

**FRIENDSWOOD INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2014

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
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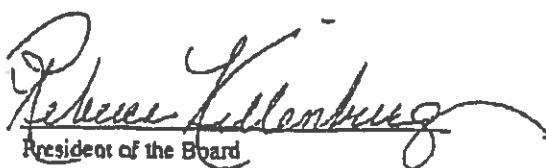
CERTIFICATE OF BOARD

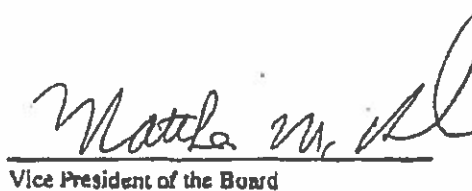
Friendswood Independent School District
Name of School District

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, 2014, at a meeting of the board of trustees of such school district on November 10, 2014.


Rebecca Kellenburg
President of the Board


Mattie M. Al
Vice President of the Board

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Trustees
Friendswood Independent School District

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7–15 and 56–57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, and required Texas Education Agency ("TEA") schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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.

The combining and individual nonmajor fund financial statements, and required TEA schedules, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, required TEA schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Board of Trustees
Friendswood Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, slightly slanted style.

Texas City, Texas
November 10, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Friendswood Independent School District's annual financial report presents the administration's discussion and analysis of the District's financial performance during the fiscal period ended August 31, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

The assets and deferred outflows of resources of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,672,126 (net position). Of this amount, negative \$9,735,071 was net investment in capital assets, which represents the amount invested in capital assets net of accumulated depreciation and related debt, \$306,382 was restricted for debt service, \$554,395 was restricted for food service, \$39,093 was restricted for federal and state programs and \$12,507,327 was unrestricted.

- The District's total net position decreased by \$3,211,846 during the current fiscal year.
- The District's governmental funds reported combined ending fund balances of \$15,239,928 as of August 31, 2014. Of this amount, \$924,477 is non-spendable in the form of (1) inventory in the amount of \$193,544 and (2) prepaid items in the amount of \$730,933. Fund balance of \$2,748,578 is restricted for (1) federal and state grants in the amount of \$580,425, (2) capital acquisitions in the amount of \$1,416,746, and (3) debt service in the amount of \$751,407. Fund balance of \$3,424,049 is committed for (1) disaster recovery of \$1.5 million and (2) decreases in state funding of \$1.2 million and (3) other committed in the amount of \$724,049. The remaining amount in fund balance of \$8,142,824 is classified as unassigned and is available for spending at the District's discretion. This represents 19% of total general fund expenditures.
- The General Fund ended the year with unassigned fund balance of \$8,142,824, a decrease of \$7,944 as compared to the prior fiscal year.
- The District's bonded debt decreased by \$1,870,000 as a result of principal payments made 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 Position* presents information on all of the District's assets, deferred outflows of resources and liabilities, with the difference of the three reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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 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.

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 and debt service fund, both 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 nonmajor 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.

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

Proprietary Funds

The District maintains an internal service fund for 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.

The District maintains individual enterprise funds for fuel and vending. *Enterprise funds*, a second type of proprietary fund, are used to report on activity for which a fee is charged to external users for goods or services. Enterprise funds are included within *business-type 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 nonmajor enterprise funds financial statements provide information for the Fuel Fund and Vending Fund.

Fiduciary Funds

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 statements because the resources of those funds are *not* available to support the District's own programs.

An *agency fund* is a type of fiduciary fund used to report resources held by the District in a purely custodial capacity. The District accounts for the activities of student groups and refunds/overpayments due to taxpayers in this type of fund, which does not involve measurement of results of operations.

A *private purpose trust fund* is a second type of fiduciary fund. Private purpose trust funds are used to report all trust arrangements, other than those properly recorded in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments. The District accounts for student scholarships in a private purpose trust fund.

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Information

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$3,672,126 at the close of the most recent fiscal year.

A portion of the District's net position reflects its investment in capital assets (e.g., 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.

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 19,129,598	\$ 19,675,932	\$ 10,112	\$ 3,091	\$ 19,139,710	\$ 19,679,023
Capital and non current assets	99,246,123	104,543,237			99,246,123	104,543,237
Total Assets	118,375,721	124,219,169	10,112	3,091	118,385,833	124,222,260
Deferred charge on refunding	247,390	301,070			247,390	301,070
Total Deferred Outflows of Resources	247,390	301,070			247,390	301,070
Current liabilities	2,926,671	3,842,574			2,926,671	3,842,574
Long term liabilities	112,034,426	113,796,784			112,034,426	113,796,784
Total Liabilities	114,961,097	117,639,358			114,961,097	117,639,358
Net Position:						
Net investment in capital assets	(9,735,071)	(6,115,150)			(9,735,071)	(6,115,150)
Restricted	899,870	774,426			899,870	774,426
Unrestricted	12,497,215	12,221,605	10,112	3,091	12,507,327	12,224,696
Total Net Position	\$ 3,662,014	\$ 6,880,881	\$ 10,112	\$ 3,091	\$ 3,672,126	\$ 6,883,972

Net position in the governmental activities are restricted for various purposes as follows:

	Governmental Activities	
	2014	2013
Federal and state programs	\$ 39,093	\$ 31,692
Food Service	554,395	437,738
Debt Service	306,382	304,996
	\$ 899,870	\$ 774,426

The remaining balance of unrestricted net position of \$12,497,215 in the governmental activities 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 restricted and unrestricted net position in the governmental activities. The District reports negative net position in net investment in capital assets, which is reported net of outstanding related debt. The District's net position of the governmental activities decreased by \$3,218,867 during the current fiscal year.

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

The District's net position of the business-type activities had an ending balance of \$10,112, all of which is unrestricted and may be used to meet on-going obligations.

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Program Revenues						
Charges for services	\$ 4,241,669	\$ 4,130,186	\$ 109,923	\$ 112,695	\$ 4,351,592	\$ 4,242,881
Operating grants	4,142,936	3,623,064			4,142,936	3,623,064
General Revenues						
Property taxes	30,727,349	29,675,225			30,727,349	29,675,225
State Aid - Formula Grants	15,302,433	14,160,727			15,302,433	14,160,727
Grants and contributions not restricted	22,387				22,387	
Interest earnings	68,193	101,469			68,193	101,469
Other	43,984	58,283			43,984	58,283
Total Revenues	54,548,951	51,748,954	109,923	112,695	54,658,874	51,861,649
Expenses						
Instruction	30,657,605	27,561,793			30,657,605	27,561,793
Instructional resources and media services	540,714	634,473			540,714	634,473
Curriculum and staff development	360,724	310,786			360,724	310,786
Instructional leadership	945,852	899,902			945,852	899,902
School leadership	2,590,911	2,369,782			2,590,911	2,369,782
Guidance, counseling, and evaluation services	975,089	943,246			975,089	943,246
Social work services		1,095				1,095
Health services	546,248	537,924			546,248	537,924
Student transportation	1,712,593	1,633,489			1,712,593	1,633,489
Food service	2,612,896	2,649,688			2,612,896	2,649,688
Extracurricular activities	1,752,224	1,643,125			1,752,224	1,643,125
General administration	2,164,688	2,023,745			2,164,688	2,023,745
Plant, maintenance and operations	4,578,667	4,709,446			4,578,667	4,709,446
Security and monitoring services	173,494	175,218			173,494	175,218
Data processing services	1,356,758	983,752			1,356,758	983,752
Community services	320,555	352,734			320,555	352,734
Interest on long-term debt	5,010,371	5,269,606			5,010,371	5,269,606
Debt issuance costs and fees		148,652				148,652
Payments related to shared services arrangements	1,222,535	1,163,749			1,222,535	1,163,749
Payments to Juvenile Justice Alternative Education Programs	20,916	42,716			20,916	42,716
Other governmental charges	249,544	221,669			249,544	221,669
Fuel Fund						
Vending Fund			78,336	79,634	78,336	79,634
Total Expenses	57,792,384	54,276,590	78,336	79,634	57,870,720	54,356,224
Excess (deficiency) before transfers	(3,243,433)	(2,527,636)	31,587	33,061	(3,211,846)	(2,494,575)
Transfers	24,566	36,333	(24,566)	(36,333)		
Increase (Decrease) in Net Position	(3,218,867)	(2,491,303)	7,021	(3,272)	(3,211,846)	(2,494,575)
Beginning net position	6,880,881	10,206,766	3,091	6,363	6,883,972	10,213,129
Prior Period Adjustment		(834,582)				(834,582)
Ending Net Position	\$ 3,662,014	\$ 6,880,881	\$ 10,112	\$ 3,091	\$ 3,672,126	\$ 6,883,972

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

Governmental Activities

Governmental activities decreased the District's net position by \$3,218,867. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 92 percent of total revenues. The remaining 8 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

	Total Revenues	% of Total Revenues
Property taxes	\$ 30,727,349	56%
State Aid - Formula Grants	15,302,433	28%
Operating grants and contributions	4,142,936	8%
Other revenue	4,376,233	8%
Total Revenues	\$ 54,548,951	100%

The primary functional expense of the District is instruction, which represents 53 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	\$ 30,657,605	53%
Other expenses	27,134,779	47%
Total Expenses	\$ 57,792,384	100%

Business-Type Activities

Net position of the District's business type activities increased by \$7,021 for the year ended August 31, 2014.

