

**BRAZOSPORT
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2018**

**KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566**

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

*Annual Financial Report
For the Year Ended August 31, 2018*

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Brazosport Independent School District
Name of School District


Brazoria
County

020-905
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2018, at a meeting of the board of trustees of such school district on the 14th day of January 2019.



Jerry Adkins
Signature of Board Secretary



Mason Howard
Signature of Board President

If the Board of Trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are) (attach list if necessary):

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FINANCIAL SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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Lake Jackson, Texas 77566
979-297-4075

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2801 N. Velasco Suite C
Angleton, Texas 77515
979-849-8297

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201 W. Webb
El Campo, Texas 77437
979-543-6836

Independent Auditor's Report

To the Board of Trustees
Brazosport Independent School District
Freeport, Texas 77542

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brazosport Independent School District (the "District"), as of and for the year ended August 31, 2018, 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Brazosport Independent School District, as of August 31, 2018, 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.

Emphasis of Matter

As described in Note 2 to the financial statements, in the year ended August 31, 2018, the District adopted new accounting guidance, GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 26 and budgetary comparison information on page 88, required pension schedules on pages 89 through 90 and required OPEB schedules on pages 91 through 92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and the required Texas Education Agency schedules, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the required Texas Education Agency schedules 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 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

Kennemer, Masters & Hunford, LLC

Lake Jackson, Texas
December 20, 2018

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2018

As management of the Brazosport Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2018. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent period by \$ 28,700,012 (*net position*). Of this amount, unrestricted net position is a deficit of \$ 43,051,126.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 127,825,012. Approximately 32 percent of this total amount, \$ 40,356,217, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 40,356,217, or 34 percent of the total general fund expenditures.
- The District reported net pension liability of \$ 25,652,918 and a net OPEB liability of \$ 47,599,482, at August 31, 2018, with the implementation of GASB Statements 68, 71, and 75. With the addition of these non-current liabilities on an accrual basis, the District reported a deficit unrestricted net position in the amount of \$ 43,051,126.

Overview of the Financial Statements

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

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 between these 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.

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* for which it is financially accountable. The government-wide financial statements can be found on pages 28 through 31 of this report.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2018

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 requirements. The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

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, government 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 government'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 government's near-term financing decisions. Both the government 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 twenty-eight (28) governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other twenty-five (25) 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 this report. The District adopts an annual appropriated budget for its general fund, food service special revenue fund, and debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 32 through 36 of this report.
- **Proprietary funds.** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded dental and workers' compensation insurance programs. The basic proprietary fund financial statements can be found on pages 37 through 39 of this report.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2018

- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. 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. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position that can be found on pages 40 through 41. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44 through 86 of this report.

Other 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. Required supplementary information can be found on pages 88 through 92 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 94 through 101 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 28,700,012 as of August 31, 2018. Net position of the District's governmental activities increased by \$ 43,597,809, from a deficit of \$ 14,897,797 to a surplus of \$ 28,700,012.

The District's Net Position

	<u>2018</u>	<u>Restated 2017</u>
Current and other assets	\$ 145,643,949	\$ 116,525,819
Capital assets	<u>211,922,568</u>	<u>190,781,908</u>
Total assets	<u>357,566,517</u>	<u>307,307,727</u>
Deferred outflows of resources	<u>15,130,444</u>	<u>15,932,912</u>
Total deferred outflows of resources	<u>15,130,444</u>	<u>15,932,912</u>
Long-term liabilities outstanding	301,149,658	316,150,948
Other liabilities	<u>15,067,561</u>	<u>17,246,969</u>
Total liabilities	<u>316,217,219</u>	<u>333,397,917</u>
Deferred inflows of resources	<u>27,779,730</u>	<u>4,740,519</u>
Total deferred inflows of resources	<u>27,779,730</u>	<u>4,740,519</u>
Net Position:		
Net investment in capital assets	52,891,584	35,779,741
Restricted	18,859,554	24,081,089
Unrestricted	<u>(43,051,126)</u>	<u>(74,758,627)</u>
Total net position	<u>\$ 28,700,012</u>	<u>\$ (14,897,797)</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2018

Investment in capital assets (e.g., land and land improvements, buildings and improvements, furniture, equipment and vehicles, and construction in progress) less any related debt used to acquire those assets that is still outstanding is \$ 52,891,584. 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. An additional portion of the District's net position, \$ 18,859,554 represents resources that are subject to external restrictions on how they may be used. The remaining balance is a deficit of \$ 43,051,126, which represents unrestricted net position. The deficit is not an indication that the District does not have significant resources available to meet financial obligations next year, but rather the result of having long-term commitments, specifically the net pension liability and net OPEB liability that are less than currently available resources.

Governmental activities. The District's total net position increased \$ 43,597,809. The total cost of all *governmental activities* this year was \$ 135,705,988. The amount that our taxpayers paid for these activities through property taxes was \$ 142,649,865 or 105 percent.

