326	33,888
2006	1.500000	0.137000	1,624,895,916	48,069
2007	1.370000	0.137000	1,789,587,724	66,691
2008	1.040000	0.137000	1,956,333,264	221,209
2009	1.040000	0.327000	1,974,337,088	
1000 Totals				<u>\$ 486,214</u>

Exhibit D-1

20	30	30a	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/09
\$	\$ 29	\$ 3	\$ (8,452)	\$ 34,749
			(8)	6,186
	670	63	(2,041)	12,523
	740	69	(4,851)	12,165
	881	81	(8,056)	24,790
	1,457	133	(8,781)	23,517
	6,290	574	(3,809)	37,396
	23,723	2,372		40,596
	146,858	19,346	1,965	56,970
<u>26,989,188</u>	<u>20,266,125</u>	<u>6,372,138</u>	<u>1,044</u>	<u>351,969</u>
<u>\$ 26,989,188</u>	<u>\$ 20,446,773</u>	<u>\$ 6,394,779</u>	<u>\$ (32,989)</u>	600,861
				<u>248,691</u>
				<u>\$ 849,552</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF
INDIRECT COSTS FOR 2010-2011
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2009

Exhibit D-2

Account Number	(1) 701	(2) 702	(3) 703	(4) 720	(5) 750	(6) (other)	(7) Total
	Supt's Office	School Board	Tax Collection	Direct Cost	Indirect Cost	Misc.	
6100 Payroll Costs	\$ 373,057	\$	\$ 60,335	\$140,796	\$ 731,075	\$ 118,811	\$ 1,424,074
6211 Legal Services		81,224					81,224
6212 Audit Services					52,000		52,000
6213 Tax Appraisal / Collection			272,178				272,178
621X Other Professional Services		26,812		12,045	11,280		50,137
6260 Rentals	1,079		16,795		1,004		18,878
6290 Miscellaneous Contracts	3,792	1,838	24,975	1,619	58,428	11,400	102,052
63XX Other Supplies	11,911	1,956	6,541	13,710	31,693		65,811
6410 Travel, Subsistence and Stipends	13,683	15,314	1,156	4,421	11,313	461	46,348
6420 Insurance and Bonding	14,547		200				14,747
6430 Election Expense		2,481					2,481
6490 Operating	35,028	2,044	533	12,670	18,851	6,459	75,585
Total	<u>\$ 453,097</u>	<u>\$ 131,669</u>	<u>\$ 382,713</u>	<u>\$185,261</u>	<u>\$ 915,644</u>	<u>\$ 137,131</u>	<u>\$ 2,205,515</u>

Other Information:

Total expenditures for General and Special Revenue Funds (Exhibit A-2) (9) \$ 43,081,034
 LESS: Deductions of Unallowable Costs:

Fiscal Year

Total Capital Outlay (6600) (10) 89,427
 Total Debt & Lease (6500) (11) 34,521
 Plant Maintenance (Function 51, 6100-6400) (12) 2,960,596
 Food (Function 35, 6341 and 6499) (13) 108
 Stipends (6413) (14) 9,950
 Column 5 above - Total Indirect Cost 915,644

Subtotal 4,010,246
Net Allowable Direct Cost \$ 39,070,788

Cumulative

Total Cost of Buildings before Depreciation (1520) (15) \$ 50,489,723
 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) 4,727,153
 Historical Cost of Furniture & Equipment over 16 years old (19) 350,000
 Amount of Federal Money in Furniture & Equipment (Net of #19) (20)

(8) Note A - \$ 253,876 in Function 53 expenditures are included in this report of administrative costs.
 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND
For the Year Ended August 31, 2009

Exhibit D-3

1.	Total General Fund Balance 8-31-2009 (Exhibit A-3 object 3000 for the General Fund only)	\$ 7,355,181
2.	Total Reserved Fund Balance 8-31-2009 (from Exhibit A-3 - total of object 3400s for the General Fund only)	825,210
3.	Total Designated Fund Balance (from Exhibit A-3 - total of object 3500s for the General Fund only)	
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 (9-1-2008 to 5-31-2009)	3,187,500
6.	Estimate of delayed payments from state sources (58xx) including August payment delays	
7.	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
8.	Estimate of delayed payments from federal sources (59xx)	
9.	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds).	
10.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9)	<u>4,012,710</u>
11.	Excess or Deficit Undesignated Unreserved General Fund Fund Balance (1-10)	<u><u>\$ 3,342,471</u></u>

