

**FRIENDSWOOD INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2016

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Certificate of Board	i	
Financial Section		
Independent Auditor’s Report	1	
Management Discussion and Analysis	7	
Basic Financial Statements:		
Government-wide Financial Statements		
Statement of Net Position	19	A-1
Statement of Activities	20	B-1
Governmental Fund Financial Statements		
Balance Sheet	22	C-1
Reconciliation of Balance Sheet for Governmental Funds to		
Statement of Net Position	25	C-2
Statement of Revenues, Expenditures, and Changes In Fund Balances	26	C-3
Reconciliation of the Statement of Revenues, Expenditures, and		
Changes in Fund Balances of Governmental Funds to the		
Statement of Activities	27	C-4
Proprietary Fund Financial Statements		
Statement of Net Position	28	D-1
Statement of Revenues, Expenses, and Changes In Fund Net Position	29	D-2
Statement of Cash Flows	30	D-3
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Position	31	E-1
Statement of Changes In Fiduciary Net Position	32	E-2
Notes to the Financial Statements	33	F-1
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	62	G-1
Notes to Required Supplementary Information	63	G-2
Schedule of the District’s Proportionate Share of the Net Pension		
Liability – Teacher Retirement System of Texas	64	G-3
Schedule of the District’s Contributions – Teacher Retirement System of		
Texas	65	G-4
Notes to Required Supplementary Information – Pension	66	G-5
Other Supplementary Information:		
Combining Fund Statements:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	68	H-1
Combining Statement of Revenues, Expenditures, and Changes In		
Fund Balance	72	H-2
Combining Statement of Net Position	76	H-3
Combining Statements of Revenues, Expenses and Changes in		
Fund Net Position	77	H-4
Combining Statement of Cash Flows	78	H-5
Fiduciary Funds:		
Agency Funds:		
Combining Statement of Fiduciary Net Position	79	H-6
Combining Statement of Changes in Fiduciary Net Position	80	H-7

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

TABLE OF CONTENTS (continued)

	<u>Page</u>	<u>Exhibit</u>
Financial Section (continued)		
Required TEA Schedules		
Schedule of Delinquent Taxes Receivable	82	J-1
Budgetary Comparison Schedule - Child Nutrition Program Fund	84	J-4
Budgetary Comparison Schedule - Debt Service Fund	85	J-5
Federal Awards Section		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	89	
Report on Compliance for each Major Federal Program and Report on Internal Control over Compliance Required by <i>the Uniform Guidance</i>	91	
Schedule of Findings and Questioned Costs	93	
Schedule of Expenditures of Federal Awards	95	K-1
Notes to Schedule of Expenditures of Federal Awards	96	K-2

CERTIFICATE OF BOARD

Friendswood Independent School District

Galveston

084-911

Name of School District

County

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, 2016, at a meeting of the board of trustees of such school district on December 12, 2016.



President of the Board



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, 2016, 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, 2016, 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 Management's Discussion and Analysis on pages 7 through 15 and the budgetary comparison schedule and the required pension system information on pages 62 through 66 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 the 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 the U.S. Office of Management and Budget ("OMB"); Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 December 5, 2016, 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.

Whitley Penn LLP

Houston, Texas
December 5, 2016

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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, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

The liabilities and deferred inflows of the District exceeded assets and deferred outflows at the close of the most recent fiscal year by \$2,067,186 (net deficit). Of this amount, negative \$13,427,745 was net investment in capital assets, which represents the amount invested in capital assets net of accumulated depreciation and related debt, \$1,485,953 was restricted for debt service, \$637,846 was restricted for food service, \$13,689 was restricted for federal and state programs and \$9,223,071 was unrestricted.

- The District's total net position decreased by \$346,851 during the current fiscal year.
- The District's governmental funds reported combined ending fund balances of \$16,767,465 as of August 31, 2016. Of this amount, \$867,747 is non-spendable in the form of (1) inventory in the amount of \$196,808 and (2) prepaid items in the amount of \$670,939. Fund balance of \$2,365,497 is restricted for (1) federal and state grants in the amount of \$651,535, (2) capital acquisitions in the amount of \$160,549, and (3) debt service in the amount of \$1,553,413. Fund balance of \$3,526,529 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 \$826,529. Fund balance of \$1,000,000 is assigned for construction repairs and renovations. The remaining amount in fund balance of \$9,007,692 in the general is classified as unassigned and is available for spending at the District's discretion. This represents 20% of total general fund expenditures.
- The General Fund ended the year with unassigned fund balance of \$9,024,201, an increase of \$210,537 as compared to the prior fiscal year.
- The District's bonded debt decreased by \$8,365,000 as a result of principal payments made during the current fiscal year and the savings related to refunding of previously issued debt.

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, liabilities, and deferred inflows of resources, with the difference of the four 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. The Required Supplementary Information also relates to the required pension system 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, liabilities and deferred inflows exceeded assets and deferred outflows by \$2,067,186 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 21,475,304	\$ 20,161,898	\$ 23,799	\$ 18,101	\$ 21,499,103	\$ 20,179,999
Capital and non current assets	91,485,345	95,380,283			91,485,345	95,380,283
Total Assets	112,960,649	115,542,181	23,799	18,101	112,984,448	115,560,282
Deferred outflows	10,409,153	1,271,691			10,409,153	1,271,691
Total Deferred Outflows of Resources	10,409,153	1,271,691			10,409,153	1,271,691
Current liabilities	3,742,022	3,262,191	1,309	2,061	3,743,331	3,264,252
Long term liabilities	121,005,543	114,018,334			121,005,543	114,018,334
Total Liabilities	124,747,565	117,280,525	1,309	2,061	124,748,874	117,282,586
Deferred inflows	711,913	1,269,722			711,913	1,269,722
Total Deferred Inflows of Resources	711,913	1,269,722			711,913	1,269,722
Net Position:						
Net investment in capital assets	(13,427,745)	(12,313,737)			(13,427,745)	(12,313,737)
Restricted	2,137,488	1,782,353			2,137,488	1,782,353
Unrestricted	9,200,581	8,795,009	22,490	16,040	9,223,071	8,811,049
Total Net Position	\$ (2,089,676)	\$ (1,736,375)	\$ 22,490	\$ 16,040	\$ (2,067,186)	\$ (1,720,335)

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

	Governmental Activities	
	2016	2015
Federal and state programs	\$ 13,689	\$ 19,153
Food Service	637,846	507,535
Debt Service	1,485,953	1,255,665
	\$ 2,137,488	\$ 1,782,353

The remaining balance of unrestricted net position of \$9,200,581 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 \$353,301 during the current fiscal year. The decrease is primarily due to the increase in the District's net pension liability.

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 \$22,490, all of which is unrestricted and may be used to meet on-going obligations.

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Program Revenues						
Charges for services	\$ 5,823,062	\$ 4,898,591	\$ 107,704	\$ 118,752	\$ 5,930,766	\$ 5,017,343
Operating grants	5,438,214	4,347,291			5,438,214	4,347,291
General Revenues						
Property taxes	34,627,062	32,111,442			34,627,062	32,111,442
State Aid - Formula Grants	16,841,121	15,499,143			16,841,121	15,499,143
Grants and contributions not restricted						
Interest earnings	70,132	59,846			70,132	59,846
Other	59,709	447,492			59,709	447,492
Total Revenues	62,859,300	57,363,805	107,704	118,752	62,967,004	57,482,557
Expenses						
Instruction	33,566,031	29,857,798			33,566,031	29,857,798
Instructional resources and media services	815,623	685,724			815,623	685,724
Curriculum and staff development	478,648	465,200			478,648	465,200
Instructional leadership	1,042,675	1,003,415			1,042,675	1,003,415
School leadership	3,148,271	2,761,234			3,148,271	2,761,234
Guidance, counseling, and evaluation services	1,072,211	1,044,371			1,072,211	1,044,371
Social work services	3,178	3,476			3,178	3,476
Health services	614,827	579,784			614,827	579,784
Student transportation	1,667,825	1,806,771			1,667,825	1,806,771
Food service	2,772,229	2,739,476			2,772,229	2,739,476
Extracurricular activities	2,494,533	1,852,772			2,494,533	1,852,772
General administration	2,439,634	2,246,537			2,439,634	2,246,537
Plant, maintenance and operations	6,026,119	4,813,971			6,026,119	4,813,971
Security and monitoring services	243,919	228,002			243,919	228,002
Data processing services	1,244,647	1,198,301			1,244,647	1,198,301
Community services	357,261	329,472			357,261	329,472
Interest on long-term debt	4,855,307	5,003,188			4,855,307	5,003,188
Payments related to shared services arrangements	88,519	1,199,074			88,519	1,199,074
Payments to Juvenile Justice Alternative Education Programs	21,949	24,194			21,949	24,194
Other governmental charges	261,127	245,899			261,127	245,899
Fuel Fund						
Vending Fund			70,128	83,558	70,128	83,558
Total Expenses	63,243,727	58,088,659	70,128	83,558	63,313,855	58,172,217
Excess (deficiency) before transfers	(384,427)	(724,854)	37,576	35,194	(346,851)	(689,660)
Transfers	31,126	29,266	(31,126)	(29,266)		
Increase (Decrease) in Net Position	(353,301)	(695,588)	6,450	5,928	(346,851)	(689,660)
Beginning net position	(1,736,375)	3,662,014	16,040	10,112	(1,720,335)	3,672,126
Prior Period Adjustment		(4,702,801)				(4,702,801)
Ending Net Position	\$ (2,089,676)	\$ (1,736,375)	\$ 22,490	\$ 16,040	\$ (2,067,186)	\$ (1,720,335)

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

Governmental Activities

Governmental activities decreased the District's net position by \$353,301. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 91 percent of total revenues. The remaining 9 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

	<u>Total Revenues</u>	<u>% of Total Revenues</u>
Property taxes	\$ 34,627,062	55%
State Aid - Formula Grants	16,841,121	27%
Operating grants and contributions	5,438,214	9%
Other revenue	5,952,903	9%
Total Revenues	<u>\$ 62,859,300</u>	<u>100%</u>

The primary functional expense of the District is instruction, which represents 52 percent of total expenses. Plant maintenance and operations represents 10 percent of the total expenses. The remaining individual functional categories of expenses are each less than 10 percent of total expenses.