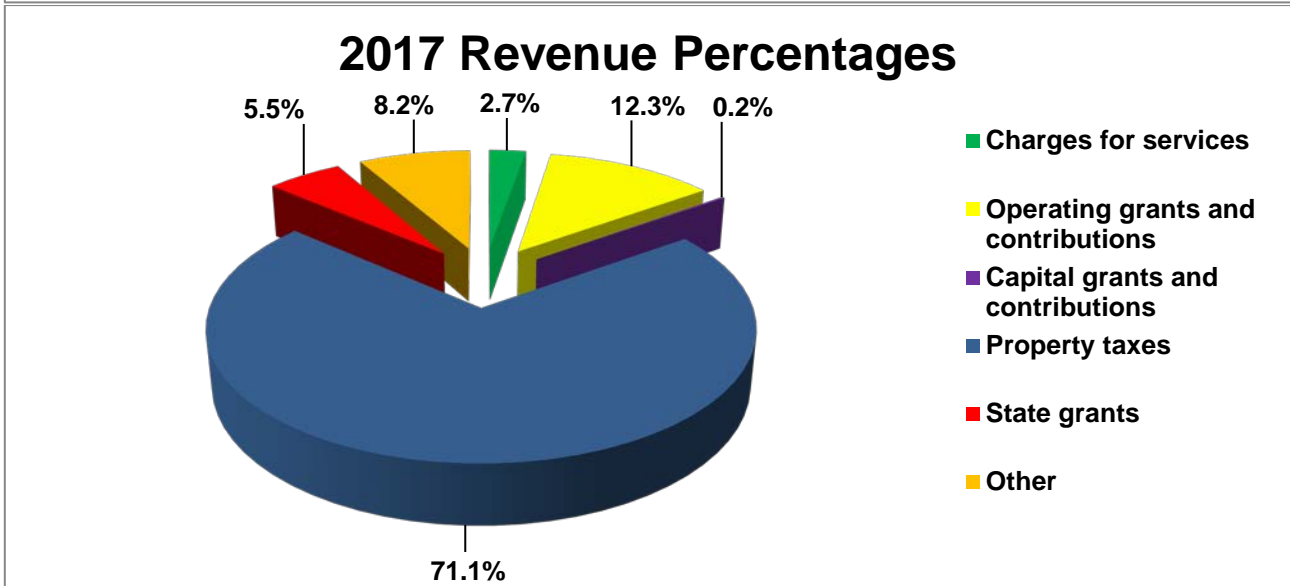
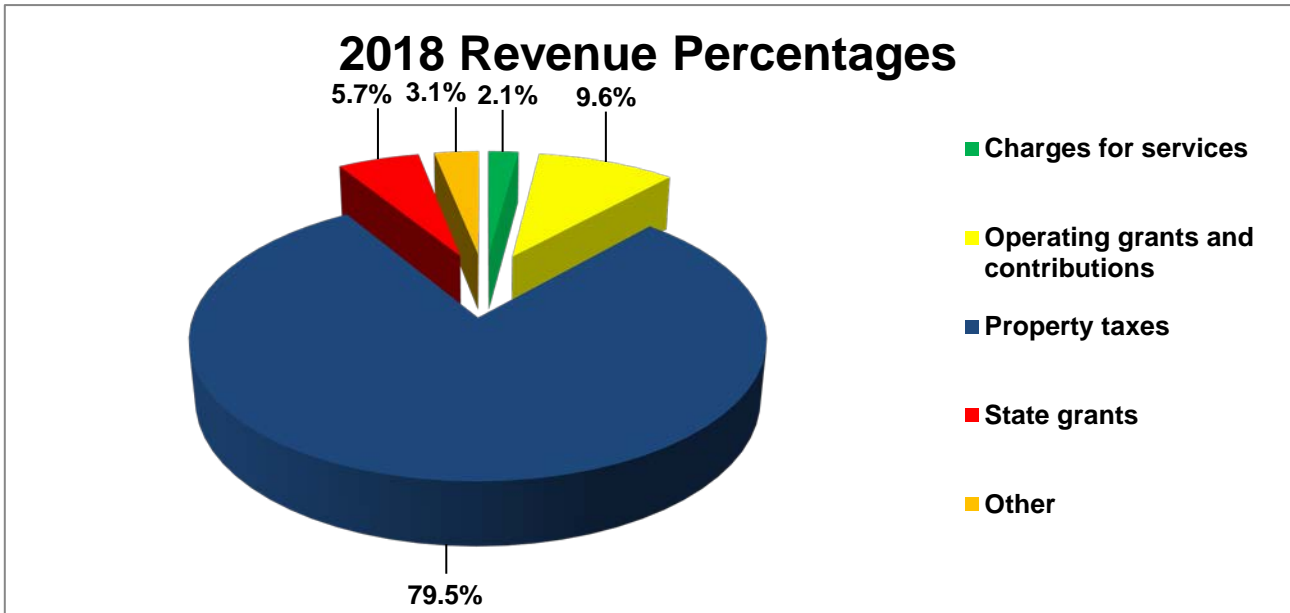
Changes in the District's Net Position