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, *unassigned 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 \$15,239,928, an increase of \$233,635 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, unassigned fund balance of the general fund was \$8,142,824, while total fund balance reached \$11,753,021. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

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

During the current fiscal year, the total fund balance of the District's general fund increased by \$202,284, while total general fund expenditures showed an increase of \$3,427,157. The increase in expenditures was primarily due to a 3.5% increase given to all full-time employees.

The debt service fund has a total fund balance of \$751,407, all of which is restricted for the payment of debt service. The net increase in the debt service fund balance during the current year of \$299,681 was in line with budgeted expectations.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the general fund and is summarized as follows:

	Budget	
	Original	Final Amended
Total revenues	\$ 41,050,000	\$ 41,050,000
Total expenditures	41,050,000	43,029,118
Net change in fund balance	\$	\$ (1,979,118)

Included in the additional appropriations is \$1.5 million related to the District's purchase of class sets of mobile devices to support the transition to electronic textbooks.

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2014, 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 \$310,756 . The following table summarizes the investment in capital assets as of August 31, 2014 and 2013.

	2014	2013
Land	\$ 2,174,969	\$ 2,174,969
Buildings and improvements	139,613,996	139,256,186
Furniture and equipment	9,829,580	9,645,122
Construction in progress		262,992
Total	151,618,545	151,339,269
Accumulated depreciation	(52,372,422)	(46,796,032)
Net capital assets	\$ 99,246,123	\$ 104,543,237

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 \$107,445,000 in bonded debt outstanding, a decrease of \$1,870,000 over the previous year. The District’s bonds are sold with a “AAA” rating and are guaranteed through the Texas Permanent School Fund Guarantee Program. The underlying rating of the bonds from Standard and Poor’s is “AA-” and from Moody’s Investors Service is “Aa3” for general obligation debt.

Changes in long-term debt, for the year ended August 31, 2014, are as follows:

Outstanding	Issued	Retired	Outstanding
09/01/13			08/31/14
<u>\$ 109,315,000</u>	<u>\$</u>	<u>\$ (1,870,000)</u>	<u>\$ 107,445,000</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

Indicators, both financial and non-financial, that will impact the District in the immediate future are:

- The District’s enrollment was projected to increase by .8% or approximately 49 students at the time the 2014-2015 budget was adopted.
- Net taxable property values in the District have increased 4.17% over the prior year. The average taxable value of a residence in Friendswood has shown a six-year upward trend increasing from an average taxable value in 2009 of \$223,820 to \$238,185 in 2014. From the increase in taxable property values, the District estimates an increase in general fund tax revenue of \$996,342 in 2014-2015.
- The maintenance and operations tax rate for fiscal year 2014-2015 is \$1.04 while the debt service tax rate is \$.327 for a total tax rate of \$1.367. This rate has remained unchanged for the past seven years.
- In June 2013, the state legislature enacted SB1 which increased funding and restored prior cuts to most school districts in Texas. The District’s 2014-2015 state funding revenues are projected to increase by approximately \$748,955. Included in this amount is a one-time payment of approximately \$397,397 for the new 1.5% TRS Employer Contribution expense required by Rider 71 for all school districts starting in the 2014-2015 school year; therefore, approximately \$351,558 is an actual increase in funding. Beginning in 2015-2016, Districts must fund this entire expense with no additional money expected from the State.
- Operating expenses per student in the District’s general fund were \$6,892 for 2013-2014. Operating expenses per student for the 2014-2015 year are projected to be \$7,143.
- Expenditures are budgeted to increase 4% or \$1.87 million. The majority of this increase is due to a 2% pay increase given to all full-time employees, and in the hiring of 14 additional staff, 7 of which are teachers.

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

- Residential and commercial new property development is the primary source of expected value increase for Friendswood ISD tax levy. Looking forward it is estimated that new construction will increase total taxable values by 2.5%.

These indicators were taken into account when adopting the budget for 2014-2015. The Friendswood Independent School District general fund adopted budget for 2014–2015 is as follows:

<u>General Fund Budget</u>	<u>Original</u>
Budgeted Revenues	\$ 43,691,000
Budgeted Expenditures	<u>43,831,000</u>
Budget Deficit	<u>\$ (140,000)</u>

Contacting the District's Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, 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, TX 77546. You may also view previous year's financial reports on the District's website at www.fisd12.net.

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BASIC FINANCIAL STATEMENTS

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET POSITION

August 31, 2014

Data Control Codes		Governmental Activities	Business-type Activities	Total
	Assets			
1110	Cash and cash equivalents	\$ 16,281,581	\$ 7,582	\$ 16,289,163
1225	Property taxes receivables, net	417,830		417,830
1240	Due from other governments	1,367,886		1,367,886
1267	Due from fiduciary funds	31,906		31,906
1290	Other receivables, net	43,828	2,530	46,358
1300	Inventories	193,544		193,544
1410	Prepaid items	793,023		793,023
	Capital assets not subject to depreciation:			
1510	Land	2,174,969		2,174,969
	Capital assets net of depreciation:			
1520	Buildings and improvements, net	92,712,990		92,712,990
1530	Furniture and equipment, net	4,358,164		4,358,164
1000	Total Assets	<u>118,375,721</u>	<u>10,112</u>	<u>118,385,833</u>
	Deferred Outflows of Resources			
1700	Deferred charge on refunding	247,390		247,390
	Total deferred outflows of resources	<u>247,390</u>		<u>247,390</u>
	Liabilities			
2110	Accounts payable	738,614		738,614
2140	Interest payable	222,221		222,221
2150	Payroll deductions and withholdings	21,187		21,187
2160	Accrued wages payable	1,429,435		1,429,435
2300	Unearned revenue	462,361		462,361
	Noncurrent Liabilities:			
2501	Due within one year	2,187,752		2,187,752
2502	Due in more than one year	109,899,527		109,899,527
2000	Total Liabilities	<u>114,961,097</u>		<u>114,961,097</u>
	Net Position			
3200	Net investment in capital assets	(9,735,071)		(9,735,071)
	Restricted for:			
3820	Federal and state programs	39,093		39,093
3840	Food service	554,395		554,395
3850	Debt service	306,382		306,382
3900	Unrestricted	12,497,215	10,112	12,507,327
3000	Total Net Position	<u>\$ 3,662,014</u>	<u>\$ 10,112</u>	<u>\$ 3,672,126</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2014

Data Control Codes	Functions/Programs	Expenses	Program Revenue	
			Charges for Services	Operating Grants and Contributions
Governmental activities:				
11	Instruction	\$ 30,657,605	\$ 1,294,543	\$ 3,102,510
12	Instructional resources and media services	540,714		26,780
13	Curriculum and staff development	360,724	14,088	65,874
21	Instructional leadership	945,852		54,923
23	School leadership	2,590,911		128,691
31	Guidance, counseling, and evaluation	975,089		54,673
33	Health services	546,248		104,743
34	Student transportation	1,712,593		80,259
35	Food service	2,612,896	2,189,831	191,222
36	Extracurricular activities	1,752,224	245,778	55,111
41	General administration	2,164,688		77,614
51	Plant, maintenance and operations	4,578,667	243,357	142,246
52	Security and monitoring services	173,494		
53	Data processing services	1,356,758		44,548
61	Community services	320,555	254,072	13,742
72	Interest on long-term debt	5,010,371		
93	Payments related to shared services	1,222,535		
95	Payments to Juvenile Justice Alternative	20,916		
99	Other governmental charges	249,544		
TG	Total governmental activities	<u>57,792,384</u>	<u>4,241,669</u>	<u>4,142,936</u>
Business-type activities				
01	Fuel Fund		7,021	
02	Vending Fund	78,336	102,902	
TB	Total business-type activities	<u>78,336</u>	<u>109,923</u>	
TP	Total primary government	<u>\$ 57,870,720</u>	<u>\$ 4,351,592</u>	<u>\$ 4,142,936</u>

**Data
Control
Codes**

General revenues:

Taxes:

MT Property taxes, levied for general purposes

DT Property taxes, levied for debt service

SF State-aid formula grants

GC Grants and contributions not restricted

IE Investment earnings

MI Miscellaneous

FR Transfers

TR **Total general**

CN Change in net position

NB **Net position - beginning**

NE **Net position - ending**

See Notes to the Financial Statements

Exhibit B-1

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (26,260,552)	\$	\$ (26,260,552)
(513,934)		(513,934)
(280,762)		(280,762)
(890,929)		(890,929)
(2,462,220)		(2,462,220)
(920,416)		(920,416)
(441,505)		(441,505)
(1,632,334)		(1,632,334)
(231,843)		(231,843)
(1,451,335)		(1,451,335)
(2,087,074)		(2,087,074)
(4,193,064)		(4,193,064)
(173,494)		(173,494)
(1,312,210)		(1,312,210)
(52,741)		(52,741)
(5,010,371)		(5,010,371)
(1,222,535)		(1,222,535)
(20,916)		(20,916)
(249,544)		(249,544)
<u>(49,407,779)</u>		<u>(49,407,779)</u>
	7,021	7,021
	<u>24,566</u>	<u>24,566</u>
	<u>31,587</u>	<u>31,587</u>
<u>(49,407,779)</u>	<u>31,587</u>	<u>(49,376,192)</u>
23,420,400		23,420,400
7,306,949		7,306,949
15,302,433		15,302,433
22,387		22,387
68,193		68,193
43,984		43,984
<u>24,566</u>	<u>(24,566)</u>	
<u>46,188,912</u>	<u>(24,566)</u>	<u>46,164,346</u>
<u>(3,218,867)</u>	<u>7,021</u>	<u>(3,211,846)</u>
<u>6,880,881</u>	<u>3,091</u>	<u>6,883,972</u>
<u>\$ 3,662,014</u>	<u>\$ 10,112</u>	<u>\$ 3,672,126</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2014

Data Control Codes	General Fund	Debt Service Fund
Assets		
1110 Cash and temporary investments	\$ 11,901,711	\$ 840,304
Receivables:		
1220 Property taxes - delinquent	388,064	108,557
1230 Allowance for uncollectible taxes (credit)	(64,479)	(14,312)
1240 Receivables from other governments	1,242,477	
1260 Due from other funds	355,716	
1290 Other receivables	43,828	
1300 Inventories, at cost	193,544	
1410 Prepaid items	716,653	
1000 Total Assets	\$ 14,777,514	\$ 934,549
 Liabilities, Deferred Inflows and Fund Balances		
Liabilities:		
2110 Accounts payable	\$ 629,076	\$
2150 Payroll withholdings payable	21,187	
2160 Accrued wages payable	1,426,227	
2170 Due to other funds	217,636	106,265
2180 Payable to other governments		
2300 Unearned revenues	462,361	
2000 Total Liabilities	2,756,487	106,265
 Deferred Inflows of Resources		
2600 Unavailable revenue - property taxes	268,006	76,877
Total Deferred Inflows of Resources	268,006	76,877
 Fund Balances:		
Nonspendable:		
3410 Inventories	193,544	
3430 Prepaid items	716,653	
Restricted:		
3450 Grant restrictions		
3470 Capital acquisitions		
3480 Debt service		751,407
Committed:		
3545 Other purposes	2,700,000	
3600 Unassigned	8,142,824	
3000 Total Fund Balances	11,753,021	751,407
4000 Total Liabilities, Deferred Inflows and Fund Balances	\$ 14,777,514	\$ 934,549

See Notes to the Financial Statements

Exhibit C-1

Total Nonmajor Funds	Total Governmental Funds
\$ 2,708,466	\$ 15,450,481
	496,621
	(78,791)
125,409	1,367,886
117,720	473,436
	43,828
	193,544
14,280	730,933
<u>\$ 2,965,875</u>	<u>\$ 18,677,938</u>
\$ 109,538	\$ 738,614
	21,187
3,208	1,429,435
117,629	441,530
	462,361
<u>230,375</u>	<u>3,093,127</u>
	344,883
	344,883
	193,544
14,280	730,933
580,425	580,425
1,416,746	1,416,746
	751,407
724,049	3,424,049
	8,142,824
<u>2,735,500</u>	<u>15,239,928</u>
<u>\$ 2,965,875</u>	<u>\$ 18,677,938</u>

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
August 31, 2014

Exhibit C-2

Data		
Control		
Codes		
	Total fund balance, governmental funds	\$ 15,239,928
	Amounts reported for governmental activities in the statement of net position 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.	99,246,123
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).	344,883
3	Deferred charges on refunding	247,390
	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:	
4	General obligation bonds	(107,445,000)
5	Premiums on issuance	(3,200,330)
6	Accreted interest on premium compound interest bonds	(220,702)
7	Accrued compensated absences	(1,025,851)
8	Accrued interest payable	(222,221)
9	Addition of Internal Service fund net position	<u>697,794</u>
19	Total net position - governmental activities	<u><u>\$ 3,662,014</u></u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2014

Exhibit C-3

Data Control Codes		General Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
Revenues					
5700	Local, intermediate, and out-of-state	\$ 24,903,606	\$ 7,311,217	\$ 2,867,345	\$ 35,082,168
5800	State program revenues	17,318,599		679,198	17,997,797
5900	Federal program revenues	20,292		1,449,667	1,469,959
5020	Total Revenues	<u>42,242,497</u>	<u>7,311,217</u>	<u>4,996,210</u>	<u>54,549,924</u>
Expenditures					
Current:					
0011	Instruction	24,923,642		2,424,971	27,348,613
0012	Instruction resources and media services	476,268		27	476,295
0013	Curriculum and instructional staff development	262,069		63,372	325,441
0021	Instructional leadership	820,459		14,439	834,898
0023	School leadership	2,260,205		24,730	2,284,935
0031	Guidance, counseling and evaluation services	844,615		16,209	860,824
0033	Health services	411,579		79,028	490,607
0034	Student transportation	1,508,057		1,486	1,509,543
0035	Food services	11		2,309,317	2,309,328
0036	Extracurricular activities	1,536,574		21,884	1,558,458
0041	General administration	1,874,156		38,310	1,912,466
0051	Facilities maintenance and operations	3,999,054		53,886	4,052,940
0052	Security and monitoring services	149,950		3,923	153,873
0053	Data processing services	1,198,061			1,198,061
0061	Community services	282,518			282,518
Debt service:					
0071	Principal on long-term debt		1,870,000		1,870,000
0072	Interest on long-term debt		5,141,536		5,141,536
Capital outlay:					
0081	Facilities acquisition and construction			237,524	237,524
Intergovernmental:					
0093	Payments related to shared services arrangements	1,222,535			1,222,535
0095	Payments to Juvenile Justice Alternative Education Program	20,916			20,916
0099	Other intergovernmental charges	249,544			249,544
6030	Total Expenditures	<u>42,040,213</u>	<u>7,011,536</u>	<u>5,289,106</u>	<u>54,340,855</u>
1100	Excess (deficiency) of revenues over expenditures	<u>202,284</u>	<u>299,681</u>	<u>(292,896)</u>	<u>209,069</u>
Other Financing Sources (Uses)					
7915	Transfers in			24,566	24,566
7080	Total other financing sources (uses)			<u>24,566</u>	<u>24,566</u>
1200	Net change in fund balances	202,284	299,681	(268,330)	233,635
0100	Fund Balance - September 1 (Beginning)	<u>11,550,737</u>	<u>451,726</u>	<u>3,003,830</u>	<u>15,006,293</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 11,753,021</u>	<u>\$ 751,407</u>	<u>\$ 2,735,500</u>	<u>\$ 15,239,928</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2014

Exhibit C-4

<u>Data Control Codes</u>	
Net change in fund balances - total governmental funds (from C-3)	\$ 233,635
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital Outlay	310,756
Depreciation Expense	(5,607,870)
2 Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(17,325)
3 Repayment of bond principal, including payment to bond refunding agent, is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	1,870,000
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
4 Decrease in interest payable not recognized in fund statements	2,340
5 Amortization of bond premium	186,478
6 Amortization of deferred loss on refunded bonds	(53,680)
7 Accreted interest on capital appreciation bonds	(3,973)
8 (Increase) decrease in long-term portion of accrued compensated absences payable	(147,605)
9 Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities (see D-3).	8,377
Change in net position of governmental activities (see B-1)	<u>\$ (3,218,867)</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