	<u>Total Expenses</u>	<u>% of Total Expenses</u>
Instruction	\$ 33,566,031	52%
Interest on long-term debt	4,855,307	8%
Plant maintenance and Operations	6,026,115	10%
Other expenses	18,796,274	30%
Total Expenses	<u>\$ 63,243,727</u>	<u>100%</u>

Business-Type Activities

Net position of the District's business type activities increased by \$6,450 for the year ended August 31, 2016.

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 \$16,767,465, an increase of \$860,151 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 \$9,024,201, while total fund balance reached \$12,553,964. 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 \$95,918, while total general fund expenditures showed an increase of \$2,526,760. The increase in expenditures was primarily due to new personnel costs, teacher salary increases averaging 5%, and a 3% salary increase given to all other full-time employees.

The debt service fund has a total fund balance of \$1,553,413, 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 \$180,962 was in line with budgeted expectations.

General Fund Budgetary Highlights

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

	Budget	
	Original	Final Amended
Total revenues	\$ 46,015,000	\$ 46,012,304
Total expenditures	45,610,000	46,906,246
Net change in fund balance	\$ 405,000	\$ (893,942)

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2016, includes land, buildings and improvements, and furniture and equipment. The investment in capital assets (capital outlays) during the current year amounted to \$1,732,721. The following table summarizes the investment in capital assets as of August 31, 2016 and 2015.

	2016	2015
Land	\$ 2,282,209	\$ 2,282,209
Buildings and improvements	140,910,984	139,922,463
Furniture and equipment	10,354,501	10,225,014
Total	153,547,694	152,429,686
Accumulated depreciation	(62,062,349)	(57,049,403)
Net capital assets	\$ 91,485,345	\$ 95,380,283

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 \$97,150,000 in bonded debt outstanding, a decrease of \$8,365,000 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, 2016, are as follows:

Outstanding	Issued	Retired	Outstanding
09/01/15			08/31/16
\$ 105,515,000	\$ 88,965,000	\$ (97,330,000)	\$ 97,150,000

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 remain stable at approximately 6100 students at the time the 2016-2017 budget was adopted.
- The District increased the maintenance and operations tax rate nine cents, and decreased the debt service tax rate seven cents, and held a successful Tax Ratification Election in September 2016. As a result, the maintenance and operations tax rate is \$1.13 while the debt service tax rate is \$.257 for a total tax rate of \$1.387 in fiscal year 2016-17.
- Net taxable property values in the District have increased 10% over the prior year. The average taxable value of a residence in Friendswood has shown a seven-year upward trend increasing from an average taxable value in 2009 of \$223,820 to \$256,354 in 2016. From the increase in tax rates and taxable property values, the District estimates an increase in general fund tax revenue of \$3.6M offset by a decrease in state funding of \$2.0M, for a net increase of \$1.6M in 2016-17.
- Operating expenses per student in the District’s general fund were \$7,712 for 2015-2016. Operating expenses per student for the 2016-2017 fiscal year are projected to be \$7,861.
- Expenditures are budgeted to increase 2.7% or \$1.3 million. This increase is primarily due to a salary increase of \$1,500 for every teacher and a 2.5% pay increase given to all other full-time employees. In addition, the District hired 9 new staff: 6 teachers, 1 counselor and 2 auxiliary support personnel.
- In 2015 and 2016, the Galveston County Appraisal District reappraised most homes in the county resulting in an increase in taxable values of 8.6%, and 10.3%, respectively for FISD. In addition, construction from commercial and residential new property development is expected to increase taxable values by an estimated \$135M in the near future.

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

These indicators were taken into account when adopting the budget for 2016-2017. The Friendswood Independent School District general fund adopted budget for 2016–2017 is as follows:

<u>General Fund Budget</u>	<u>Original</u>
Budgeted Revenues	\$ 47,950,000
Budgeted Expenditures	<u>47,950,000</u>
	<u>\$</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.myfisd.com.

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BASIC FINANCIAL STATEMENTS

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET POSITION

August 31, 2016

<u>Data Control Codes</u>		<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets				
1110	Cash and cash equivalents	\$ 17,053,155	\$ 22,594	\$ 17,075,749
1225	Property taxes receivables, net	549,108		549,108
1240	Due from other governments	1,443,170		1,443,170
1267	Due from fiduciary funds	27,751		27,751
1290	Other receivables, net	75,297	1,205	76,502
1300	Inventories	196,808		196,808
1410	Prepaid items	670,939		670,939
Capital assets not subject to depreciation:				
1510	Land	2,282,209		2,282,209
Capital assets net of depreciation:				
1520	Buildings and improvements, net	84,748,984		84,748,984
1530	Furniture and equipment, net	4,454,152		4,454,152
1910	Long-term investments	1,459,076		1,459,076
1000	Total Assets	<u>112,960,649</u>	<u>23,799</u>	<u>112,984,448</u>
Deferred Outflows of Resources				
1700	Deferred charge on refunding	5,224,607		5,224,607
1705	Deferred outflows relating to pension activities	5,184,546		5,184,546
	Total deferred outflows of resources	<u>10,409,153</u>		<u>10,409,153</u>
Liabilities				
2110	Accounts payable	803,494	1,309	804,803
2120	Other liabilities - current	3,500		3,500
2140	Interest payable	180,263		180,263
2150	Payroll deductions and withholdings	1,361		1,361
2160	Accrued wages payable	2,057,510		2,057,510
2180	Due to other governments	78,329		78,329
2200	Accrued expenditures			
2300	Unearned revenue	617,565		617,565
Noncurrent Liabilities:				
2501	Due within one year	3,007,562		3,007,562
2502	Due in more than one year	108,403,575		108,403,575
2540	Net pension liability	9,594,406		9,594,406
2000	Total Liabilities	<u>124,747,565</u>	<u>1,309</u>	<u>124,748,874</u>
Deferred Inflows of Resources				
2600	Deferred inflows relating to pension activities	711,913		711,913
	Total deferred inflows of resources	<u>711,913</u>		<u>711,913</u>
Net Position				
3200	Net investment in capital assets	(13,427,745)		(13,427,745)
Restricted for:				
3820	Federal and state programs	13,689		13,689
3840	Food service	637,846		637,846
3850	Debt service	1,485,953		1,485,953
3900	Unrestricted	9,200,581	22,490	9,223,071
3000	Total Net Position (Deficit)	<u>\$ (2,089,676)</u>	<u>\$ 22,490</u>	<u>\$ (2,067,186)</u>

See Notes to the Financial Statements

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2016

Data Control Codes	Functions/Programs	Expenses	Program Revenue	
			Charges for Services	Operating Grants and Contributions
	Governmental activities:			
11	Instruction	\$ 33,566,031	\$ 2,463,533	\$ 3,951,881
12	Instructional resources and media services	815,623		37,557
13	Curriculum and staff development	478,648	46,070	114,982
21	Instructional leadership	1,042,675		64,474
23	School leadership	3,148,271		176,853
31	Guidance, counseling, and evaluation	1,072,211		53,347
32	Social work services	3,178		
33	Health services	614,827		38,768
34	Student transportation	1,667,825		336,198
35	Food service	2,772,229	2,349,686	206,042
36	Extracurricular activities	2,494,533	336,464	74,904
41	General administration	2,439,634		108,140
51	Plant, maintenance and operations	6,026,119	335,398	191,310
52	Security and monitoring services	243,919		
53	Data processing services	1,244,647		67,528
61	Community services	357,261	291,911	16,230
72	Interest on long-term debt	4,855,307		
81	Facilities repairs	29,194		
93	Payments related to shared services	88,519		
95	Payments to Juvenile Justice Alternative	21,949		
99	Other governmental charges	261,127		
TG	Total governmental activities	<u>63,243,727</u>	<u>5,823,062</u>	<u>5,438,214</u>
	Business-type activities			
01	Fuel Fund		6,450	
02	Vending Fund	70,128	101,254	
TB	Total business-type activities	<u>70,128</u>	<u>107,704</u>	
TP	Total primary government	<u>\$ 63,313,855</u>	<u>\$ 5,930,766</u>	<u>\$ 5,438,214</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