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

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

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

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

FOOD SERVICE AND DEBT SERVICE FUNDS

For the Year Ended August 31, 2009

Data Control Codes		Food Service			Variance Favorable (Unfavorable)
		Budget		Actual	
		Original	Final		
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 1,829,296	\$ 1,829,296	\$ 1,827,223	\$ (2,073)
5800	State Program Revenues	6,000	6,000	6,077	77
5900	Federal Program Revenues	199,541	199,541	188,575	(10,966)
5030	Total Revenues	<u>2,034,837</u>	<u>2,034,837</u>	<u>2,021,875</u>	<u>(12,962)</u>
	Expenditures				
	Current:				
0035	Food Services	2,034,837	2,034,837	1,991,332	43,505
	Debt Service:				
0071	Principal				
0072	Interest and Fiscal Agent Fees				
6030	Total Expenditures	<u>2,034,837</u>	<u>2,034,837</u>	<u>1,991,332</u>	<u>43,505</u>
1100	Excess (Deficiency) Revenues Over Expenditures			30,543	30,543
	Other Financing Sources (Uses)				
7911	Capital related debt issued (regular bonds)				
7916	Premium on issuance of bonds				
8949	Payment to Bond Refunding Escrow Agent				
1200	Increase (Decrease) in Fund Balance			30,543	30,543
0100	Fund Balance - September 1 (Beginning)	<u>131,630</u>	<u>131,630</u>	<u>131,630</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 131,630</u>	<u>\$ 131,630</u>	<u>\$ 162,173</u>	<u>\$ 30,543</u>

Exhibit D-4

Debt Service Fund			
Budget			Variance Favorable (Unfavorable)
Original	Final	Actual	
\$ 6,646,330	\$ 6,696,330	\$ 6,518,554	\$ (177,776)
144,231	244,231	178,655	(65,576)
<u>6,790,561</u>	<u>6,940,561</u>	<u>6,697,209</u>	<u>(243,352)</u>
3,152,958	14,152,958	2,165,000	11,987,958
6,176,603	6,176,603	6,828,496	(651,893)
<u>9,329,561</u>	<u>20,329,561</u>	<u>8,993,496</u>	<u>11,336,065</u>
(2,539,000)	(13,389,000)	(2,296,287)	11,092,713
	13,259,000	10,000,000	(3,259,000)
	130,000	125,052	(4,948)
		<u>(10,204,602)</u>	<u>(10,204,602)</u>
(2,539,000)		(2,375,837)	(2,375,837)
<u>5,952,881</u>	<u>5,952,881</u>	<u>5,952,881</u>	
<u>\$ 3,413,881</u>	<u>\$ 5,952,881</u>	<u>\$ 3,577,044</u>	<u>\$ (2,375,837)</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, 2009 which collectively comprise the District's basic financial statements and have issued our report thereon dated December 2, 2009. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 number 09-01 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 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

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 2, 2009

**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, 2009. 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, 2009.

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.

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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 2, 2009

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2009

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, #09-01
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?	No
Type of auditors' report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	None

Identification of major programs

Name of Federal Program or Cluster	CFDA Numbers
US Department of Education	
Special Education Cluster:	
IDEA - Part B - Formula	84.027
IDEA - Part B - Discretionary	84.027
IDEA - B Preschool	84.173
IDEA - Part B, High Cost Risk Pool	84.027
ESC - IDEA - Part B, Preschool Discretionary	84.173
IDEA - Part B, Formula - ARRA	84.391
IDEA - Part B, Preschool - ARRA	84.392
US Department of Homeland Security	
Public Assistance Grant - FEMA	97.036
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, 2009

II. Financial Statement Findings

Significant Deficiencies

Finding 09-01

Condition: The balance in the Tax Office bank account was not reflected on the Balance Sheet.

Criteria: Balances in the Tax Office account reflect refunds due to taxpayers that have not been claimed. The reconciled balance should be recorded in the general ledger.

Cause: The Business Office reviews the Tax Office bank reconciliation, however there were no procedures in place for recording the cash balance in the general ledger.

Effect: Failure to record cash balances creates the possibility that cash could be misstated due to fraud or errors and not be detected in the normal course of operations.

Recommendation: After reviewing the Tax Office bank reconciliation, the Business Office should record the balance in the General Ledger each month. Steps should be established to handle the unclaimed taxpayer refunds after a certain time period.