August 31, 2014

Data Control Codes	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Assets		
Current Assets:		
1110 Cash and cash equivalents	\$ 7,582	\$ 831,100
1290 Other receivables	2,530	
1410 Prepaid items		62,090
Total Current Assets	<u>10,112</u>	<u>893,190</u>
1000 Total Assets	<u>10,112</u>	<u>893,190</u>
Liabilities		
Current Liabilities:		
2110 Accounts payable		52,853
Total Current Liabilities		<u>52,853</u>
Non-current Liabilities:		
2590 Claims and judgments		142,543
Total Non-current Liabilities		<u>142,543</u>
2000 Total Liabilities		<u>195,396</u>
Net Position		
3900 Unrestricted net position	10,112	697,794
3000 Total Net Position	<u>\$ 10,112</u>	<u>\$ 697,794</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit D-2

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the Year Ended August 31, 2014

Data Control Codes	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	Operating Revenues	
5754	\$ 109,923	\$ 146,106
5020	<u>109,923</u>	<u>146,106</u>
	Operating Expenses	
6100	3	
6200	75,752	
6400	2,581	154,081
6030	<u>78,336</u>	<u>154,081</u>
1200	<u>31,587</u>	<u>(7,975)</u>
	Non-Operating Revenues (Expenses)	
7955		16,352
	Total Nonoperating Revenues (Expenses)	<u>16,352</u>
	31,587	8,377
	Transfers	
8911	(24,566)	
1200	<u>7,021</u>	<u>8,377</u>
0100	3,091	689,417
3300	<u>\$ 10,112</u>	<u>\$ 697,794</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit D-3

COMBINING STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended August 31, 2014

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Cash Flows from Operating Activities:		
Cash received from user charges	\$ 107,987	\$
Cash receipts from quasi-external operating activities with other funds		146,106
Cash payments for insurance claims		(329,655)
Cash payments to suppliers for goods and services	(78,333)	
Cash payments to employees	(3)	
Net Cash Provided by (Used for) Operating Activities	<u>29,651</u>	<u>(183,549)</u>
 Cash Flows from Non-Capital Financing Activities:		
Advances to other funds	<u>(24,566)</u>	
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(24,566)</u>	
 Cash Flows from Investing Activities:		
Interest on investments		<u>16,352</u>
Net Cash Provided by Investing Activities		<u>16,352</u>
 Net Increase in Cash and Cash Equivalents	5,085	(167,197)
Cash and Cash Equivalents at Beginning of Year	<u>2,497</u>	<u>998,297</u>
Cash and Cash Equivalents at End of Year	<u>\$ 7,582</u>	<u>\$ 831,100</u>
 Reconciliation to Balance Sheet		
Cash and Cash Equivalents Per Cash Flow	<u>\$ 7,582</u>	<u>\$ 831,100</u>
Cash and Cash Equivalents per Balance Sheet	<u>\$ 7,582</u>	<u>\$ 831,100</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 31,587	\$ (7,975)
Change in Assets and Liabilities:		
Decrease (increase) in Receivables	(1,936)	
Decrease (increase) in Prepaid Items		(62,090)
Increase (decrease) in Accounts Payable		32,622
Increase (decrease) in Claims Payable		(146,106)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 29,651</u>	<u>\$ (183,549)</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET POSITION

August 31, 2014

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 8,028	\$ 1,082,397
	Total Assets	<u>\$ 8,028</u>	<u>\$ 1,082,397</u>
	Liabilities		
2110	Accounts payable	\$	\$ 77,315
2170	Due to other funds		31,906
2190	Due to student groups		843,902
2200	Other Accrued expenses		<u>129,274</u>
2000	Total Liabilities		<u>\$ 1,082,397</u>
	Net Position		
3800	Restricted	<u>\$ 8,028</u>	

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2014

Exhibit E-2

	Private Purpose Trust Funds
Additions	
Gifts and contributions	\$
Total additions	<u> </u>
Deductions	
Non-operating expenses	<u> </u>
Total deductions	<u> </u>
Change in net position	
Net position beginning of year	<u> 8,028</u>
Net position end of year	<u> \$ 8,028</u>

See Notes to the Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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 proprietary and private purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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.

Additionally, the District reports the following fund types:

Proprietary Funds

- The *enterprise fund* accounts for activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District's nonmajor enterprise funds are the fuel fund and the vending fund.
- The *internal service fund* accounts for workers' compensation benefits provided to other funds and/or employees of the District on a cost reimbursement basis.

Fiduciary Funds

- The *private purpose trust fund* is used to report all trust arrangements by the District. This fund type is used to account for the District's scholarship funds.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations and taxpayer refunds and overpayments. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

Nonmajor governmental funds of the District include federal, state and local grant funds accounted for as *special revenue funds*. Additionally, the *capital projects fund*, which is used to account for the proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements, is included in the nonmajor governmental funds of the District.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

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.

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, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value based on quoted market prices at August 31, 2014. 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 based on historical collections. 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. The amount of net assessed values for fiscal year 2014 (tax year 2013) were \$2,224,978,200. 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. The District's combined tax rate was \$1.367, which included \$1.04 for maintenance and operations, and \$.327 for debt service. 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. The total levy for the 2014 fiscal year was \$30,415,452. 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, and office and instructional supplies. 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 classified as non-spendable 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, 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

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences

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

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

Long-term Obligations

The District's long-term obligations consist of bonded indebtedness, 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 position. Bond premiums and discounts 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 recognized as an expense in the period incurred.

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 compensated absences are accounted for in the general fund. The current requirements for workers' compensation are accounted for in the workers' compensation fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District has one item that qualifies for reporting in this category, the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The amount of deferred outflows reported in the governmental activities for a deferred charge on refunding at August 31, 2014 was \$247,390 .

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources (continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The amount of deferred inflows in the governmental funds related to unearned revenue for property taxes at August 31, 2014 was \$344,883.

Net Position and Fund Balances

Beginning with fiscal year 2011, Friendswood Independent School District implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).

Restricted fund balance – Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as a commitment of the fund. The District has committed 100 percent of Fund 461 Campus Activity Funds' fund balance, \$1,200,000 in the General Fund for a loss in State funding and \$1,500,000 in the General Fund for disaster recovery.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority. The Board has delegated authority to the Superintendent to establish fund balance assignments. The District did not have any assigned fund balance at August 31, 2014.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Note 1 - Summary of Significant Accounting Policies (continued)

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.

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 bank's 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. At August 31, 2014, the District's cash in bank totaled \$7,245,001 while the carrying value was \$6,889,189. Pledged collateral and FDIC insurance for these deposits totaled \$10,293,373. Certificates of deposit at August 31, 2014 totaled \$3,750,000. Pledged collateral and NCUSIF insurance for the certificates of deposit totaled \$3,754,611. As such, the District's cash and certificates of deposit were properly collateralized at August 31, 2014.

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.

Note 2 - Deposits and Investments (continued)

Investments (continued)

For fiscal year 2014, the District invested in the State of Texas Texpool, the State of Texas TexSTAR Investment Pool, MBIA Texas Class Investment Pool, and the Texas Association of School Boards Lone Star Investment Pool. Texpool, TexSTAR and Lone Star operate in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. Texpool is duly chartered and overseen by the State Comptroller's Office and administered by 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. TexSTAR Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered and managed by JPMorgan Fleming Asset Management, Inc. and First Southwest Asset Management, Inc. JP Morgan Chase Bank and/or its subsidiary JP Morgan Investor Services Co. is the custodial bank. The primary objectives of TexSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet Participants' needs, diversification to avoid unreasonable or avoidable risks, and yield. MBIA Texas Class Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered and managed by MBIA Municipal Investors Service Corporation. Wells Fargo Bank N.A. is the custodial bank. The primary objectives of MBIA Texas Class Pool, is to maintain safety of principal while providing participating government entities (Participants) with the highest possible rate of return for invested funds.

Note 2 - Deposits and Investments (continued)

Investments (continued)

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

	<u>Fair Market Value</u>	<u>Weighted Average Maturity (In days)</u>
Governmental Activities:		
Cash and deposits	\$ 5,791,183	N/A
Certificates of deposit	3,750,000	296
Investments		
Local Government Investment Pools:		
Lone Star	2,988,065	49
MBIA Texas Class	3,540,185	50
Texpool	65,138	53
TexStar	147,010	52
	<u>6,740,398</u>	50
Total Investments	<u>10,490,398</u>	
Total Governmental Activities	<u>16,281,581</u>	
Business-type Activities:		
Cash and deposits	<u>7,582</u>	
Total Business-type Activities	<u>7,582</u>	
Fiduciary Funds:		
Cash and deposits	<u>1,090,425</u>	
Total Fiduciary Funds	<u>1,090,425</u>	
Total	<u><u>\$ 17,379,588</u></u>	
Investment earnings	<u>\$ 68,193</u>	
Total Investment earnings	<u><u>\$ 68,193</u></u>	

Note 2 - Deposits and Investments (continued)

Interest Rate Risk

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

Credit Risk

State law and the District’s investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2014, the District’s investments were rated as follows:

<u>Investment</u>	<u>Rating</u>	<u>Rating Agency</u>
Lone Star	AAA	Standard and Poor's
MBIA Texas Class	AAAm	Standard and Poor's
Texpool	AAAm	Standard and Poor's
TexStar	AAAm	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, 2014 consisted of the following:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Percentage of Portfolio</u>
Lone Star	\$ 2,988,065	28.48%
MBIA Texas Class	3,540,185	33.75%

The investments are reported by the District at fair value.