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
\$ (27,150,617)	\$	\$ (27,150,617)
(778,066)		(778,066)
(317,596)		(317,596)
(978,201)		(978,201)
(2,971,418)		(2,971,418)
(1,018,864)		(1,018,864)
(3,178)		(3,178)
(576,059)		(576,059)
(1,331,627)		(1,331,627)
(216,501)		(216,501)
(2,083,165)		(2,083,165)
(2,331,494)		(2,331,494)
(5,499,411)		(5,499,411)
(243,919)		(243,919)
(1,177,119)		(1,177,119)
(49,120)		(49,120)
(4,855,307)		(4,855,307)
(29,194)		(29,194)
(88,519)		(88,519)
(21,949)		(21,949)
(261,127)		(261,127)
<u>(51,982,451)</u>		<u>(51,982,451)</u>
	6,450	6,450
	<u>31,126</u>	<u>31,126</u>
	<u>37,576</u>	<u>37,576</u>
<u>(51,982,451)</u>	<u>37,576</u>	<u>(51,944,875)</u>
26,367,129		26,367,129
8,259,933		8,259,933
16,841,121		16,841,121
70,132		70,132
59,709		59,709
31,126	(31,126)	
<u>51,629,150</u>	<u>(31,126)</u>	<u>51,598,024</u>
(353,301)	6,450	(346,851)
(1,736,375)	16,040	(1,720,335)
<u>\$ (2,089,676)</u>	<u>\$ 22,490</u>	<u>\$ (2,067,186)</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2016

Data Control Codes	General Fund	Debt Service Fund
Assets		
1110 Cash and temporary investments	\$ 12,090,274	\$ 1,610,776
Receivables:		
1220 Property taxes - delinquent	502,297	148,310
1230 Allowance for uncollectible taxes (credit)	(81,123)	(20,376)
1240 Receivables from other governments	1,088,153	
1260 Due from other funds	389,256	
1290 Other receivables	67,416	5,835
1300 Inventories, at cost	196,808	
1410 Prepaid items	632,955	
1910 Long-term investments	1,459,076	
1000 Total Assets	\$ 16,345,112	\$ 1,744,545
 Liabilities, Deferred Inflows and Fund Balances		
Liabilities:		
2110 Accounts payable	\$ 546,288	\$
2120 Other liabilities - current	3,500	
2150 Payroll withholdings payable	1,361	
2160 Accrued wages payable	2,050,399	
2170 Due to other funds	217,720	
2180 Payable to other governments		78,329
2300 Unearned revenues	598,833	
2000 Total Liabilities	3,418,101	78,329
 Deferred Inflows of Resources		
2600 Unavailable revenue - property taxes	373,047	112,803
Total Deferred Inflows of Resources	373,047	112,803
 Fund Balances:		
Nonspendable:		
3410 Inventories	196,808	
3430 Prepaid items	632,955	
Restricted:		
3450 Grant restrictions		
3470 Capital acquisitions		
3480 Debt service		1,553,413
Committe:		
3545 Other purposes	2,700,000	
3550 Assigned:		
3570 Construction repairs, renovations		
3600 Unassigned	9,024,201	
3000 Total Fund Balances	12,553,964	1,553,413
4000 Total Liabilities, Deferred Inflows and Fund Balances	\$ 16,345,112	\$ 1,744,545

See Notes to the Financial Statements

Exhibit C-1

Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,691,875	\$ 16,392,925
	650,607
	(101,499)
355,017	1,443,170
117,720	506,976
2,046	75,297
	196,808
37,984	670,939
	1,459,076
\$ 3,204,642	\$ 21,294,299
\$ 257,206	\$ 803,494
	3,500
	1,361
7,111	2,057,510
261,505	479,225
	78,329
18,732	617,565
544,554	4,040,984
	485,850
	485,850
	196,808
37,984	670,939
651,535	651,535
160,549	160,549
	1,553,413
826,529	3,526,529
1,000,000	1,000,000
(16,509)	9,007,692
2,660,088	16,767,465
\$ 3,204,642	\$ 21,294,299

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FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
August 31, 2016

Exhibit C-2

Data Control Codes		
	Total fund balance, governmental funds	\$ 16,767,465
	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.	91,485,345
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).	485,850
3	Deferred charges on refunding	5,224,607
4	Deferred inflows relating to pension activities	(711,913)
	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:	
5	General obligation bonds	(97,150,000)
6	Premiums on issuance	(13,148,246)
7	Accreted interest on premium compound interest bonds	(228,796)
8	Accrued compensated absences	(881,415)
9	Accrued interest payable	(180,263)
10	Net pension liability	(9,594,406)
11	Deferred outflows relating to pension activities	5,184,546
19	Addition of Internal Service fund net position	<u>657,550</u>
	Total net deficit - governmental activities	<u><u>\$ (2,089,676)</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, 2016

Exhibit C-3

Data Control Codes		General Fund	Debt Service Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
5700	Local, intermediate, and out-of-state	\$ 28,198,129	\$ 8,260,086	\$ 4,081,528	\$ 40,539,743
5800	State program revenues	18,927,889	120,044	593,335	19,641,268
5900	Federal program revenues	21,616		1,391,885	1,413,501
5020	Total Revenues	<u>47,147,634</u>	<u>8,380,130</u>	<u>6,066,748</u>	<u>61,594,512</u>
Expenditures					
Current:					
0011	Instruction	26,345,981		2,501,057	28,847,038
0012	Instruction resources and media services	652,678		74,258	726,936
0013	Curriculum and instructional staff development	319,370		119,906	439,276
0021	Instructional leadership	894,214		11,448	905,662
0023	School leadership	2,701,861		52,875	2,754,736
0031	Guidance, counseling and evaluation services	920,378		19,881	940,259
0032	Social work services	1,500		1,500	3,000
0033	Health services	537,931		107	538,038
0034	Student transportation	1,478,622		454,407	1,933,029
0035	Food services			2,486,918	2,486,918
0036	Extracurricular activities	1,819,418		474,726	2,294,144
0041	General administration	2,144,959		2,229	2,147,188
0051	Facilities maintenance and operations	5,353,290		15,153	5,368,443
0052	Security and monitoring services	240,174		804	240,978
0053	Data processing services	1,102,938			1,102,938
0061	Community services	317,408			317,408
Debt service:					
0071	Principal on long-term debt		1,990,000		1,990,000
0072	Interest on long-term debt		7,045,301		7,045,301
Capital outlay:					
0081	Facilities acquisition and construction	855,537		296,196	1,151,733
Intergovernmental:					
0093	Payments related to shared services arrangements	88,519			88,519
0095	Payments to Juvenile Justice Alternative Education Program	21,949			21,949
0099	Other intergovernmental charges	261,127			261,127
6030	Total Expenditures	<u>46,057,854</u>	<u>9,035,301</u>	<u>6,511,465</u>	<u>61,604,620</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,089,780</u>	<u>(655,171)</u>	<u>(444,717)</u>	<u>(10,108)</u>
Other Financing Sources (Uses)					
7901	Refunding bonds issued		88,965,000		88,965,000
7912	Sale of real or personal property	3,000			3,000
7915	Transfers in	6,886		1,031,126	1,038,012
7916	Premium on issuance of bonds		13,124,342		13,124,342
8911	Transfers out	(1,003,748)		(3,138)	(1,006,886)
8949	Payment to Bond Refunding Escrow Agent		(101,253,209)		(101,253,209)
7080	Total other financing sources (uses)	<u>(993,862)</u>	<u>836,133</u>	<u>1,027,988</u>	<u>870,259</u>
1200	Net change in fund balances	95,918	180,962	583,271	860,151
0100	Fund Balance - September 1 (Beginning)	<u>12,458,046</u>	<u>1,372,451</u>	<u>2,076,817</u>	<u>15,907,314</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 12,553,964</u>	<u>\$ 1,553,413</u>	<u>\$ 2,660,088</u>	<u>\$ 16,767,465</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, 2016

Exhibit C-4

Data Control Codes		
	Net change in fund balances - total governmental funds (from C-3)	\$ 860,151
	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	1,732,721
	Depreciation Expense	(5,623,333)
2	Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.	(4,326)
3	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	34,847
4	Pension contributions made after the net pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position.	887,372
5	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.	1,990,000
6	Proceeds from the refunding of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	(88,965,000)
7	Premium received on the refunding of bonds	(13,124,342)
8	Payment to bond refunding escrow agency	103,272,362
	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:	
9	Pension expense for the pension plan measurement year	(1,713,430)
10	Decrease in interest payable not recognized in fund statements	39,234
11	Amortization of bond premium	353,503
12	Amortization of deferred loss on refunded bonds	(217,822)
13	Accreted interest on capital appreciation bonds	(4,074)
14	(Increase) decrease in long-term portion of accrued compensated absences payable	47,449
15	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-2).	81,387
	Change in net position of governmental activities (see B-1)	\$ (353,301)

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

August 31, 2016

Data Control Codes		Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	Assets		
	Current Assets:		
1110	Cash and cash equivalents	\$ 22,594	\$ 660,230
1290	Other receivables	1,205	
	Total Current Assets	<u>23,799</u>	<u>660,230</u>
1000	Total Assets	<u>23,799</u>	<u>660,230</u>
	Liabilities		
	Current Liabilities:		
2110	Accounts payable	1,309	2,680
	Total Current Liabilities	<u>1,309</u>	<u>2,680</u>
2000	Total Liabilities	<u>1,309</u>	<u>2,680</u>
	Net Position		
3900	Unrestricted net position	22,490	657,550
3000	Total Net Position	<u>\$ 22,490</u>	<u>\$ 657,550</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, 2016