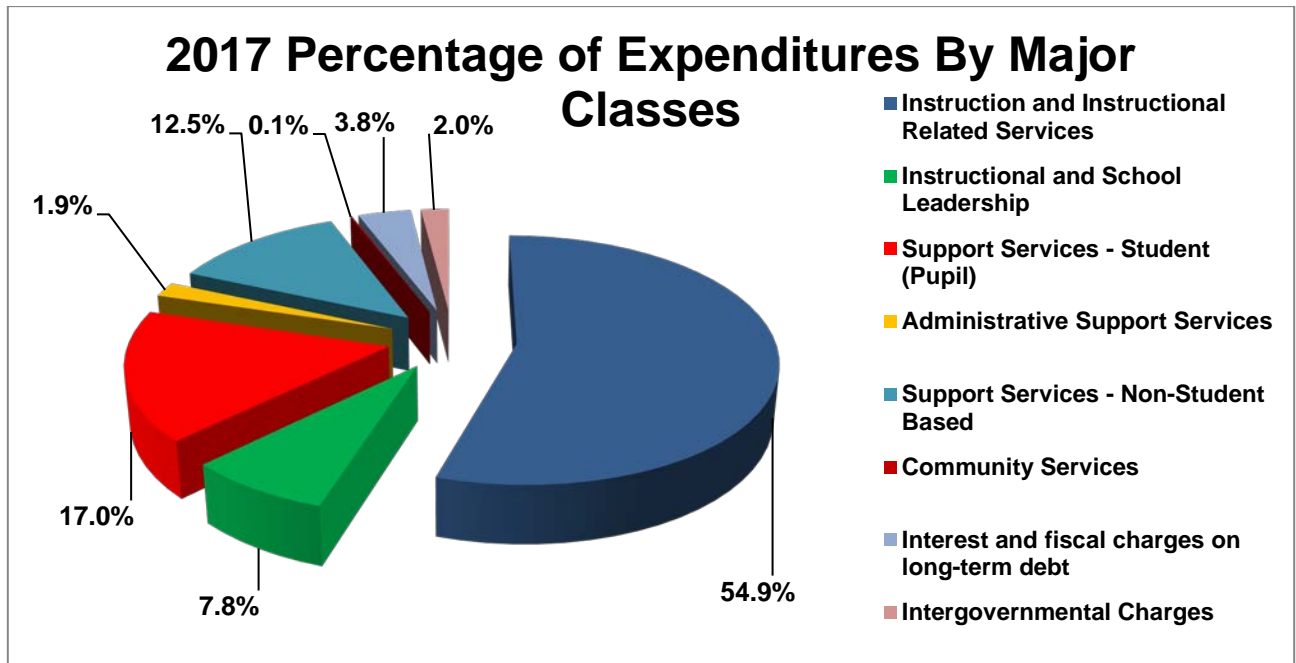
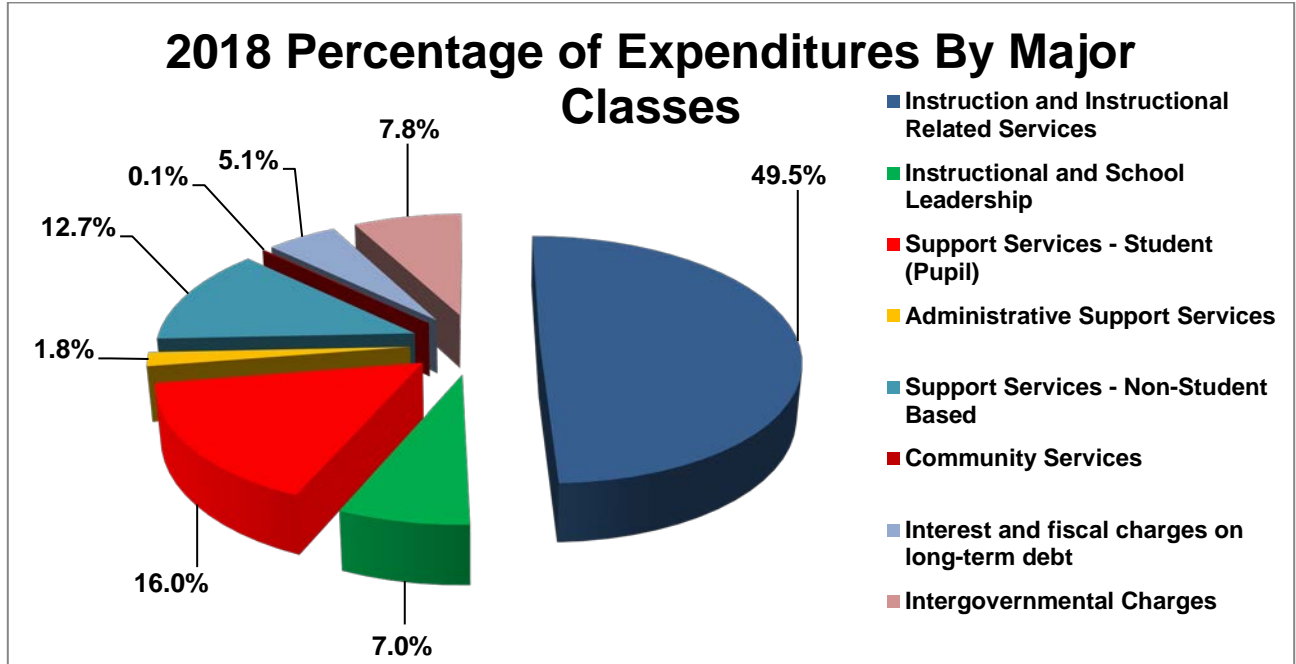
	<u>2018</u>	<u>2017</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 3,678,955	\$ 4,018,078
Operating grants & contributions	17,316,647	18,506,948
Capital grants & contributions		271,903
General Revenues:		
Property taxes	142,649,865	106,471,785
State grants	10,153,140	8,301,553
Other	<u>5,505,190</u>	<u>12,316,128</u>
Total revenues	<u>179,303,797</u>	<u>149,886,395</u>
Expenses:		
Instruction	62,161,446	72,776,029
Instructional resources & media services	1,748,350	2,049,159
Curriculum & staff development	3,440,452	3,603,731
Instructional leadership	2,581,423	2,976,680
School leadership	6,963,915	8,107,797
Guidance, counseling & evaluation services	4,418,140	5,194,538
Social work services	598,287	569,228
Health services	1,161,987	1,407,945
Student transportation	2,972,219	3,447,111
Food service	6,423,444	7,141,640
Extracurricular activities	6,095,046	6,463,817
General administration	2,390,571	2,738,637
Plant maintenance and operations	12,274,685	13,200,449
Security and monitoring services	1,110,436	996,853
Data processing services	3,809,091	3,625,960
Community services	28,711	63,987
Interest and fiscal charges on long-term debt	6,948,000	5,491,031

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
 AUGUST 31, 2018

	<u>2018</u>	<u>2017</u>
Contracted instructional services between public schools	\$ 9,504,285	\$ 2,006,986
Payments related to shared services arrangements	110,700	147,600
Payments to juvenile justice alternative education	30,400	26,500
Other governmental	<u>934,400</u>	<u>762,230</u>
Total expenses	<u>135,705,988</u>	<u>142,797,908</u>
Increase in net position	43,597,809	7,088,487
Beginning net position (restated)	<u>(14,897,797)</u>	<u>61,479,120</u>
Ending net position	<u>\$ 28,700,012</u>	<u>\$ 68,567,607</u>





BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2018

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

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 the District's net resources available for spending at the end of a fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 127,825,012, an increase of \$ 30,966,824. Approximately 32 percent of this total amount, \$ 40,356,217, constitutes *unassigned fund balance*. The remainder of fund balance is *non-spendable, restricted, committed* or *assigned* to indicate that it is not available for new spending because it has already been classified 1) for inventory \$ 404,897, 2) for prepaid items \$ 1,146,631, 3) for federal and state grant restrictions \$ 448,426, 4) for capital acquisitions and contractual obligations \$ 56,242,294, 5) to pay debt service \$ 16,788,690, 6) other restricted \$ 1,687,857, 7) claims and judgments \$ 250,000, 8) capital expenditures for equipment \$ 500,000, and 9) other assigned \$ 10,000,000.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 40,356,217, while the total fund balance was \$ 56,135,698. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 34 percent of the total general fund expenditures, while total fund balance represents 47 percent of that same amount.