Note 3 - Receivables

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Property taxes	\$ 388,064	\$ 108,557	\$	\$	\$ 496,621
Due from other governments	1,242,477		125,409		1,367,886
Other	43,828			2,530	46,358
Gross receivables	1,674,369	108,557	125,409	2,530	1,910,865
Less allowance for doubtful accounts	(64,479)	(14,312)			(78,791)
Net total receivables	<u>\$ 1,609,890</u>	<u>\$ 94,245</u>	<u>\$ 125,409</u>	<u>\$ 2,530</u>	<u>\$ 1,832,074</u>

Governmental funds report unearned 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 District reported unearned revenues for advanced collection of fees in the amount of \$462,361 .

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2014, was as follows:

	<u>Balance September 1, 2013</u>	<u>Additions</u>	<u>(Retirements and Transfers)</u>	<u>Balance August 31, 2014</u>
Capital assets, not being depreciated				
Land	\$ 2,174,969	\$	\$	\$ 2,174,969
Construction in progress	262,992		(262,992)	
Total Capital assets, not being depreciated	<u>2,437,961</u>		<u>(262,992)</u>	<u>2,174,969</u>
Capital assets, being depreciated				
Buildings and improvements	139,256,186	94,818	262,992	139,613,996
Furniture and equipment	9,645,122	215,938	(31,480)	9,829,580
Total Capital assets, being depreciated	<u>148,901,308</u>	<u>310,756</u>	<u>231,512</u>	<u>149,443,576</u>
Less accumulated depreciation for:				
Buildings and improvements	(41,949,310)	(4,951,696)		(46,901,006)
Furniture and Equipment	(4,846,722)	(656,174)	31,480	(5,471,416)
Total Accumulated depreciation	<u>(46,796,032)</u>	<u>(5,607,870)</u>	<u>31,480</u>	<u>(52,372,422)</u>
Governmental Capital Assets	<u>\$ 104,543,237</u>	<u>\$ (5,297,114)</u>	<u>\$</u>	<u>\$ 99,246,123</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	\$ 3,258,078
Instructional resources and media services	62,434
Curriculum and staff development	34,355
Instructional leadership	107,546
School leadership	296,289
Guidance, counseling and evaluation services	110,720
Health services	53,933
Student transportation	197,651
Food Services	302,728
Extracurricular activities	201,413
General administration	246,216
Plant maintenance and operations	524,016
Security and monitoring services	19,621
Data processing services	155,835
Community services	37,035
	<u>\$ 5,607,870</u>

The District had no construction commitments as of August 31, 2014.

Note 5 - Interfund Receivables, Payables, and Transfers

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

A transfer of \$24,375 was made from a proprietary fund to a nonmajor special revenue fund to allocate the vending net profit to individual campus/departments. In addition, a transfer from a proprietary fund to a nonmajor governmental fund in the amount of \$191 was necessary to cover amounts that were considered uncollectible at year end.

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

The composition of interfund balances as of August 31, 2014, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
Governmental Funds			
General Fund	\$ 355,716	\$ 217,636	\$ 138,080
Debt Service Fund		106,265	(106,265)
Nonmajor Governmental Funds	117,720	117,629	91
Total Governmental Funds	<u>473,436</u>	<u>441,530</u>	<u>31,906</u>
Fiduciary Funds			
Agency Fund		31,906	(31,906)
Total Fiduciary Funds		<u>31,906</u>	<u>(31,906)</u>
Total	<u>\$ 473,436</u>	<u>\$ 473,436</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 the amount of contract days of local sick leave for full retirement or 100 days of local sick leave for reduced service retirement 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, 2013	\$ 878,246
Additions: New entrants and salary increments	203,133
Deductions: Payments to participants	<u>(55,528)</u>
Balance, August 31, 2014	<u>\$ 1,025,851</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, 2014, the legal debt limit was \$222,497,820 and the legal debt margin was \$112,187,799.

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, 2014.

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, 2014 were as follows:

Issue	Original issuance amount	Interest Rate (%)	Maturity Date	Debt Outstanding
Unlimited Tax Schoolhouse Bonds, Series 2006	\$ 5,590,554	3.78%	2/15/2017	\$ 1,040,000
Unlimited Tax Schoolhouse Bonds, Series 2008	96,750,000	4.00% to 5.00%	2/15/2037	96,430,000
Unlimited Tax Refunding Bonds, Series 2009	10,000,000	2.00% to 3.00%	2/15/2018	5,785,000
Unlimited Tax Refunding Bonds, Series 2012	4,190,000	3.00%	2/15/2022	4,190,000
				<u>\$ 107,445,000</u>

Debt service requirements to maturity are as follows:

Year Ending August 31,	Principal	Interest	Totals
2015	\$ 1,930,000	\$ 5,079,743	\$ 7,009,743
2016	1,990,000	5,016,146	7,006,146
2017	2,040,000	4,950,747	6,990,747
2018	3,555,000	5,093,613	8,648,613
2019	3,885,000	4,711,038	8,596,038
2020-2024	20,535,000	20,690,790	41,225,790
2025-2029	22,865,000	15,507,690	38,372,690
2030-2034	29,265,000	9,106,950	38,371,950
2035-2037	21,380,000	1,639,250	23,019,250
	<u>\$ 107,445,000</u>	<u>\$ 71,795,967</u>	<u>\$ 179,240,967</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 2018. The values associated with the bonds are reflected in the table below:

Series	Accreted Value	Principal	Accreted Interest	Maturity Value	Maturity Dates
2012	\$ 320,702	\$ 100,000	\$ 220,702	\$ 335,000	2018

Note 7 - Long-Term Liabilities (continued)

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, 2014, \$2,625,000 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, 2014:

	<u>Balance</u> <u>August 31, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2014</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 109,315,000	\$	\$ (1,870,000)	\$ 107,445,000	\$ 1,930,000
Premiums/discounts	3,386,808		(186,478)	3,200,330	
Accreted interest on premium compound interest bonds	216,730	3,972		220,702	4,020
Workers' compensation claims	308,880	154,805	(268,289)	195,396	142,543
Accrued compensated absences	878,246	203,133	(55,528)	1,025,851	111,189
	<u>\$ 114,105,664</u>	<u>\$ 361,910</u>	<u>\$ (2,380,295)</u>	<u>\$ 112,087,279</u>	<u>\$ 2,187,752</u>

Note 8 - 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</u> <u>Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u>
Property Taxes	\$ 23,436,771	\$ 7,307,903	\$	\$ 30,744,674
Investment Income	46,327	3,314	18,552	68,193
Co-curricular student activities	463,897			463,897
Food Sales			2,233,815	2,233,815
Other	956,611		614,978	1,571,589
	<u>\$ 24,903,606</u>	<u>\$ 7,311,217</u>	<u>\$ 2,867,345</u>	<u>\$ 35,082,168</u>

Note 9 - 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, 2014.

Rental expenditures during the year amounted to \$186,224.

Note 10 - 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: Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action(s), the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years; or, (3) if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2014, 2013, and 2012. The State contributed at a rate of 6.8% for fiscal year 2014 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 schedules adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.8% for fiscal year 2014, 6.4% for fiscal year 2013, and 6.0% for fiscal year 2012.

Contributions: Contributions made by the State, District, and staff members for the years ended August 31, 2014, 2013, and 2012 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	Covered Payroll
2014	\$ 1,651,659	\$ 381,558	\$ 1,913,617	\$ 29,900,254
2013	1,534,057	329,693	1,848,868	28,888,553
2012	1,339,651	320,886	1,783,775	27,442,128

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 11 - 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.

The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts, and the State of Texas.