Data Control Codes	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	Operating Revenues	
5754	Charges for services \$ 107,704	\$ 183,157
5020	Total Operating Revenues 107,704	183,157
	Operating Expenses	
6200	Purchased and contracted services 63,224	
6400	Claims expense and other operating expenses 6,904	107,145
6030	Total Operating Expenses 70,128	107,145
1200	Operating Income 37,576	76,012
	Non-Operating Revenues (Expenses)	
7955	Investment earnings	5,375
	Total Nonoperating Revenues (Expenses)	5,375
	Income before Transfers 37,576	81,387
	Transfers	
8911	Transfers out (31,126)	
1200	Change in Net Position 6,450	81,387
0100	Net Position - September 1 (Beginning) 16,040	576,163
3300	Net Position - August 31 (Ending) \$ 22,490	\$ 657,550

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, 2016

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Cash Flows from Operating Activities:		
Cash received from user charges	\$ 106,737	\$
Cash receipts from quasi-external operating activities with other funds		183,157
Cash payments for insurance claims		(289,189)
Cash payments to suppliers for goods and services	(70,128)	
Net Cash Provided by (Used for) Operating Activities	<u>36,609</u>	<u>(106,032)</u>
 Cash Flows from Non-Capital Financing Activities:		
Advances to other funds	(31,126)	
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(31,126)</u>	
 Cash Flows from Investing Activities:		
Interest on investments		5,375
Net Cash Provided by Investing Activities		<u>5,375</u>
 Net Increase(Decrease) in Cash and Cash Equivalents	5,483	(100,657)
Cash and Cash Equivalents at Beginning of Year	<u>17,111</u>	<u>760,887</u>
Cash and Cash Equivalents at End of Year	<u>\$ 22,594</u>	<u>\$ 660,230</u>
 Reconciliation to Balance Sheet		
Cash and Cash Equivalents Per Cash Flow	\$ 22,594	\$ 660,230
Cash and Cash Equivalents per Balance Sheet	<u>\$ 22,594</u>	<u>\$ 660,230</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 37,576	\$ 76,012
Change in Assets and Liabilities:		
Decrease (increase) in Receivables	(215)	
Increase (decrease) in Accounts Payable	(752)	(51,054)
Increase (decrease) in Claims Payable		(130,990)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 36,609</u>	<u>\$ (106,032)</u>

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET POSITION

August 31, 2016

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 14,221	\$ 648,590
	Total Assets	<u>\$ 14,221</u>	<u>\$ 648,590</u>
	Deferred Outflows of Resources		
1700	Deferred outflows	_____	_____
	Total Deferred Outflows of Resources	<u>_____</u>	<u>_____</u>
	Liabilities		
2110	Accounts payable	\$	\$ 152,315
2120	Other liabilities - current		2,370
2170	Due to other funds		27,751
2190	Due to student groups		322,943
2200	Other Accrued expenses		143,211
2000	Total Liabilities	<u>_____</u>	<u>\$ 648,590</u>
	Net Position		
3800	Restricted	<u>\$ 14,221</u>	

See Notes to the Financial Statements.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2016

Exhibit E-2

	Private Purpose Trust Funds
Additions	
Gifts and contributions	\$ 6,193
Total additions	<u>6,193</u>
Change in net position	6,193
Net position beginning of year	<u>8,028</u>
Net position end of year	<u><u>\$ 14,221</u></u>

See Notes to the Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net 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.

Implementation of New Standards

In the current year, the District implemented the following new accounting standards: GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, clarifies the application of certain provisions of Statement No. 68 with regard to information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures include information about any limitations or restrictions on participant withdrawals.

Note 1 - Summary of Significant Accounting Policies (continued)

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. The funds of the District must be deposited and invested under the terms of a depository contract, the contents of which are set out in the Depository Contract Law. The depository bank may either place approved pledged securities for safekeeping and trust with the District's agent bank or file a corporate surety bond 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 FDIC insurance. The depository cash balances were covered by FDIC insurance and by collateral held by the District's agent in the District's name. The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79 *Certain Investment Pools and Pool Participants*.

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 2016 (tax year 2015) were \$2,516,791,368. 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 2016 fiscal year was \$34,404,538. 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	9 - 30
Furniture and equipment	5 - 25

Compensated Absences

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

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this 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.
- Deferred outflows of resources for pension – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the District's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources (continued)

A *deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the District's proportional share of pension liabilities. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position and Fund Balances

Friendswood Independent School District reports fund balances in accordance with 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.

Note 1 - Summary of Significant Accounting Policies (continued)

Net Position and Fund Balances (continued)

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 has assigned \$1,000,000 in the Capital Projects Fund for capital improvements.

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.

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, 2016, the District's cash in bank totaled \$12,686,603 while the carrying value was \$12,534,076. Pledged collateral and FDIC insurance for these deposits totaled \$15,362,539. Certificates of deposit at August 31, 2016 totaled \$3,500,000. Pledged collateral and NCUSIF insurance for the certificates of deposit totaled \$3,537,179. As such, the District's cash and certificates of deposit were properly collateralized at August 31, 2016.

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.

Investments

For fiscal year 2016, the District invested in the State of Texas Texpool, the State of Texas TexSTAR Investment Pool, MBIA Texas Class Investment Pool, the Texas Association of School Boards Lone Star Investment Pool and TD Ameritrade. 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	\$ 11,839,023	N/A
Certificates of deposit	3,500,000	309
Investments		
Local Government Investment Pools:		
Lone Star	775,464	31
MBIA Texas Class	700,148	48
Texpool	65,341	55
TexStar	147,508	39
	<u>1,688,461</u>	40
Money Market		
TD Ameritrade	16,018	
Securities		
Federal Home Loan Bank	1,040,688	402
Municipal Bonds	428,041	396
	<u>1,484,747</u>	396
Total Investments	<u>6,673,208</u>	
Total Governmental Activities	<u>18,512,231</u>	
Business-type Activities:		
Cash and deposits	22,594	
Total Business-type Activities	<u>22,594</u>	
Fiduciary Funds:		
Cash and deposits	662,811	
Total Fiduciary Funds	<u>662,811</u>	
Total	<u>\$ 19,197,636</u>	
Investment earnings	<u>\$ 70,132</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, 2016, 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
Federal Home Loan Bank	AAAm	Standard and Poor's
Municipal Bonds	AAA	Standard and Poor's
	A1+	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, 2016 consisted of the following:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Percentage of Portfolio</u>
Lone Star	\$ 775,464	11.62%
MBIA Texas Class	\$ 700,148	10.49%

The District reports its local government investment pools at amortized cost as permitted by GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*. In addition the investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The four pools do not impose any liquidity fees or redemption gates.

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:

	General Fund	Debt Service Fund	Total Nonmajor Funds	Proprietary Funds	Total
Property taxes	\$ 502,297	\$ 148,310	\$	\$	\$ 650,607
Due from other governments	1,088,153		355,017		1,443,170
Other	<u>67,416</u>	<u>5,835</u>	<u>2,046</u>	<u>1,205</u>	<u>76,502</u>
Gross receivables	1,657,866	154,145	357,063	1,205	2,170,279
Less allowance for doubtful accounts	<u>(81,123)</u>	<u>(20,376)</u>			<u>(101,499)</u>
Net total receivables	<u><u>\$ 1,576,743</u></u>	<u><u>\$ 133,769</u></u>	<u><u>\$ 357,063</u></u>	<u><u>\$ 1,205</u></u>	<u><u>\$ 2,068,780</u></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 \$617,565.

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2016, was as follows:

	Balance September 1, 2015	Additions	(Retirements) and Transfers	Balance August 31, 2016
Capital assets, not being depreciated				
Land	\$ 2,282,209	\$	\$	\$ 2,282,209
Total Capital assets, not being depreciated	<u>2,282,209</u>			<u>2,282,209</u>
Capital assets, being depreciated				
Buildings and improvements	139,922,463	1,040,521	(52,000)	140,910,984
Furniture and equipment	10,080,867	692,200	(418,566)	10,354,501
Assets under capital lease	<u>144,147</u>		<u>(144,147)</u>	
Total Capital assets, being depreciated	<u>150,147,477</u>	<u>1,732,721</u>	<u>(614,713)</u>	<u>151,265,485</u>
Less accumulated depreciation for:				
Buildings and improvements	(51,294,575)	(4,919,425)	52,000	(56,162,000)
Furniture and Equipment	(5,610,681)	(703,908)	414,240	(5,900,349)
Assets under capital lease	<u>(144,147)</u>		<u>144,147</u>	
Total Accumulated depreciation	<u>(57,049,403)</u>	<u>(5,623,333)</u>	<u>610,387</u>	<u>(62,062,349)</u>
Governmental Capital Assets	<u><u>\$ 95,380,283</u></u>	<u><u>\$ (3,890,612)</u></u>	<u><u>\$ (4,326)</u></u>	<u><u>\$ 91,485,345</u></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	\$ 3,132,455
Instructional resources and media services	76,473
Curriculum and staff development	37,949
Instructional leadership	106,385
School leadership	321,441
Guidance, counseling and evaluation services	109,497
Social work services	178
Health services	63,998
Student transportation	175,213
Food Services	295,868
Extracurricular activities	215,460
General administration	254,683
Plant maintenance and operations	636,872
Security and monitoring services	28,491
Data processing services	131,216
Community services	37,154
	<u>\$ 5,623,333</u>

The District had commitments in the amount of \$99,582 at August 31, 2016 related to propane busses.