The fund balance of the District's general fund increased \$ 17,313,280 during the current fiscal year. Key factors related to this change are as follows:

- Adopted budget with a projected \$ 3.7 million surplus
- Stronger than anticipated tax collections
- State revenues were stronger than budgeted state revenues due to an increase in WADA
- The increase in WADA also resulted in a reduced recapture payment
- The reserve for debt service is budgeted as an expenditure
- Other functional expenditures were less than amounts originally budgeted due to built in contingencies
- Reduced payroll costs due to budgeting at midpoint along with unfilled vacancies

The debt service fund has a total fund balance of \$ 13,183,690, all of which is restricted for the payment of debt service. The net decrease in fund balance during the period in the debt service fund was \$ 5,798,354. Following are factors contributing to this change:

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2018

- The District currently has one QZAB bond outstanding, which requires annual payments totaling \$ 401,939 to be made into a sinking fund. Funding necessary to make the payments is received from property tax collections. Tax collections are recorded as revenues, which increase fund balance, however, payments into the sinking fund are not considered expenditures until the bonds mature.

The capital projects fund has a total fund balance of \$ 56,242,294, all of which is restricted for the acquisition of capital contractual obligations. The net increase in fund balance during the period in the capital projects fund was \$ 19,245,390. Following are factors contributing to this change:

- Planned expenditures associated with the 2012 and 2014 Bond programs.

Proprietary funds. As mentioned earlier, the District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at August 31, 2018 amounted to \$ 2,354,527. The total increase in net position was \$ 38,196.

General Fund Budgetary Highlights

The District made the following amendments to budgeted revenue.

- \$ 1,300,000 increase to reflect stronger than anticipated tax collections

Following is a summary of amendments made to appropriations:

- \$ 2,860,000 increase for the accrued cost of recapture for August 2018
- \$ 120,000 increase for various maintenance related projects
- \$ 260,000 increase for technology related projects
- \$ 350,000 increase to purchase copiers that were previously leased
- \$ 265,000 increase for additional police officers and the implementation of additional safety measures
- \$ 150,000 increase for social and emotional support
- \$ 69,420 increase for prior year carryover of purchase orders

This positive variance in expenditures is the result of lower than expected payroll and related costs, overestimates of TRS On-Behalf Payments and lower than anticipated fuel, utilities, insurance costs.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
 AUGUST 31, 2018

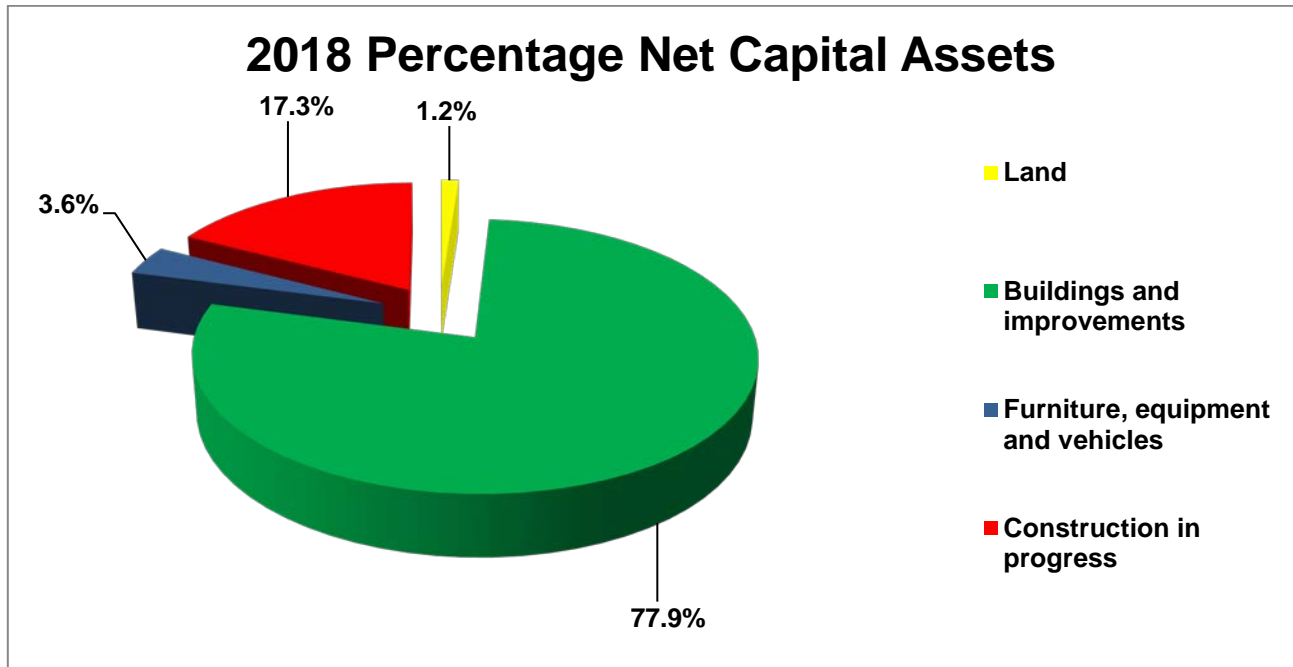
Capital Asset and Debt Administration

Capital assets. The District's investments in capital assets for its governmental activities as of August 31, 2018 amounts to \$ 211,922,568 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and building improvements, furniture, equipment and vehicles, and construction in progress.