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 2014, 2013, and 2012. 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, 2014, 2013, and 2012 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	Covered Payroll
2014	\$ 289,428	\$ 174,025	\$ 194,352	\$ 29,900,254
2013	139,848	163,482	187,776	28,888,553
2012	263,580	164,129	181,163	27,442,128

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, 2014, 2013, and 2012, the subsidy payments received by TRS-Care on-behalf of the District were \$80,341, \$73,918, and \$71,767 respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Note 12 - On-Behalf Payments

The amounts recognized for state revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended August 31, 2014, was as follows:

Contributions to pension plan	\$ 1,651,659
Insurance contributions (TRS Care)	289,428
Insurance contributions (Medicare Part D)	80,341
	<u>\$ 2,021,428</u>

Note 13 - Risk Management

Property/Liability

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

Health Insurance

The District provides medical insurance coverage for its employees under the TRS-ActiveCare 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 from reserves in the internal service fund. The reserves 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 \$350,000 and annual losses exceeding \$1,000,000. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverage's for each of the past three fiscal years.

Note 13 - Risk Management (continued)

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>Change in Current Year Estimates</u>	<u>Claims Payments</u>	<u>End of Year Accrual</u>	<u>Current</u>
2014	\$ 308,880	\$ 154,805	\$ (268,289)	\$ 195,396	\$ 52,853
2013	200,963	211,805	(103,888)	308,880	20,231

Note 14 - Shared Service Arrangements / Joint Ventures

The District participates in four separate Shared Service Arrangements that are described in more detail below.

The District participates in a Shared Service Arrangement (SSA) for Juvenile Justice Alternative Education Program with eight other school districts. Although 8.8 percent of the activity of the SSA 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 SSA. Presented below are the revenues and expenditures attributable to the District's participation.

Revenues:

Local revenue	<u>\$ 20,916</u>
---------------	------------------

Expenditures:

Payroll costs	\$ 19,540
Contract services	1,035
Supplies and materials	337
Other operating costs	<u>4</u>

Total expenditures	<u>\$ 20,916</u>
---------------------------	------------------

The District participates in a Shared Service Arrangement (SSA) for the Galveston-Brazoria Co-op for the Hearing Impaired that provides a system of direct and support services to eligible hearing impaired students of the member districts. In addition to Friendswood ISD, the other member districts include Alvin ISD, Clear Creek ISD, Dickinson ISD, Galveston ISD, Hitchcock ISD, La Marque ISD, Pearland ISD, Santa Fe ISD and Texas City ISD. All services are provided by the fiscal agent, Clear Creek ISD. The member districts provide the funds to the fiscal agent. Although approximately 2.3 percent of the total SSA expenditures are 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. In addition, the District neither has a joint ownership interest in fixed assets purchased by the fiscal agent nor does the District have a net equity interest in the fiscal agent.

Note 14 - Shared Service Arrangements / Joint Ventures (continued)

Revenues:	
Local revenue	<u>\$ 32,891</u>
Expenditures:	
Payroll costs	\$ 27,523
Contract services	1,312
Supplies and materials	3,342
Other operating costs	<u>714</u>
Total expenditures	<u>\$ 32,891</u>

The District participates in the Visually Impaired Orientation and Mobility Shared Service Arrangement (SSA), which provides services for visually impaired students. Friendswood ISD participates in this SSA along with Dickinson ISD, Galveston ISD, Hitchcock ISD and Texas City ISD. Although approximately 30 percent of the activity of the SSA is attributable to the District’s participation, the District does not account for the 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, Galveston 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 rise to a future additional benefit or burden to Friendswood ISD. The fiscal agent is responsible for all financial activities of the SSA. Revenues attributable to the District’s participation were \$13,867 for the 2014 fiscal year. Expenditures in the same amount were attributable to payroll costs.

The District participates in the Energy for Schools Shared Service Arrangement (SSA). Energy for Schools is a state electricity procurement cooperative with more than 101 member districts across the state. Member Districts are charged for their electric consumption at contracted rates. Although approximately 1.7 percent of the SSA 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 \$1,175,777 for the 2014 fiscal year. Expenditures in the same amount were attributable to contract services for energy costs.

Note 15 - Contingent Liabilities

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

Note 16 - Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has estimated that it does not have an arbitrage liability as of August 31, 2014.

Note 17 - Other Post-Employment Benefits

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

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REQUIRED SUPPLEMENTARY INFORMATION

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit G-1

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local revenues	\$ 24,691,575	\$ 24,691,575	\$ 24,903,606	\$ 212,031
5800	State program revenues	16,358,425	16,358,425	17,318,599	960,174
5900	Federal program revenues			20,292	20,292
5020	Total Revenues	<u>41,050,000</u>	<u>41,050,000</u>	<u>42,242,497</u>	<u>1,192,497</u>
Expenditures					
Current:					
0011	Instruction	23,520,754	25,055,366	24,923,642	131,724
0012	Instruction resources and media services	566,960	557,136	476,268	80,868
0013	Curriculum and instructional staff	259,194	277,229	262,069	15,160
0021	Instructional leadership	852,466	837,617	820,459	17,158
0023	School leadership	2,221,070	2,274,520	2,260,205	14,315
0031	Guidance, counseling and evaluation services	828,880	866,667	844,615	22,052
0032	Social work services	1,000	2,000		2,000
0033	Health services	416,297	419,756	411,579	8,177
0034	Student transportation	1,620,994	1,665,749	1,508,057	157,692
0035	Food services		5,000	11	4,989
0036	Extracurricular activities	1,540,424	1,583,779	1,536,574	47,205
0041	General administration	2,019,492	2,010,107	1,874,156	135,951
0051	Facilities maintenance and operations	4,297,186	4,143,346	3,999,054	144,292
0052	Security and monitoring services	177,000	176,149	149,950	26,199
0053	Data processing services	1,019,651	1,274,890	1,198,061	76,829
0061	Community services	211,332	295,332	282,518	12,814
Capital outlay:					
0081	Capital outlay	3,100	10,000		10,000
Intergovernmental:					
0093	Payments related to shared services arrangements	1,187,400	1,267,675	1,222,535	45,140
0095	Payments to Juvenile Justice Alternative Education Programs	41,800	41,800	20,916	20,884
0099	Other intergovernmental charges	265,000	265,000	249,544	15,456
6030	Total Expenditures	<u>41,050,000</u>	<u>43,029,118</u>	<u>42,040,213</u>	<u>988,905</u>
1100	Excess (deficiency) of revenues over expenditures		<u>(1,979,118)</u>	<u>202,284</u>	<u>2,181,402</u>
1200	Net change in fund balances		(1,979,118)	202,284	2,181,402
0100	Fund balances - beginning	<u>11,550,737</u>	<u>11,550,737</u>	<u>11,550,737</u>	
3000	Fund balances - ending	<u>\$ 11,550,737</u>	<u>\$ 9,571,619</u>	<u>\$ 11,753,021</u>	<u>\$ 2,181,402</u>

A. Budgets and Budgetary Accounting

The District adopts annual appropriations type budgets for the General Fund, Food Service Special Revenue Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The remaining Special Revenue Funds (primarily federal grant programs) utilize a managerial type budget approved at the fund level and amended as necessary when the Notices of Grant Awards are received. 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, Food Service Fund and Debt Service Fund during the fiscal year ended August 31, 2014.

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, 2013. 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.

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OTHER SUPPLEMENTARY INFORMATION

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2014

Data Control Codes	211	224	225
	ESEA Title I, Part A	IDEA-B Formula	IDEA-B Preschool
Assets			
1110	Cash and temporary investments	\$	\$
Receivables:			
1240	Receivables from other governments	38,581	55,753
1260	Due from other funds		404
1410	Prepaid items		
1000	Total Assets	<u>\$ 38,581</u>	<u>\$ 55,753</u>
		<u>\$ 404</u>	
Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$ 2,822	\$
2160	Accrued wages payable		
2170	Due to other funds	35,759	55,753
2000	Total Liabilities	<u>38,581</u>	<u>55,753</u>
			<u>404</u>
Fund Balances:			
Nonspendable:			
3430	Prepaid items		
Restricted:			
3450	Grant restrictions		
3470	Capital acquisitions		
Committed:			
3545	Other purposes		
3000	Total Fund Balances		
4000	Total Liabilities and Fund Balances	<u>\$ 38,581</u>	<u>\$ 55,753</u>
			<u>\$ 404</u>

226	240	244	255	263
<u>IDEA-B Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III</u>
\$	\$ 427,146	\$	\$	\$
8,088	117,720		16,842	4,993
	13,063			
<u>\$ 8,088</u>	<u>\$ 557,929</u>	<u>\$</u>	<u>\$ 16,842</u>	<u>\$ 4,993</u>
\$ 1,270	\$ 326	\$	\$ 2,940	\$
	3,208			
<u>6,818</u>	<u>13,063</u>	<u>\$</u>	<u>13,902</u>	<u>4,993</u>
<u>8,088</u>	<u>3,534</u>	<u>\$</u>	<u>16,842</u>	<u>4,993</u>
	541,332			
	13,063			
	554,395			
<u>\$ 8,088</u>	<u>\$ 557,929</u>	<u>\$</u>	<u>\$ 16,842</u>	<u>\$ 4,993</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2014