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.

The District transferred \$1,000,000 from the general fund to the capital projects fund for capital improvements. A transfer of \$31,126 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 \$1,209 was necessary to cover amounts that were considered uncollectible at year end. \$3,138 was transferred from a nonmajor governmental fund to a general fund for unutilized grants for Education Foundation.

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

The composition of interfund balances as of August 31, 2016, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
Governmental Funds			
General Fund	\$ 389,256	\$ 217,720	\$ 171,536
Nonmajor Governmental Funds	117,720	261,505	(143,785)
Total Governmental Funds	<u>506,976</u>	<u>479,225</u>	<u>27,751</u>
Fiduciary Funds			
Agency Fund		27,751	(27,751)
Total Fiduciary Funds		<u>27,751</u>	<u>(27,751)</u>
Total	<u>\$ 506,976</u>	<u>\$ 506,976</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, 2015	\$ 928,864
Additions: New entrants and salary increments	100,549
Deductions: Payments to participants	<u>(147,998)</u>
Balance, August 31, 2016	<u>\$ 881,415</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, 2016, the legal debt limit was \$251,679,137 and the legal debt margin was \$133,108,422.

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, 2016.

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, 2016 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	\$ 265,000
Unlimited Tax Schoolhouse Bonds, Series 2008	96,750,000	4.00% to 5.00%	2/15/2037	735,000
Unlimited Tax Refunding Bonds, Series 2009	10,000,000	2.00% to 3.00%	2/15/2018	2,995,000
Unlimited Tax Refunding Bonds, Series 2012	4,190,000	3.00%	2/15/2022	4,190,000
Unlimited Tax Refunding Bonds, Series 2016	88,965,000	2.00% to 5.00%	2/15/2037	88,965,000
				<u>\$ 97,150,000</u>

Debt service requirements to maturity are as follows:

Year Ending August 31,	Principal	Interest	Totals
2017	\$ 2,885,000	\$ 4,104,434	\$ 6,989,434
2018	2,755,000	4,256,850	7,011,850
2019	3,100,000	3,911,900	7,011,900
2020	3,240,000	3,770,800	7,010,800
2021	3,390,000	3,623,000	7,013,000
2022-2026	19,600,000	15,468,600	35,068,600
2027-2031	24,765,000	10,300,725	35,065,725
2032-2036	30,540,000	4,526,400	35,066,400
2037-2038	6,875,000	137,500	7,012,500
	<u>\$ 97,150,000</u>	<u>\$ 50,100,209</u>	<u>\$ 147,250,209</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	<u>\$ 328,796</u>	<u>\$ 100,000</u>	<u>\$ 228,796</u>	<u>\$ 335,000</u>	2018

Note 7 - Long-Term Liabilities (continued)

Advanced Refunding

On March 15, 2016, the District issued \$88,965,000 in Unlimited Tax Refunding Bonds, Series 2016. The amount of refunded bonds totaled \$95,340,000. Premiums totaled \$832,233 and interest rates ranged from 2.00 percent to 5.00 percent. The District paid a total of \$330,112 in issuance costs. The reacquisition price exceeded the carrying amount of the old debt by \$5,295,480. This amount is netted against and amortized over the shorter of the life of the new or old debt. The transaction resulted in an economic gain of \$12,537,364.

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, 2016, \$96,250,000 of previously refunded debt outstanding was considered defeased. Of this amount, \$95,340,000 is related to the Unlimited Tax Refunding Bonds, Series 2016 and has a call date of February 15, 2018.

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, 2016:

	<u>Balance</u> <u>August 31, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2016</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 105,515,000	\$ 88,965,000	\$ (97,330,000)	\$ 97,150,000	\$ 2,885,000
Premiums/discounts	3,014,289	13,124,342	(2,990,385)	13,148,246	
Accreted interest on premium compound interest bonds	224,722	4,074		228,796	
Net pension liability	4,150,735	6,247,363	(803,692)	9,594,406	
Workers' compensation claims	184,724	107,145	(289,189)	2,680	2,680
Accrued compensated absences	928,864	100,549	(147,998)	881,415	119,882
	<u>\$ 114,018,334</u>	<u>\$ 108,548,473</u>	<u>\$ (101,561,264)</u>	<u>\$ 121,005,543</u>	<u>\$ 3,007,562</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:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Property Taxes	\$ 26,342,374	\$ 8,249,841	\$	\$ 34,592,215
Investment Income	53,482	10,245	6,405	70,132
Co-curricular student activities	556,102			556,102
Food Sales			2,409,395	2,409,395
Other	1,246,171		1,665,728	2,911,899
	<u>\$ 28,198,129</u>	<u>\$ 8,260,086</u>	<u>\$ 4,081,528</u>	<u>\$ 40,539,743</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, 2016.

Rental expenditures during the year amounted to \$227,213.

Note 10 - Defined Benefit Retirement Plan

Plan Description

The District participates in a cost-sharing multi-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR> ; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Note 10 - Defined Benefit Retirement Plan (continued)

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member’s age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member’s age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc cost of living adjustments (COLAs) can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	Contribution Rates	
	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Empoyers	6.8%	6.8%

Note 10 - Defined Benefit Retirement Plan (continued)

Benefits Provided (continued)

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). Contributions and pension expense for all contributors were as follows:

	<u>Measurement Year (2015) Contributions Required and Made</u>	<u>Fiscal Year (2016) TRS Contributions</u>
2015 Employer Contributions	\$ 803,692	\$ 874,428
2015 Member Contributions	2,086,493	2,161,254
2015 NECE On-behalf Contributions	1,756,406	1,769,560

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Note 10 - Defined Benefit Retirement Plan (continued)

Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 10 - Defined Benefit Retirement Plan (continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

* *The Expected Contributions to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.*

Note 10 - Defined Benefit Retirement Plan (continued)

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportional share of the net pension liability	\$ 15,032,627	\$ 9,594,406	\$ 5,064,707

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2016, the District reported a liability of \$9,594,406 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District Proportion of the Net Pension Liability	
District Proportionate Share of Net Pension Liability	\$ 9,594,406
State's Proportionate Share that is associated with the District	<u>20,961,599</u>
	<u>\$ 30,556,005</u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.027% which was an increase from its proportion measured as of August 31, 2014 of 0.015%.

Changes since the Prior Actuarial Valuation

The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Note 10 - Defined Benefit Retirement Plan (continued)

Changes since the Prior Actuarial Valuation (continued)

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.
5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience.
7. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
8. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

9. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
10. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
11. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
12. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
13. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.
14. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Note 10 - Defined Benefit Retirement Plan (continued)

Changes since the Prior Actuarial Valuation (continued)

For the fiscal year ended August 31, 2016, the District recognized pension expense of \$1,713,430 as well as revenue of \$2,986,690 representing pension expense incurred by the State on behalf of the District.

At August 31, 2016, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportional share of contributions	\$ 2,620,934	\$ (905)
Changes of assumptions	224,384	(342,286)
Differences between expected and actual experience	53,386	(368,722)
Difference between projected and current investment earnings	1,411,414	
District contributions subsequent to the measurement date	874,428	
Total	<u>\$ 5,184,546</u>	<u>\$ (711,913)</u>

The \$874,428 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2017. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended August 31:	Amount
2017	\$ (653,161)
2018	(653,161)
2019	(653,161)
2020	(970,320)
2021	(376,263)
2022	(292,139)
	<u>\$ (3,598,205)</u>

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-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

Note 11 - Retiree Health Plan (continued)

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas contribution rate was 1.00% of public school payroll for the period September 2013 through August 2016. Active public school employee contribution rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015, and 2014. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% 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 1.00%. The District contributed 100% of the annual required contribution for fiscal year 2016, 2015, and 2014.

Contributions made by the State, District, and staff members for the years ended August 31, 2016, 2015, and 2014 are as follows:

<u>For the Year Ended August 31</u>	<u>State TRS Care Contributions Made on Behalf of the District</u>	<u>District Required Contributions to TRS Care</u>	<u>Staff Members' Contributions to TRS Care</u>	<u>Covered Payroll</u>
2016	\$ 318,690	\$ 189,837	\$ 213,256	\$ 32,808,365
2015	301,987	180,711	202,419	31,141,812
2014	289,428	174,025	194,352	29,900,254

For the current fiscal year and each of the past two years, the District’s 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, 2016, 2015, and 2014, the subsidy payments received by the TRS-Care on-behalf of the district were \$126,000, \$125,545, and \$80,341 respectively. The payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Note 12 - 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.

Note 12 - Risk Management (continued)

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 was solely responsible for all claims costs, both reported and unreported. The Fund provided administrative service to its self-funded members including claims administration and customer service. The District discontinued participation in the self-funded workers' compensation plan August 31, 2015.