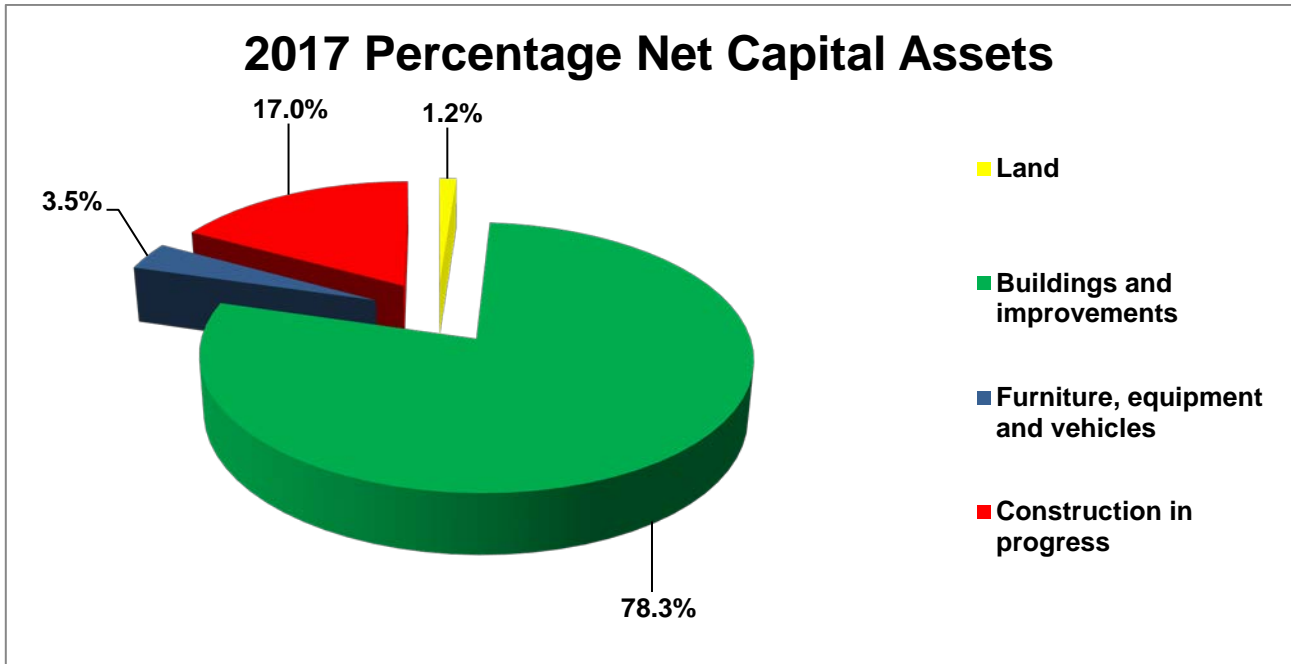
**District's Capital Assets
 (net of depreciation)**

	<u>2018</u>	<u>2017</u>
Land	\$ 2,260,973	\$ 2,260,973
Buildings and improvements	171,482,076	149,301,164
Furniture, equipment and vehicles	6,989,826	6,746,777
Construction in progress	<u>31,189,693</u>	<u>32,472,994</u>
 Total at historical cost	 <u>\$ 211,922,568</u>	 <u>\$ 190,781,908</u>

Additional information on the District's capital assets can be found in Note 6 on pages 64 through 65 of this report.



BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
 AUGUST 31, 2018

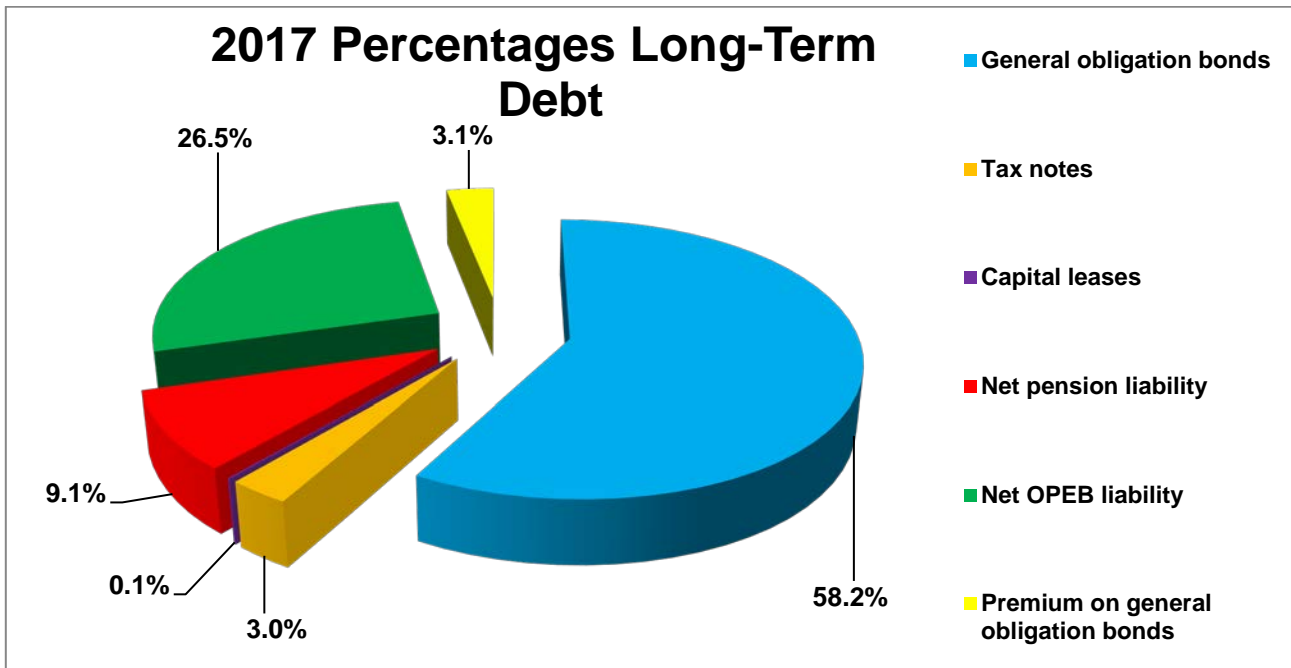
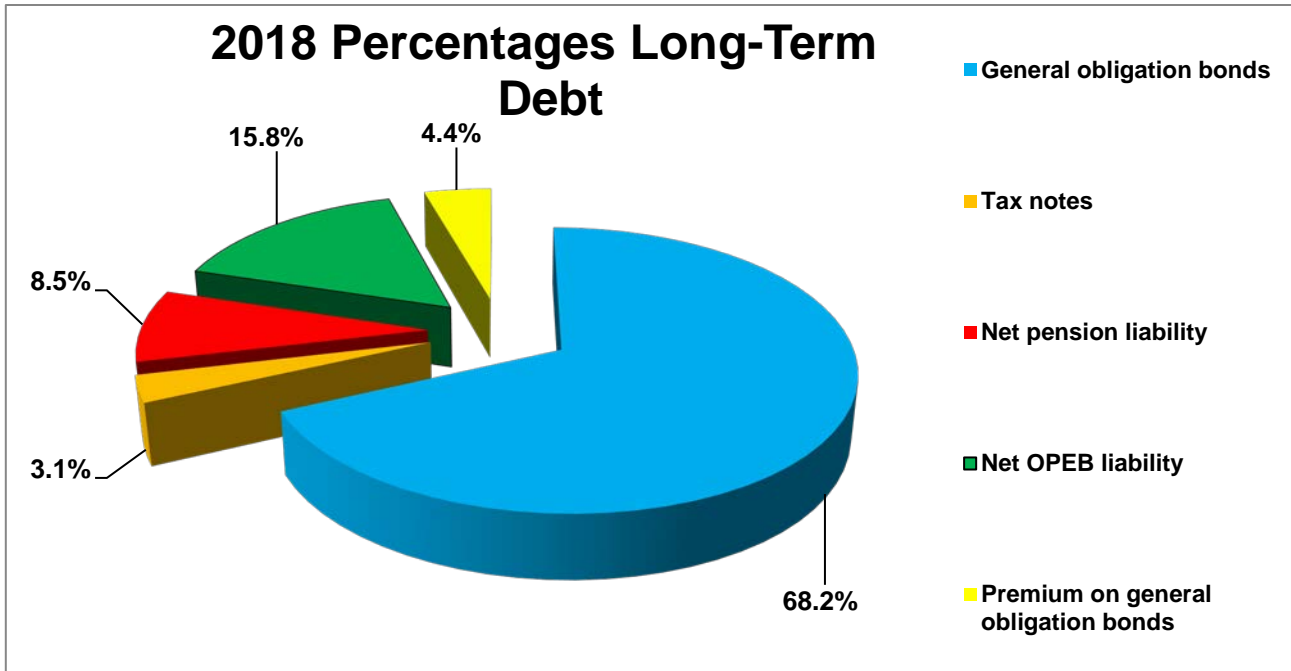