Data Control Codes	289	397	410
	Miscellaneous Federal Programs	Advanced Placement Incentive	Instructional Materials Allotment
Assets			
1110	Cash and temporary investments	\$ 20,503	\$ 56,701
Receivables:			
1240	Receivables from other governments		748
1260	Due from other funds		
1410	Prepaid items		
1000	Total Assets	<u>\$ 20,503</u>	<u>\$ 57,449</u>
Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$ 286	\$ 57,449
2160	Accrued wages payable		
2170	Due to other funds		
2000	Total Liabilities	<u>286</u>	<u>57,449</u>
Fund Balances:			
Nonspendable:			
3430	Prepaid items		
Restricted:			
3450	Grant restrictions	20,217	
3470	Capital acquisitions		
Committed:			
3545	Other purposes		
3600	Total Fund Balances	<u>20,217</u>	
4000	Total Liabilities and Fund Balances	<u>\$ 20,503</u>	<u>\$ 57,449</u>

429	461	480	699	
State Funded Special Revenue Fund	Campus Activity	Education Foundation Grants	Capital Projects Fund	Total Nonmajor Governmental Funds
\$	\$ 749,566	\$ 22,163	\$ 1,432,387	\$ 2,708,466
				125,409
				117,720
	1,217			14,280
<u>\$</u>	<u>\$ 750,783</u>	<u>\$ 22,163</u>	<u>\$ 1,432,387</u>	<u>\$ 2,965,875</u>
\$	\$ 25,517	\$ 3,287	\$ 15,641	\$ 109,538
				3,208
				117,629
	25,517	3,287	15,641	230,375
	1,217			14,280
		18,876		580,425
			1,416,746	1,416,746
	724,049			724,049
	725,266	18,876	1,416,746	2,735,500
<u>\$</u>	<u>\$ 750,783</u>	<u>\$ 22,163</u>	<u>\$ 1,432,387</u>	<u>\$ 2,965,875</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, 2014

Data	211	224	225
Control Codes	ESEA Title I, Part A	IDEA-B Formula	IDEA-B Preschool
Revenues			
5700	Local, intermediate, and out-of-state	\$	\$
5800	State program revenues		
5900	Federal program revenues	211,857	16,824
5020	Total Revenues	<u>211,857</u>	<u>16,824</u>
Expenditures			
Current:			
0011	Instruction	202,167	16,824
0012	Instruction resources and media services		
0013	Curriculum and instructional staff development	270	
0021	Instructional leadership		
0023	School leadership		
0031	Guidance, counseling and evaluation services	7,934	
0033	Health services		
0034	Student transportation	1,486	
0035	Food service		
0036	Extracurricular activities		
0041	General administration		
0051	Plant maintenance and operations		
0052	Security and monitoring services		
Capital outlay:			
0081	Facilities acquisition and construction		
6030	Total Expenditures	<u>211,857</u>	<u>16,824</u>
1100	Excess (deficiency) of revenues over expenditures		
Other Financing Sources (Uses)			
7915	Transfers in		
7080	Total other financing sources and uses		
1200	Net change in fund balances		
0100	Fund balance - September 1 (beginning)		
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>

226	240	244	255	263
<u>IDEA-B Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed - Basic</u>	<u>Title II, Part A</u>	<u>Title III</u>
\$	\$ 2,234,572	\$	\$	\$
	4,132			
80,881	187,079	31,713	86,340	14,708
<u>80,881</u>	<u>2,425,783</u>	<u>31,713</u>	<u>86,340</u>	<u>14,708</u>
1,853		31,713	25,116	14,673
			44,038	35
			13,799	
			2,287	
			1,100	
79,028				
	2,309,317			
<u>80,881</u>	<u>2,309,317</u>	<u>31,713</u>	<u>86,340</u>	<u>14,708</u>
	116,466			
	191			
	191			
	116,657			
	437,738			
<u>\$</u>	<u>\$ 554,395</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2014

Data Control Codes	289	397	410
	Miscellaneous Federal Programs	Advanced Placement Incentive	Instructional Materials Allotment
Revenues			
5700	\$	\$	\$
5800		8,250	666,789
5900	2,226		
5020	<u>2,226</u>	<u>8,250</u>	<u>666,789</u>
Expenditures			
Current:			
0011	2,226		666,113
0012			
0013			
		5,436	36
0021			640
0023			
0031			
0033			
0034			
0035			
0036			
0041			
0051			
0052			
Capital outlay:			
0081			
6030	<u>2,226</u>	<u>5,436</u>	<u>666,789</u>
1100		<u>2,814</u>	
Other Financing Sources (Uses)			
7915			
7080			
1200		2,814	
0100		<u>17,403</u>	
3000	<u>\$</u>	<u>\$ 20,217</u>	<u>\$</u>

429 State Funded Special Revenue Fund	461 Campus Activity	480 Education Foundation Grants	699 Capital Projects Fund	Total Nonmajor Governmental Funds
\$	\$ 469,602	\$ 161,728	\$ 1,443	\$ 2,867,345
27				679,198
				1,449,667
<u>27</u>	<u>469,602</u>	<u>161,728</u>	<u>1,443</u>	<u>4,996,210</u>
	489,106	157,141		2,424,971
27				27
	13,557			63,372
				14,439
	22,443			24,730
	7,175			16,209
				79,028
				1,486
				2,309,317
	21,884			21,884
			38,310	38,310
	6,595		47,291	53,886
			3,923	3,923
			237,524	237,524
<u>27</u>	<u>560,760</u>	<u>157,141</u>	<u>327,048</u>	<u>5,289,106</u>
	(91,158)	4,587	(325,605)	(292,896)
	24,375			24,566
	24,375			24,566
	(66,783)	4,587	(325,605)	(268,330)
	792,049	14,289	1,742,351	3,003,830
<u>\$</u>	<u>\$ 725,266</u>	<u>\$ 18,876</u>	<u>\$ 1,416,746</u>	<u>\$ 2,735,500</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
August 31, 2014

Exhibit H-3

Data Control Codes	Enterprise Funds			
	Fuel Fund	Vending Fund	Total	
	Assets			
	Current assets:			
1110	Cash and cash equivalents	\$ 5,574	\$ 2,008	\$ 7,582
1290	Other receivables	2,530		2,530
1000	Total Assets	<u>\$ 8,104</u>	<u>\$ 2,008</u>	<u>\$ 10,112</u>
	Net Position			
3900	Unrestricted net position	\$ 8,104	\$ 2,008	\$ 10,112
3000	Total Net Position	<u>\$ 8,104</u>	<u>\$ 2,008</u>	<u>\$ 10,112</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit H-4

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

NONMAJOR ENTERPRISE FUNDS

For the Year Ended August 31, 2014

Data Control Codes		Fuel Fund	Vending Fund	Total
	Revenues			
5700	Charges for Services	\$ 7,021	\$ 102,902	\$ 109,923
5020	Total Operating Revenues	<u>7,021</u>	<u>102,902</u>	<u>109,923</u>
	Operating Expenses			
6100	Payroll costs		3	3
6200	Purchased and contracted services		75,752	75,752
	Claims expense and other			
6400	operating expenses		<u>2,581</u>	<u>2,581</u>
6030	Total Operating Expenses		<u>78,336</u>	<u>78,336</u>
	Income (Loss) before Transfers	7,021	24,566	31,587
	Transfers			
8911	Transfers out		<u>(24,566)</u>	<u>(24,566)</u>
7080	Total Transfers		<u>(24,566)</u>	<u>(24,566)</u>
1200	Change in Net Position	7,021		7,021
	Net Position			
0100	Total net position - beginning	<u>1,083</u>	<u>2,008</u>	<u>3,091</u>
3300	Total net position - ending	<u>\$ 8,104</u>	<u>\$ 2,008</u>	<u>\$ 10,112</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit H-5