While participating in the plan, premiums were paid from reserves in the internal service fund. The reserves were available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums were used to reduce the amount of claims expenditures reported in the general fund.

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

Accordingly, claims were 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 included 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, were another component of the claims liability estimate. An excess coverage insurance policy covered individual claims in excess of \$350,000 and annual losses exceeding \$1,000,000. Settlements did not exceed coverage's for each of the past three fiscal years.

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

Fiscal Year	Beginning of Year Accrual	Change in Current Year Estimates	Claims Payments	End of Year Accrual	Current
2016	\$ 184,724	\$ 107,145	\$ (289,189)	\$ 2,680	\$ 2,680
2015	195,396	140,770	(151,442)	184,724	53,734

Beginning September 1, 2015, the District contracted with TASB Risk Management Fund for a fully funded workers' compensation program. TASB pays 100% of all employees' medical claims and assumes all risk related to them.

Note 13 - 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 16.4 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>\$ 21,949</u>
Expenditures:	
Payroll costs	\$ 19,315
Contract services	1,975
Supplies and materials	439
Other operating costs	<u>220</u>
Total expenditures	<u>\$ 21,949</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 3.6 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.

Revenues:	
Local revenue	<u>\$ 88,519</u>
Expenditures:	
Payroll costs	\$ 62,848
Contract services	17,704
Supplies and materials	6,196
Other operating costs	<u>1,771</u>
Total expenditures	<u>\$ 88,519</u>

Note 13 - Shared Service Arrangements / Joint Ventures (continued)

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 35 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 \$30,519 for the 2016 fiscal year. Expenditures in the same amount were attributable to payroll costs.

Note 14 - 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 15 - 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, 2016.

Note 16 - Other Post-Employment Benefits

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

REQUIRED SUPPLEMENTARY INFORMATION

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit G-1

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
		Revenues			
5700	Local revenues	\$ 27,758,680	\$ 27,780,984	\$ 28,198,129	\$ 417,145
5800	State program revenues	18,256,320	18,256,320	18,927,889	671,569
5900	Federal program revenues			21,616	21,616
5020	Total Revenues	<u>46,015,000</u>	<u>46,037,304</u>	<u>47,147,634</u>	<u>1,110,330</u>
Expenditures					
Current:					
0011	Instruction	26,221,951	26,349,470	26,345,981	3,489
0012	Instruction resources and media services	656,224	747,756	652,678	95,078
0013	Curriculum and instructional staff	339,043	336,637	319,370	17,267
0021	Instructional leadership	969,366	915,825	894,214	21,611
0023	School leadership	2,624,654	2,702,902	2,701,861	1,041
0031	Guidance, counseling and evaluation services	857,259	932,062	920,378	11,684
0032	Social work services	2,500	7,500	1,500	6,000
0033	Health services	536,585	551,543	537,931	13,612
0034	Student transportation	1,766,402	1,647,075	1,478,622	168,453
0036	Extracurricular activities	1,711,292	1,843,374	1,819,418	23,956
0041	General administration	2,156,226	2,267,448	2,144,959	122,489
0051	Facilities maintenance and operations	5,640,976	5,550,848	5,353,290	197,558
0052	Security and monitoring services	240,390	258,830	240,174	18,656
0053	Data processing services	1,150,135	1,131,522	1,102,938	28,584
0061	Community services	263,197	331,597	317,408	14,189
Capital outlay:					
0081	Facilities, acquisition and construction	50,000	888,127	855,537	32,590
Intergovernmental:					
0093	Payments related to shared services arrangements	96,250	106,180	88,519	17,661
0095	Payments to Juvenile Justice Alternative Education Programs	51,800	51,800	21,949	29,851
0099	Other intergovernmental charges	275,750	285,750	261,127	24,623
6030	Total Expenditures	<u>45,610,000</u>	<u>46,906,246</u>	<u>46,057,854</u>	<u>848,392</u>
1100	Excess (deficiency) of revenues over expenditures	<u>405,000</u>	<u>(868,942)</u>	<u>1,089,780</u>	<u>1,958,722</u>
Other Financing Sources (Uses)					
7915	Transfers in		3,233	6,886	3,653
7912	Sale of assets			3,000	3,000
8911	Transfers out		(3,748)	(1,003,748)	(1,000,000)
7080	Total other financing sources and uses		<u>(515)</u>	<u>(993,862)</u>	<u>(993,347)</u>
1200	Net change in fund balances	405,000	(869,457)	95,918	965,375
0100	Fund balances - beginning	<u>12,458,046</u>	<u>12,458,046</u>	<u>12,458,046</u>	
3000	Fund balances - ending	<u>\$ 12,863,046</u>	<u>\$ 11,588,589</u>	<u>\$ 12,553,964</u>	<u>\$ 965,375</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, 2016.

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, 2015. 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.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST TWO MEASUREMENT YEARS

Exhibit G-3

	<u>2015</u>	<u>2014</u>
District's proportionate share of the net pension liability	\$ 9,594,406	\$ 4,150,735
State's proportionate share of the net pension liability associated with the District	20,961,599	17,620,461
Total	<u>\$ 30,556,005</u>	<u>\$ 21,771,196</u>
District's covered-employee payroll (for Measurement Year)	\$ 31,141,812	\$ 29,900,254
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	30.8%	13.9%
Plan fiduciary net position as a percentage of the total pension liability *	78.43%	83.25%
Plan's net pension liability as a percentage of covered-employee payroll *	91.94%	72.89%

The amounts presented for each Plan year which ends the preceding August 31 of the District's fiscal year.
Net pension liability is calculated using an new methodology and will be presented prospectively in accordance with GASB 68.

* Per Teacher Retirement System of Texas' comprehensive annual financial report.

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST THREE FISCAL YEARS

Exhibit G-4

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 874,428	\$ 790,748	\$ 393,963
Contributions in relation to the contractual required contributions	874,428	790,748	393,963
contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 32,808,365	\$ 31,141,812	\$ 29,900,254
Contributions as a percentage of covered employee payroll	2.67%	2.54%	1.32%

The District implemented GASB 68 and 71 during fiscal year 2015.

Effective September 1, 2014, employers who did not contribute Social Security for TRS-eligible employees were required to contribute an additional 1.5% of TRS-eligible compensation which nearly doubled the District's contributions into the Plan. Because the District's proportional share of the plan is determined by its proportional share of contributions, the District recognized a corresponding increase in its share of net pension liability.

Changes of Assumptions

New actuarial assumptions were adopted by the Teacher Retirement System of Texas' Board of Trustees on September 24, 2015 and are effective with the valuation as of August 31, 2015. The major assumptions changes were the adoption of the use of generational mortality for the purpose of predicting future mortality improvement and the reduction in the inflation rate from 3.00% to 2.50%.

Changes of Benefit Terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

OTHER SUPPLEMENTARY INFORMATION

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2016

	211	224	225
Data			
Control	ESEA Title I,	IDEA-B	IDEA-B
Codes	Part A	Formula	Preschool
Assets			
1110	Cash and temporary investments	\$	\$
Receivables:			
1240	Receivables from other governments	11,738	150,584
1260	Due from other funds		914
1290	Other receivables		
1410	Prepaid items		
1000	Total Assets	<u>\$ 11,738</u>	<u>\$ 914</u>
Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$ 356
2160	Accrued wages payable		
2170	Due to other funds	11,738	150,228
2300	Unearned revenues		914
2000	Total Liabilities	<u>11,738</u>	<u>914</u>
Fund Balances:			
Nonspendable:			
3430	Prepaid items		
Restricted:			
3450	Grant restrictions		
3470	Capital acquisitions		
Committed:			
3545	Other purposes		
Assigned:			
3570	Construction repairs, renovations		
3600	Unassigned		
3000	Total Fund Balances	<u></u>	<u></u>
4000	Total Liabilities and Fund Balances	<u>\$ 11,738</u>	<u>\$ 914</u>

Exhibit H-1
Page 1 of 2

240	244	255	263
<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III</u>
\$ 598,512	\$	\$	\$
		6,145	3,985
117,720			
2,046			
<u>718,278</u>	<u>\$</u>	<u>22,654</u>	<u>3,985</u>
		16,509	
\$ 73,321	\$	\$ 80	\$
7,111		22,574	3,985
<u>80,432</u>	<u>\$</u>	<u>22,654</u>	<u>3,985</u>
		16,509	
637,846			
		(16,509)	
<u>637,846</u>	<u>\$</u>	<u>22,654</u>	<u>3,985</u>
<u>\$ 718,278</u>	<u>\$</u>	<u>\$ 22,654</u>	<u>\$ 3,985</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2016

	289	397	410
Data Control Codes	Miscellaneous Federal Programs	Advanced Placement Incentive	Instructional Materials Allotment
Assets			
1110	Cash and temporary investments	\$ 423	\$
Receivables:			
1240	Receivables from other governments		173,891
1260	Due from other funds		
1290	Other receivables		
1410	Prepaid items		
1000	Total Assets	<u>\$ 423</u>	<u>\$ 173,891</u>
Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$ 180	\$ 99,617
2160	Accrued wages payable		
2170	Due to other funds		71,207
2300	Unearned revenues		3,067
2000	Total Liabilities	<u>180</u>	<u>173,891</u>
Fund Balances:			
Nonspendable:			
3430	Prepaid items		
Restricted:			
3450	Grant restrictions	243	
3470	Capital acquisitions		
Committed:			
3545	Other purposes		
Assigned:			
3570	Capital expenditures for equipment		
3600	Unassigned		
3600	Total Fund Balances	<u>243</u>	
4000	Total Liabilities and Fund Balances	<u>\$ 423</u>	<u>\$ 173,891</u>