Long-term debt. At August 31, 2018, the District had total long-term debt outstanding of \$ 301,149,658. Long-term debt is made of general obligation bonds of \$ 205,421,374, tax notes of \$ 9,330,000, net pension liability of \$ 25,652,918, net OPEB liability of \$ 47,599,482, premium on general obligation bonds of \$ 13,145,884.

District's Long-Term Debt:

	<u>2018</u>	<u>2017</u>
General obligation bonds	\$ 205,421,374	\$ 184,400,537
Tax notes	9,330,000	9,330,000
Capital leases		16,600
Net pension liability	25,652,918	28,611,962
Net OPEB liability	47,599,482	84,034,481
Premium on general obligation bonds	<u>13,145,884</u>	<u>9,757,368</u>
 Total long-term debt	 <u>\$ 301,149,658</u>	 <u>\$ 316,150,948</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2018



Moody's Aaa rating on the District's bonded indebtedness is provided by a guarantee of the Texas Permanent School Fund for timely payment of principal and interest in the event the District is unable to meet debt service requirements. Moody's Aaa underlying rating is representative of the District's sizable but highly concentrated tax base, low debt levels, and modest financial reserves.

Additional information on the District's long-term debt and capital leases can be found in Notes 7 and 8 on pages 66 through 69 of this report.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2018

Economic Factors and Next Year's Budgets and Rates

- Certified tax values for fiscal year 2018 increased by approximately 28.57% from tax year 2017. This increase will generate an additional \$26.1 million of revenue in the general fund and approximately \$7.4 million for the debt service fund.
- A slight increase in weighted average daily attendance of 141 is budgeted to reflect actual increases for 2017-18. The attendance percentage rates are expected to remain stable at 95%.
- State funding will increase by approximately \$2 million based on student enrollment and property value changes, however recapture will increase by over \$25 million. The District will pay over \$35 million back to the state in recapture payments for 2018-19.
- No change in the tax rate of \$ 1.2553.
- For 2018-19 the District increased general fund expenditures by roughly \$ 32.4 million compared to prior year. Approximately \$25.8 million of this increase is related recapture payments ("Robin Hood") and the remaining increases are reflective of compensation increases to ensure we maintain a competitive salary structure to recruit and retain quality personnel, additional positions in alignment with staffing formulas, additional campus staffing supports, program offerings.

These indicators were taken into account when adopting the General Fund budget for 2018-19. The District has appropriated revenues and expenditures in the 2018-2019 budget of \$ 162,651,057 and \$ 156,195,464, respectively. Total budgeted revenues increased 27.5% from the 2017-2018 budget primarily due to changes in property tax values and collection percentage. Total expenditures increased by 26.21% due to the increased cost of recapture ("Robin Hood"), staffing formula changes, additional campus staffing supports, additional program offerings and compensation increases.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Finance and Governmental Affairs Officer, Brazosport Independent School District, P.O. Drawer Z, Freeport, Texas, 77542.

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2018

Exhibit A-1
Page 1 of 2

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	ASSETS:	
1110	Cash and cash equivalents	\$ 75,152,272
1120	Current investments	64,046,709
1220	Property taxes receivables	1,449,107
1230	Allowance for uncollectible taxes	(651,234)
1240	Due from other governments	4,033,331
1290	Other receivables (net)	62,236
1300	Inventories	404,897
1410	Prepaid items	1,146,631
	Capital Assets:	
1510	Land and improvements (net)	2,260,973
1520	Building and improvements (net)	171,482,076
1530	Furniture, equipment and vehicles (net)	6,989,826
1580	Construction in progress	<u>31,189,693</u>
1000	Total assets	<u>357,566,517</u>
	DEFERRED OUTFLOWS OF RESOURCES	
1700	Deferred outflows of resources	<u>15,130,444</u>
	Total deferred outflows of resources	<u>15,130,444</u>
	LIABILITIES:	
2110	Accounts payable	5,549,773
2140	Accrued interest payable	314,568
2150	Payroll deductions and withholdings	2,388
2160	Accrued wages payable	7,503,807
2165	Accrued liabilities	192,055
2180	Due to other governments	1,329,709
2300	Unearned revenue	175,261
	Noncurrent Liabilities:	
2501	Due within one year	20,512,150
2502	Due in more than one year	207,385,108
2540	Net pension liability	25,652,918
2540	Net OPEB liability	<u>47,599,482</u>
2000	Total liabilities	<u>316,217,219</u>
	DEFERRED INFLOWS OF RESOURCES	
2600	Deferred inflows of resources	<u>27,779,730</u>
	Total deferred inflows of resources	<u>27,779,730</u>

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - Continued
AUGUST 31, 2018

Exhibit A-1
Page 2 of 2

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	NET POSITION:	
3200	Net investment in capital assets	\$ 52,891,584
	Restricted For:	
3820	Federal and state programs	575,473
3850	Debt service	16,596,224
3870	Campus activities	1,102,454
3890	Other	585,403
3900	Unrestricted	<u>(43,051,126)</u>
3000	Total net position	<u>\$ 28,700,012</u>

The notes to the financial statements are an integral part of this statement.