III. Federal Awards Findings and Questioned Costs

None noted

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2009

IV. Summary Schedule of Prior Audit Findings

Finding #	Corrective Action Taken
Finding 08-01- Fixed asset values (cost) are not supported by an accurate sub-ledger	Resolved - The District generated reports within the Pentamation software that provided an accurate fixed asset listing. Procedures were implemented for reconciling the sub-ledger to the general ledger.
Finding 08-02 - Business Office does not review tax office bank reconciliations and tax office cash was not recorded on the general ledger	Partially Resolved - Business Office Personnel are reviewing the monthly tax office reconciliation, however, procedures were not in place to ensure that the tax office cash balance is recorded on the general ledger.
Finding 08-03 - Employee Insurance cash balance was materially overstated	Resolved - Employee Insurance account was closed during the fiscal year, as the District is no longer self-insured.
Finding 08-04 - The District does not verify that vendors paid with federal funds are not listed in the Excluded Parties List System (EPLS)	Resolved - Procedures were put in place to ensure that the appropriate personnel were aware of the EPLS requirement and Executive Director of Business now verifies that vendors paid with federal funds are not listed in the EPLS by performing an online verification through the EPLS website.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2009

V. Corrective Action Plan

<u>Finding:</u>	<u>Corrective Action Plan</u>	<u>Contact Person</u>	<u>Estimated Completion Date</u>
09-01 Tax office cash is not recorded on the general ledger	The business office will transfer the tax office records from the current quicken system onto the District financial system, Pentamation. This will also require the checks normally cut by the tax office to follow District accounts payable procedures so that they can be issued from the central administration office.	(a)	(b)

(a) Alison Rendon, Executive Director of Finance
(b) March 2010

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2009

Exhibit E-1

Pass Through Entity Identifying Number	Federal Grantor/ Pass-Through Grantor/ Program Title	District Fund Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Education				
Direct Program:				
Q184D070026	Safe and Drug Free Schools and Communities	282	84.184D	\$ 35,551
Q184E090161	Readiness and Emergency Management for Schools	281	84.184E	1,498
Total direct programs				<u>37,049</u>
Passed Through Texas Education Agency:				
9691001084911	ESEA Title IV, Part A, Safe & Drug Free Schools	204	84.186A	10,492
9610101084911	ESEA Title I Part A	211	84.010A	110,497
96600010849116600	IDEA - Part B, Formula *	224	84.027A	812,840
96610010849116600	IDEA - Part B, Preschool *	225	84.173A	32,269
9660006084911	IDEA - Part B, High Cost Risk Pool *	226	84.027A	37,818
96600020849116600	IDEA - Part B, Discretionary *	226	84.027A	116,031
10555001084911	IDEA - Part B, Formula - ARRA*	283	84.391	87,114
10555001084911	IDEA - Part B, Preschool - ARRA*	284	84.392	945
9420006084911	Career and Technology Education - Carl D. Perkins	244	84.048A	34,034
9694501084911	ESEA Title II, Part A, Teacher/Principal Training	255	84.367A	102,137
9630001084911	ESEA Title II, Part D - Enhancing Education	262	84.318X	1,042
084-911	ESEA, Title III, LEP/Immigrant	350	84.365	7,190
Total passed through Texas Education Agency				<u>1,352,409</u>
Passed through Texas Higher Ed. Coordinating Board to North Harris Montgomery Community College:				
084-911	Vocational Education - Tech. Prep.	243	84.243A	10,671
Total passed through Texas Higher Ed. Coordinating				<u>10,671</u>
Passed through Region IV Education Service Center				
101950	ESC - IDEA - Part B, Preschool Discretionary	225	84.173A	12,000
Total passed through Region IV				<u>12,000</u>
Total Passed through Programs				<u>1,375,080</u>
Total Department of Education				<u>1,412,129</u>
U.S. Department of Agriculture				
Passed Through the Texas Department of Agriculture				
Non Cash Assistance (Commodities)				
101916	National School Lunch Program*	240	10.555	57,000
Passed Through Texas Education Agency				
71300901	National School Lunch Program *	240	10.555	119,365
71400901	School Breakfast Program *	240	10.553	12,210
Total Department of Agriculture				<u>188,575</u>
U.S. Department of Homeland Security				
Passed Through Texas Department of Public Safety				
	Public Assistance Grant - FEMA Aid	289	97.036	133,762
Total Expenditures of Federal Awards				<u>\$ 1,734,466</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, August 31, 2009

Note 1 -Basis of Accounting

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

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

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

Note 2 - Reconciliation to Basic Financial Statements

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

Total expenditures of federal awards per SEFA	<u>\$ 1,734,466</u>
Related expenditures on Exhibit A-5	
Special Revenue Funds	<u>\$ 1,734,466</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
August 31, 2009

Exhibit F-1

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	<u>\$ 113,240</u>

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