429	461	480	699	
State Funded Special Revenue Fund	Campus Activity	Education Foundation Grants	Capital Projects Fund	Total Nonmajor Governmental Funds
\$	\$ 912,953	\$ 18,605	\$ 1,161,382	\$ 2,691,875
7,760				355,017
				117,720
				2,046
	21,475			37,984
<u>\$ 7,760</u>	<u>\$ 934,428</u>	<u>\$ 18,605</u>	<u>\$ 1,161,382</u>	<u>\$ 3,204,642</u>
\$ 6,901	\$ 70,810	\$ 5,108	\$ 833	\$ 257,206
				7,111
859				261,505
	15,614	51		18,732
<u>7,760</u>	<u>86,424</u>	<u>5,159</u>	<u>833</u>	<u>544,554</u>
	21,475			37,984
		13,446		651,535
			160,549	160,549
	826,529			826,529
			1,000,000	1,000,000
				(16,509)
	<u>848,004</u>	<u>13,446</u>	<u>1,160,549</u>	<u>2,660,088</u>
<u>\$ 7,760</u>	<u>\$ 934,428</u>	<u>\$ 18,605</u>	<u>\$ 1,161,382</u>	<u>\$ 3,204,642</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, 2016

		211	224	225
Data				
Control		ESEA Title I,	IDEA-B	IDEA-B
Codes		Part A	Formula	Preschool
Revenues				
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	125,967	850,552	15,704
5020	Total Revenues	<u>125,967</u>	<u>850,552</u>	<u>15,704</u>
Expenditures				
Current:				
0011	Instruction	125,967	850,552	15,704
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development			
0021	Instructional leadership			
0023	School leadership			
0031	Guidance, counseling and evaluation services			
0032	Social work services			
0033	Health services			
0034	Student transportation			
0035	Food service			
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0052	Security and monitoring services			
0081	Facilities acquisition and construction			
6030	Total Expenditures	<u>125,967</u>	<u>850,552</u>	<u>15,704</u>
1100	Excess (deficiency) of revenues over expenditures			
Other Financing Sources (Uses)				
7915	Transfers in			
8911	Transfers out			
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>	<u>\$</u>

Exhibit H-2

Page 1 of 2

240	244	255	263
<u>Child Nutrition</u>	<u>Vocational Ed - Basic</u>	<u>Title II, Part A</u>	<u>Title III</u>
\$ 2,409,978	\$	\$	\$
4,106			
201,936	33,000	78,035	23,488
<u>2,616,020</u>	<u>33,000</u>	<u>78,035</u>	<u>23,488</u>
	33,000	10,538	21,144
		264	
		58,095	2,299
		8,622	
		516	45
2,486,918			
<u>2,486,918</u>	<u>33,000</u>	<u>78,035</u>	<u>23,488</u>
<u>129,102</u>			
1,209			
<u>1,209</u>			
130,311			
<u>507,535</u>			
<u>\$ 637,846</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, 2016

Data Control Codes		289	397	410
		Miscellaneous Federal Programs	Advanced Placement Incentive	Instructional Materials Allotment
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues	150,000	900	430,569
5900	Federal program revenues	63,203		
5020	Total Revenues	<u>213,203</u>	<u>900</u>	<u>430,569</u>
	Expenditures			
	Current:			
0011	Instruction	1,113		388,246
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development		4,074	41,623
0021	Instructional leadership			700
0023	School leadership			
0031	Guidance, counseling and evaluation services			
0032	Social work services			
0033	Health services			
0034	Student transportation	212,090		
0035	Food service			
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0052	Security and monitoring services			
0081	Facilities acquisition and construction			
6030	Total Expenditures	<u>213,203</u>	<u>4,074</u>	<u>430,569</u>
1100	Excess (deficiency) of revenues over expenditures		<u>(3,174)</u>	
	Other Financing Sources (Uses)			
7915	Transfers in			
8911	Transfers out			
7080	Total other financing sources and uses			
1200	Net change in fund balances		(3,174)	
0100	Fund balance - September 1 (beginning)		<u>3,417</u>	
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$ 243</u>	<u>\$</u>

429 State Funded Special Revenue Fund	461 Campus Activity	480 Education Foundation Grants	699 Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 7,760	\$ 1,535,683	\$ 135,420	\$ 447	\$ 4,081,528
<u>7,760</u>	<u>1,535,683</u>	<u>135,420</u>	<u>447</u>	<u>593,335</u>
				1,391,885
				<u>6,066,748</u>
7,760	912,461	134,572		2,501,057
	73,994			74,258
	13,815			119,906
	2,126			11,448
	52,314			52,875
	19,881			19,881
	1,500			1,500
	107			107
			242,317	454,407
				2,486,918
	474,726			474,726
	878		1,351	2,229
	15,153			15,153
	804			804
	11,646		284,550	296,196
<u>7,760</u>	<u>1,579,405</u>	<u>134,572</u>	<u>528,218</u>	<u>6,511,465</u>
	<u>(43,722)</u>	<u>848</u>	<u>(527,771)</u>	<u>(444,717)</u>
	29,917		1,000,000	1,031,126
		(3,138)		(3,138)
	<u>29,917</u>	<u>(3,138)</u>	<u>1,000,000</u>	<u>1,027,988</u>
	(13,805)	(2,290)	472,229	583,271
	<u>861,809</u>	<u>15,736</u>	<u>688,320</u>	<u>2,076,817</u>
<u>\$</u>	<u>\$ 848,004</u>	<u>\$ 13,446</u>	<u>\$ 1,160,549</u>	<u>\$ 2,660,088</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit H-3

COMBINING STATEMENT OF NET POSITION

NONMAJOR ENTERPRISE FUNDS

August 31, 2016

		<u>Enterprise Funds</u>		
<u>Data Control Codes</u>		<u>Fuel Fund</u>	<u>Vending Fund</u>	<u>Total</u>
Assets				
1110	Cash and cash equivalents	\$ 19,277	\$ 3,317	\$ 22,594
1290	Other receivables	1,205		1,205
1000	Total Assets	<u>\$ 20,482</u>	<u>\$ 3,317</u>	<u>\$ 23,799</u>
Liabilities and Net Position				
Liabilities				
2110	Accounts payable		1,309	1,309
2000	Total Liabilities		<u>1,309</u>	<u>1,309</u>
Net Position				
3900	Unrestricted net position	\$ 20,482	\$ 2,008	\$ 22,490
3000	Total Net Position	<u>\$ 20,482</u>	<u>\$ 2,008</u>	<u>\$ 22,490</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
For the Year Ended August 31, 2016

Exhibit H-4

Data Control Codes	Fuel Fund	Vending Fund	Total
Revenues			
5700 Charges for Services	\$ 6,450	\$ 101,254	\$ 107,704
5020 Total Operating Revenues	<u>6,450</u>	<u>101,254</u>	<u>107,704</u>
Operating Expenses			
6200 Purchased and contracted services Claims expense and other		63,224	63,224
6400 operating expenses		<u>6,904</u>	<u>6,904</u>
6030 Total Operating Expenses		<u>70,128</u>	<u>70,128</u>
Income (Loss) before Transfers	6,450	31,126	37,576
Transfers			
8911 Transfers out		<u>(31,126)</u>	<u>(31,126)</u>
7080 Total Transfers		<u>(31,126)</u>	<u>(31,126)</u>
1200 Change in Net Position	6,450		6,450
Net Position			
0100 Total net position - beginning	<u>14,032</u>	<u>2,008</u>	<u>16,040</u>
3300 Total net position - ending	<u>\$ 20,482</u>	<u>\$ 2,008</u>	<u>\$ 22,490</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit H-5

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

Year Ended August 31, 2016

	<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	\$ 6,235	\$ 100,502	\$ 106,737
Cash payments to suppliers for goods and services		(70,128)	(70,128)
Net Cash Provided by (Used for) Operating Activities	<u>6,235</u>	<u>30,374</u>	<u>36,609</u>
Cash Flows from Non-Capital Financing Activities:			
Advances to other funds		(31,126)	(31,126)
Net Cash Provided by (Used for) Non-Capital Financing Activities		<u>(31,126)</u>	<u>(31,126)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,235	(752)	5,483
Cash and Cash Equivalents at Beginning of Year	<u>13,042</u>	<u>4,069</u>	<u>17,111</u>
Cash and Cash Equivalents at End of Year	<u>\$ 19,277</u>	<u>\$ 3,317</u>	<u>\$ 22,594</u>
Reconciliation to Balance Sheet			
Cash and Cash Equivalents Per Cash Flow	<u>\$ 19,277</u>	<u>\$ 3,317</u>	<u>\$ 22,594</u>
Cash and Cash Equivalents per Balance Sheet	<u>\$ 19,277</u>	<u>\$ 3,317</u>	<u>\$ 22,594</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 6,450	\$ 31,126	\$ 37,576
Change in Assets and Liabilities			
Decrease (increase) in Receivables	(215)		(215)
Increase (decrease) in Accounts Payable		(752)	(752)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 6,235</u>	<u>\$ 30,374</u>	<u>\$ 36,609</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET POSITION
August 31, 2016