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

Year Ended August 31, 2014

	734	740	
	<u>Fuel Fund</u>	<u>Vending Fund</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash received from user charges	\$ 5,085	\$ 102,902	\$ 107,987
Cash payments to suppliers for goods and services		(78,333)	(78,333)
Cash payments to employees		(3)	(3)
Net Cash Provided by (Used for) Operating Activities	<u>5,085</u>	<u>24,566</u>	<u>29,651</u>
Cash Flows from Non-Capital Financing Activities:			
Advances to other funds		(24,566)	(24,566)
Net Cash Provided by (Used for) Non-Capital Financing Activities		<u>(24,566)</u>	<u>(24,566)</u>
Net Increase in Cash and Cash Equivalents	5,085		5,085
Cash and Cash Equivalents at Beginning of Year	489	2,008	2,497
Cash and Cash Equivalents at End of Year	<u>\$ 5,574</u>	<u>\$ 2,008</u>	<u>\$ 7,582</u>
Reconciliation to Balance Sheet			
Cash and Cash Equivalents Per Cash Flow	\$ 5,574	\$ 2,008	\$ 7,582
Cash and Cash Equivalents per Balance Sheet	<u>\$ 5,574</u>	<u>\$ 2,008</u>	<u>\$ 7,582</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 7,021	\$ 24,566	\$ 31,587
Change in Assets and Liabilities			
Decrease (increase) in Receivables	(1,936)		(1,936)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 5,085</u>	<u>\$ 24,566</u>	<u>\$ 29,651</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET POSITION
August 31, 2014

Exhibit H-6

		891	892	
Data Control Codes		Cline Scholarship Fund	Winston Scholarship Fund	Total Private Purpose Trust Funds
Assets				
1110	Cash and cash equivalents	\$ 1,732	\$ 6,296	\$ 8,028
	Total Assets	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 8,028</u>
Net Position				
3800	Restricted	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 8,028</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2014

Exhibit H-7

	891	892	
	Cline Scholarship	Winston Scholarship	Total
Additions			
Gifts and contributions	\$	\$	\$
Total additions			
Deductions			
Non-operating expenses			
Total deductions			
Change in net position			
Net position beginning of year	1,732	6,296	8,028
Net position end of year	\$ 1,732	\$ 6,296	\$ 8,028

REQUIRED TEA SCHEDULES

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2014

Last Ten Fiscal Years	1		2	3	10
	Tax Rates		Net Assessed/Appraised Value For School Tax Purposes	Beginning Balance 8/31/13	
	Maintenance	Debt Service			
2005 and prior	Various	Various	Various	\$ 16,567	
2006	1.500000	0.137000	1,624,895,916	9,732	
2007	1.370000	0.137000	1,789,587,724	10,505	
2008	1.040000	0.137000	1,956,333,264	10,612	
2009	1.040000	0.327000	1,974,337,088	19,880	
2010	1.040000	0.327000	2,024,853,767	46,797	
2011	1.040000	0.327000	2,052,922,970	50,786	
2012	1.040000	0.327000	2,096,108,705	62,754	
2013	1.040000	0.327000	2,154,126,189	186,934	
2014	1.040000	0.327000	2,224,978,200		
1000 Totals				\$ 414,567	

Exhibit J-1

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/14
\$	\$ 4,352	\$ 420	\$ (2,798)	\$ 8,997
	2,009	183	(452)	7,088
	2,017	202	(358)	7,928
	1,010	133	(1,874)	7,595
	3,197	1,005	(2,889)	12,789
	16,362	5,145	(8,567)	16,723
	23,084	7,258	1,260	21,704
	24,183	7,604	1,293	32,260
	102,015	32,076	(338)	52,505
<u>30,415,452</u>	<u>22,994,832</u>	<u>7,230,106</u>		<u>190,514</u>
<u>\$ 30,415,452</u>	<u>\$ 23,173,061</u>	<u>\$ 7,284,132</u>	<u>\$ (14,723)</u>	358,103
				<u>138,518</u>
				<u>\$ 496,621</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit J-4

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION PROGRAM FUND

For the Year Ended August 31, 2014

Data Control Codes		Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 2,211,229	\$ 2,211,229	\$ 2,234,572	\$ 23,343
5800	State Program Revenues	4,400	4,400	4,132	(268)
5900	Federal Program Revenues	190,183	190,183	187,079	(3,104)
5020	Total Revenues	<u>2,405,812</u>	<u>2,405,812</u>	<u>2,425,783</u>	<u>19,971</u>
	Expenditures				
	Current:				
0035	Food Services	2,439,183	2,454,883	2,309,317	145,566
6030	Total Expenditures	<u>2,439,183</u>	<u>2,454,883</u>	<u>2,309,317</u>	<u>145,566</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>(33,371)</u>	<u>(49,071)</u>	<u>116,466</u>	<u>165,537</u>
	Other Financing Sources (Uses)				
7915	Transfers in			191	191
	Total Other Financing Sources (Uses)			<u>191</u>	<u>191</u>
1200	Increase (Decrease) in Fund Balance	(33,371)	(49,071)	116,657	165,728
0100	Fund Balance - September 1 (Beginning)	<u>437,738</u>	<u>437,738</u>	<u>437,738</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 404,367</u>	<u>\$ 388,667</u>	<u>\$ 554,395</u>	<u>\$ 165,728</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
For the Year Ended August 31, 2014

Exhibit J-5

Data Control Codes		Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negaative)
		Original	Final		
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 7,331,000	\$ 7,331,000	\$ 7,311,217	\$ (19,783)
5020	Total Revenues	<u>7,331,000</u>	<u>7,331,000</u>	<u>7,311,217</u>	<u>(19,783)</u>
	Expenditures				
	Debt Service:				
0071	Principal	1,870,000	1,870,000	1,870,000	
0072	Interest and Fiscal Agent Fees	5,142,000	5,145,000	5,141,536	3,464
6030	Total Expenditures	<u>7,012,000</u>	<u>7,015,000</u>	<u>7,011,536</u>	<u>3,464</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>319,000</u>	<u>316,000</u>	<u>299,681</u>	<u>(16,319)</u>
0100	Fund Balance - September 1 (Beginning)	<u>451,726</u>	<u>451,726</u>	<u>451,726</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 770,726</u>	<u>\$ 767,726</u>	<u>\$ 751,407</u>	<u>\$ (16,319)</u>

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FEDERAL AWARDS SECTION

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INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type 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, 2014, and the related notes to the financial statements, which collectively comprise District’s basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, slightly slanted style.

Texas City, Texas
November 10, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Friendswood Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Texas City, Texas
November 10, 2014

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2014

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
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?	None Reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	No
Identification of major programs	
Name of Federal Program or Cluster:	CFDA Numbers
US Department of Education:	
Special Education Cluster:	
IDEA - Part B, Formula	84.027A
IDEA - Part B, Preschool	84.173A
IDEA - Part B, High Cost Risk Pool	84.027A
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, 2014

II. Financial Statement Findings

None reported

III. Federal Awards Findings and Questioned Costs

None Reported

IV. Summary Schedule of Prior Audit Findings

Finding #	Corrective Action Taken
Finding 2013-001: Pledged Collateral	Resolved; the District implemented controls over the monitoring of pledged collateral and all cash on hand at August 31, 2014 was properly collateralized.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2014

(2A) Pass Through Entity Identifying Number	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	District Fund Number	(2) Federal CFDA Number	(3) Federal Expenditures
U.S. Department of Education				
Passed Through Texas Education Agency:				
13610101084911	<i>ESEA Title I Part A</i>	211	84.010A	\$ 5,130
14610101084911	<i>ESEA Title I Part A</i>	211	84.010A	206,727
146600010849116000	<i>IDEA - Part B, Formula *</i>	224	84.027A	818,039
146610010849116000	<i>IDEA - Part B, Preschool *</i>	225	84.173A	16,824
14660006084911	<i>IDEA - Part B, High Cost Risk Pool *</i>	226	84.027A	80,881
14420006084911	<i>Career and Technology Education - Carl D. Perkins</i>	244	84.048A	31,713
13694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	9,467
14694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	76,873
14671001084911	<i>Title III - Part A, English Language Acquisitions</i>	263	84.365A	14,708
695513	<i>Summer School LEP</i>	289	84.369A	2,226
Total U.S. Department of Education				1,262,588
U.S. Department of Agriculture				
Passed Through the Texas Department of				
Non Cash Assistance (Commodities):				
71301401	<i>National School Lunch Program**</i>	240	10.555	42,281
Passed Through Texas Education Agency				
Cash Assistance:				
71301401	<i>National School Lunch Program **</i>	240	10.555	133,262
71401401	<i>School Breakfast Program **</i>	240	10.553	11,536
Total U.S. Department of Agriculture				187,079
Total Expenditures of Federal Awards				\$ 1,449,667

*Special Education Cluster

** Child Nutrition Cluster

Note 1 -Basis of Accounting

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

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

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

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 3 - Reconciliation to Basic Financial Statements

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

Total expenditures of federal awards per SEFA	\$ 1,449,667
Federal revenue accounted for in General Fund	
Propane credit	<u>20,292</u>
Total Federal Revenue - Exhibit C-3	<u><u>\$ 1,469,959</u></u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
SCHEDULE L-1
For the year ended August 31, 2014

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 unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year-end.	<u>\$ 220,702</u>

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