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2018

Exhibit B-1
Page 1 of 1

Data Control Codes	Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 62,161,446	\$ 419,185	\$ 8,143,576	\$(53,598,685)
12	Instructional resources and media services	1,748,350	7,772	120,872	(1,619,706)
13	Curriculum and staff development	3,440,452	14,471	678,333	(2,747,648)
21	Instructional leadership	2,581,423	11,628	305,528	(2,264,267)
23	School leadership	6,963,915	49,070	326,829	(6,588,016)
31	Guidance, counseling, and evaluation services	4,418,140	25,405	720,233	(3,672,502)
32	Social work services	598,287	1,517	280,118	(316,652)
33	Health services	1,161,987	7,962	57,208	(1,096,817)
34	Student transportation	2,972,219	19,021	88,344	(2,864,854)
35	Food service	6,423,444	1,530,880	5,141,566	249,002
36	Extracurricular activities	6,095,046	1,506,540	157,722	(4,430,784)
41	General administration	2,390,571	9,417	255,309	(2,125,845)
51	Plant maintenance and operations	12,274,685	56,876	294,121	(11,923,688)
52	Security and monitoring services	1,110,436	8,658	45,469	(1,056,309)
53	Data processing services	3,809,091	10,553	72,862	(3,725,676)
61	Community services	28,711		24,040	(4,671)
71	Interest and fiscal charges on long-term debt	6,948,000		592,217	(6,355,783)
91	Contracted instructional services between public schools	9,504,285			(9,504,285)
93	Payments related to shared services arrangements	110,700		12,300	(98,400)
95	Payments to juvenile justice alternative education Programs	30,400			(30,400)
99	Other intergovernmental	934,400			(934,400)
TG	Total governmental activities	<u>\$ 135,705,988</u>	<u>\$ 3,678,955</u>	<u>\$ 17,316,647</u>	<u>\$(114,710,386)</u>
General Revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				\$ 117,043,170
DT	Property taxes, levied for debt service				25,606,695
SF	State aid-formula grants				10,153,140
GC	Grants and contributions not restricted to specific programs				849,483
IE	Investment earnings				2,167,167
MI	Miscellaneous				2,398,213
SI	Gain on the sale of assets				90,327
TR	Total general revenues, special items, and transfers				<u>158,308,195</u>
CN	Change in net position				<u>43,597,809</u>
NB	Net position – beginning				68,567,607
PA	Prior period adjustment required by GASB 75				(83,465,404)
NB	Net position – beginning, as restated				(14,897,797)
NE	Net position – ending				<u>\$ 28,700,012</u>

The notes to the financial statements are an integral part of this statement.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
AUGUST 31, 2017

Exhibit C-1
Page 1 of 2

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	98 Other Governmental Funds	Total Governmental Funds
ASSETS:						
1110	Cash and cash equivalents	\$ 42,080,604	\$ 13,156,032	\$ 16,251,925	\$ 3,339,283	\$ 74,827,844
1120	Investments	17,544,890		44,279,665		61,824,555
1220	Taxes receivable	1,212,637	236,470			1,449,107
1230	Allowance for uncollectible taxes	(551,621)	(99,613)			(651,234)
1240	Receivables from other governments	1,942,458			2,090,873	4,033,331
1260	Due from other funds	3,217,430	12,903		1,197,142	4,427,475
1290	Other receivables	38,269			23,967	62,236
1300	Inventories	277,850			127,047	404,897
1410	Deferred expenditures	<u>1,146,631</u>				<u>1,146,631</u>
1000	Total assets	<u>66,909,148</u>	<u>13,305,792</u>	<u>60,531,590</u>	<u>6,778,312</u>	<u>147,524,842</u>
DEFERRED OUTFLOWS OF RESOURCES						
1700	Deferred outflows of resources					-0-
	Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
1000A	Total assets and deferred outflows of resources	<u>\$ 66,909,148</u>	<u>\$ 13,305,792</u>	<u>\$ 60,531,590</u>	<u>\$ 6,778,312</u>	<u>\$ 147,524,842</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
2110	Accounts payable	\$ 669,292	\$	\$ 4,286,658	\$ 593,823	\$ 5,549,773
2150	Payroll deductions and withholdings	2,388				2,388
2160	Accrued wages payable	6,952,364		2,638	548,805	7,503,807
2170	Due to other funds	1,209,524			3,217,951	4,427,475
2180	Payable to other governments	1,329,680			29	1,329,709
2300	Unearned revenue	<u>20,887</u>			<u>154,374</u>	<u>175,261</u>
2000	Total liabilities	<u>10,184,135</u>	<u>-0-</u>	<u>4,289,296</u>	<u>4,514,982</u>	<u>18,988,413</u>

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
AUGUST 31, 2018

Exhibit C-1
Page 2 of 2

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	98 Other Governmental Funds	Total Governmental Funds
	DEFERRED INFLOWS OF RESOURCES					
2600	Deferred inflows of resources – property taxes	\$ 589,315	\$ 122,102	\$	\$	\$ 711,417
	Total deferred inflows of resources	589,315	122,102	-0-	-0-	711,417
	Fund Balances:					
	Non-Spendable:					
3410	Inventories	277,850			127,047	404,897
3430	Prepaid items	1,146,631				1,146,631
	Restricted:					
3450	Grant funds				448,426	448,426
3470	Capital acquisitions and contractual obligations			56,242,294		56,242,294
3480	Debt service	3,605,000	13,183,690			16,788,690
3490	Other				1,687,857	1,687,857
	Committed:					
3520	Claims and judgments	250,000				250,000
3530	Capital expenditures for equipment	500,000				500,000
	Assigned:					
3590	Other assigned fund balance	10,000,000				10,000,000
	Unassigned:					
3600	Unassigned fund balance	40,356,217				40,356,217
3000	Total fund balances	56,135,698	13,183,690	56,242,294	2,263,330	127,825,012
4000	Total liabilities, deferred inflows of resources and fund balances	\$ 66,909,148	\$ 13,305,792	\$ 60,531,590	\$ 6,778,312	\$ 147,524,842