Exhibit H-6

		891	892	893	
Data Control Codes		Cline Scholarship Fund	Winston Scholarship Fund	Willard Scholarship Fund	Total Private Purpose Trust Funds
Assets					
1110	Cash and cash equivalents	\$ 1,732	\$ 6,296	\$ 6,193	\$ 14,221
	Total Assets	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 6,193</u>	<u>\$ 14,221</u>
Net Position					
3800	Restricted	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 6,193</u>	<u>\$ 14,221</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2016

Exhibit H-7

	891	892	893	
	<u>Cline Scholarship</u>	<u>Winston Scholarship</u>	<u>Willard Scholarship</u>	<u>Total</u>
Additions				
Gifts and contributions	\$	\$	\$ 6,193	\$ 6,193
Total additions			<u>6,193</u>	<u>6,193</u>
Deductions				
Non-operating expenses				
Total deductions				
Change in net position			6,193	6,193
Net position beginning of year	<u>1,732</u>	<u>6,296</u>		<u>8,028</u>
Net position end of year	<u>\$ 1,732</u>	<u>\$ 6,296</u>	<u>\$ 6,193</u>	<u>\$ 14,221</u>

REQUIRED TEA SCHEDULES

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2016

Last Ten Fiscal Years	1		2	3	10
	Tax Rates		Net Assessed/Appraised Value For School Tax Purposes	Beginning Balance 8/31/15	
	Maintenance	Debt Service			
2007 and prior	Various	Various	Various	\$ 22,370	
2008	1.040000	0.137000	1,956,333,264	7,005	
2009	1.040000	0.327000	1,974,337,088	11,136	
2010	1.040000	0.327000	2,024,853,767	13,816	
2011	1.040000	0.327000	2,052,922,970	19,315	
2012	1.040000	0.327000	2,096,108,705	26,522	
2013	1.040000	0.327000	2,154,126,189	38,922	
2014	1.040000	0.327000	2,224,978,200	67,109	
2015	1.040000	0.327000	2,331,605,048	231,295	
2016	1.040000	0.327000	2,516,791,368		
1000 Totals				\$ 437,490	

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 8/31/16
\$	\$ 5,921	\$ 563	\$	\$ 15,886
	1,415	186		5,404
	1,368	430		9,338
	2,217	697	199	11,101
	2,214	696		16,405
	4,860	1,528		20,134
	5,209	1,638		32,075
	12,441	3,912	187	50,943
	126,070	39,639	2,439	68,025
<u>34,404,538</u>	<u>25,992,713</u>	<u>8,172,709</u>		<u>239,116</u>
<u>\$ 34,404,538</u>	<u>\$ 26,154,428</u>	<u>\$ 8,221,998</u>	<u>\$ 2,825</u>	468,427
	Penalty and interest receivable on taxes			<u>182,180</u>
	Total taxes receivable per Exhibit C-1			<u>\$ 650,607</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit J-4

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION PROGRAM FUND

For the Year Ended August 31, 2016

Data Control Codes		Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
		Original	Final		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 2,372,158	\$ 2,372,158	\$ 2,409,978	\$ 37,820
5800	State Program Revenues	4,500	4,500	4,106	(394)
5900	Federal Program Revenues	219,342	219,342	201,936	(17,406)
5020	Total Revenues	<u>2,596,000</u>	<u>2,596,000</u>	<u>2,616,020</u>	<u>20,020</u>
Expenditures					
Current:					
0035	Food Services	2,521,428	2,611,428	2,486,918	124,510
6030	Total Expenditures	<u>2,521,428</u>	<u>2,611,428</u>	<u>2,486,918</u>	<u>124,510</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>74,572</u>	<u>(15,428)</u>	<u>129,102</u>	<u>144,530</u>
Other Financing Sources (Uses)					
7915	Transfers in			1,209	1,209
	Total Other Financing Sources (Uses)			<u>1,209</u>	<u>1,209</u>
1200	Increase (Decrease) in Fund Balance	74,572	(15,428)	130,311	145,739
0100	Fund Balance - September 1 (Beginning)	<u>507,535</u>	<u>507,535</u>	<u>507,535</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 582,107</u>	<u>\$ 492,107</u>	<u>\$ 637,846</u>	<u>\$ 145,739</u>

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2016

Data Control Codes	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)	
	Original	Final			
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 8,273,967	\$ 8,273,967	\$ 8,260,086	\$ (13,881)
5800	State Program Revenues			120,044	120,044
5020	Total Revenues	<u>8,273,967</u>	<u>8,273,967</u>	<u>8,380,130</u>	<u>106,163</u>
Expenditures					
Debt Service:					
0071	Principal	1,990,000	1,990,000	1,990,000	
0072	Interest and Fiscal Agent Fees	6,230,000	7,065,000	7,045,301	19,699
6030	Total Expenditures	<u>8,220,000</u>	<u>9,055,000</u>	<u>9,035,301</u>	<u>19,699</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>53,967</u>	<u>(781,033)</u>	<u>(655,171)</u>	<u>125,862</u>
Other Financing Sources (Uses)					
7901	Refunding bonds issued		88,965,000	88,965,000	
7916	Premium on issuance of bonds		13,124,342	13,124,342	
8949	Payment to Bond Refunding Escrow Agent		(101,253,209)	(101,253,209)	
	Total Other Financing Sources (Uses)		<u>836,133</u>	<u>836,133</u>	
1200	Increase (Decrease) in Fund Balance	53,967	55,100	180,962	125,862
0100	Fund Balance - September 1 (Beginning)	<u>1,372,451</u>	<u>1,372,451</u>	<u>1,372,451</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 1,426,418</u>	<u>\$ 1,427,551</u>	<u>\$ 1,553,413</u>	<u>\$ 125,862</u>

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FEDERAL AWARDS SECTION

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**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, 2016, and the related notes to the financial statements, which collectively comprise District’s basic financial statements, and have issued our report thereon dated December 5, 2016.

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 cursive script that reads "Whitley Penn LLP".

Houston, Texas
December 5, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE *UNIFORM GUIDANCE***

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 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, 2016. 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 federal statutes, regulations and the terms and conditions of its federal awards 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
December 5, 2016

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2016

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 2CFR 200.516(a)?	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
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2016

II. Financial Statement Findings

None reported

III. Federal Awards Findings and Questioned Costs

None reported

IV. Summary Schedule of Prior Audit Findings

None reported

FRIENDSWOOD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2016

Exhibit K-1

(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:				
16610101084911	<i>ESEA Title I Part A</i>	211	84.010A	\$ 125,967
<u>Special Education Cluster:</u>				
166600010849116600	<i>IDEA - Part B, Formula</i>	224	84.027A	850,552
166610010849116610	<i>IDEA - Part B, Preschool</i>	225	84.173A	15,704
Total Special Education Cluster				<u>866,256</u>
16420006084911	<i>Career and Technology Education - Carl D. Perkins</i>	244	84.048A	33,000
16694501084911	<i>ESEA Title II, Part A, Teacher/Principal Training</i>	255	84.367A	78,035
16671001084911	<i>Title III - Part A, English Language Acquisitions</i>	263	84.365A	16,002
16671003084911	<i>Title III - Part A, Immigrant</i>	263	84.365A	7,486
695515	<i>Summer School LEP</i>	289	84.369A	1,113
Total U.S. Department of Education				<u>1,127,859</u>
U.S. Department of Agriculture				
<u>Child Nutrition Cluster:</u>				
Passed Through the Texas Department of				
Non Cash Assistance (Commodities):				
410	<i>National School Lunch Program**</i>	240	10.555	49,498
Passed Through Texas Education Agency:				
Cash Assistance:				
71301601	<i>National School Lunch Program **</i>	240	10.555	136,886
71401601	<i>School Breakfast Program **</i>	240	10.553	15,552
Total Child Nutrition Cluster				<u>201,936</u>
Total U.S. Department of Agriculture				<u>201,936</u>
U.S. Department of Transportation				
Passed Through Houston-Galveston Area Council:				
0912-00-475	<i>Congestion Mitigation/Air Quality Improvement</i>	289	20.205	62,090
Total U.S. Department of Transportation				<u>62,090</u>
Total Expenditures of Federal Awards				<u>\$ 1,391,885</u>

Note 2 – Summary of Significant Accounting Policies

The District accounts for all awards under federal programs in the General and 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.

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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. All federal grants are subject to review by the grantor agencies. Any expenditures identified by the grantor agencies as disallowed could require reimbursement to the grantor agency from the District's general fund.

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 June 30, 2016. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. 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	\$ 1,391,885
Federal revenue accounted for in General Fund	
Propane credit	<u>21,616</u>
Total Federal Revenue - Exhibit C-3	<u><u>\$ 1,413,501</u></u>

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Schedule L-1 – Required Responses to Selected School FIRST Indicators

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ 228,796
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ 0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 9,594,406
SF13	Pension Expense (6147) at fiscal year-end.	\$ 1,713,430