The notes to the financial statements are an integral part of this statement.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
AUGUST 31, 2018

Exhibit C-1R

Total fund balances – governmental funds balance sheet (C-1)	\$ 127,825,012
Amounts reported for <i>governmental activities</i> in the statement of net position (A-1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 311,990,218 in assets less \$ 100,067,650 in accumulated depreciation.	211,922,568
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 589,315 and \$ 122,102, respectively.	711,417
Other long-term assets are not available to pay for current year expenditures and, therefore, are not reported in the funds. This is the bond refunding costs, which is amortized over the life of the refunding bonds, or the refunded bonds, whichever is shorter. Net bond refunding costs were \$ 114,965 (bond refunding costs of \$ 222,211 less accumulated amortization of \$ 107,246).	114,965
Pension deferred outflows of resources of \$ 14,258,859 less pension deferred inflows of resources of \$ 7,868,777.	6,390,082
OPEB deferred outflows of resources of \$ 756,620 less OPEB deferred inflows of resources of \$ 19,910,953.	(19,154,333)
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 13,145,884 (premium on sale of bonds of \$ 18,290,758 less amortization of \$ 5,144,874).	(13,145,884)
The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.	2,354,527
Payables for net pension liability are not reported in the funds.	(25,652,918)
Payables for bond principal are not reported in the funds.	(205,421,374)
Payable for tax note principal are not reported in the funds.	(9,330,000)
Payables for net OPEB liability are not reported in the funds.	(47,599,482)
Payables for accrued interest are not reported in the funds.	<u>314,568</u>
Net position of governmental activities – statement of net position (A-1)	<u>\$ 28,700,012</u>

The notes to the financial statements are an integral part of this statement.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2018

Exhibit C-2

Data Control Codes	Functions/Programs	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
5700	Local and intermediate sources	\$ 120,361,625	\$ 26,030,526	\$ 610,686	\$ 3,551,375	\$ 150,554,212
5800	State program revenues	14,116,627	209,666		1,305,851	15,632,144
5900	Federal program revenues	1,905,200			10,083,183	11,988,383
5020	Total revenues	<u>136,383,452</u>	<u>26,240,192</u>	<u>610,686</u>	<u>14,940,409</u>	<u>178,174,739</u>
EXPENDITURES:						
Current:						
0011	Instruction	62,248,254		277,975	5,405,602	67,931,831
0012	Instructional resources and media services	1,531,259		241,778	29,935	1,802,972
0013	Curriculum and staff development	3,249,948			573,019	3,822,967
0021	Instructional leadership	2,737,527			191,557	2,929,084
0023	School leadership	7,806,724			8,504	7,815,228
0031	Guidance, counseling, and evaluation services	4,472,123		21,136	518,229	5,011,488
0032	Social work services	351,274			268,896	620,170
0033	Health services	1,331,544				1,331,544
0034	Student transportation	2,382,884		436,610	1,439	2,820,933
0035	Food Service			5,590	6,266,598	6,272,188
0036	Extracurricular activities	3,602,237		620,113	1,284,632	5,506,982
0041	General administration	2,579,386			78,518	2,657,904
0051	Plant maintenance and operations	12,518,778		938,121	44,656	13,501,555
0052	Security and monitoring services	1,258,455		279,459	8,665	1,546,579
0053	Data processing services	2,109,062		2,059,985		4,169,047
0061	Community services	5,055			23,656	28,711
0071	Principal on long-term debt	16,600	25,020,000			25,036,600
0072	Interest on long-term debt	409,599	7,021,025			7,430,624
0073	Bond issuance costs and fees		505,308			505,308
0081	Capital outlay			26,484,529		26,484,529
0091	Contracted instructional services between public schools	9,504,285				9,504,285
0093	Payments related to shared services arrangements	98,400			12,300	110,700
0095	Payments to juvenile justice alternative education programs	30,400				30,400
0099	Other intergovernmental	934,400				934,400
6030	Total expenditures	<u>119,178,194</u>	<u>32,546,333</u>	<u>31,365,296</u>	<u>14,716,206</u>	<u>197,806,029</u>
1100	Excess (deficiency) of revenues over expenditures	<u>17,205,258</u>	<u>(6,306,141)</u>	<u>(30,754,610)</u>	<u>224,203</u>	<u>(19,631,290)</u>
OTHER FINANCING SOURCES (USES):						
7911	Issuance of bonds			45,915,000		45,915,000
7912	Sale of real and personal property	74,000			16,327	90,327
7916	Premium on issuance of bonds		507,787	4,085,000		4,592,787
7915	Operating transfers in	59,759			33,434	93,193
8911	Operating transfers out	(25,737)			(67,456)	(93,193)
	Total other financing sources and (uses)	<u>108,022</u>	<u>507,787</u>	<u>50,000,000</u>	<u>(17,695)</u>	<u>50,598,114</u>
1200	Net change in fund balances	17,313,280	(5,798,354)	19,245,390	206,508	30,966,824
0100	Fund balances – beginning	<u>38,822,418</u>	<u>18,982,044</u>	<u>36,996,904</u>	<u>2,056,822</u>	<u>96,858,188</u>
3000	Fund balances – ending	<u>\$ 56,135,698</u>	<u>\$ 13,183,690</u>	<u>\$ 56,242,294</u>	<u>\$ 2,263,330</u>	<u>\$ 127,825,012</u>

The notes to the financial statements are an integral part of this statement.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT,
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2018

Exhibit C-2R

Net change in fund balances – total governmental funds (from C-2)	\$ 30,966,824
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities 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 outlay of \$ 29,204,981 exceeded depreciation of \$ 8,064,321 in the current period.	21,140,660
Government funds report pension payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated by an actuary and involves multiple factors. The amount of pension expense reported was \$ 1,130,869 more than the amount reported in the funds.	(1,130,869)
Government funds report OPEB payments as expenditures. However, in the governmental activities statement of activities, the OPEB cost is calculated by an actuary and involves multiple factors. The amount of OPEB expense reported was \$ 16,711,589 less than the amount reported in the funds.	16,711,589
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund increased by \$ 293,886 and for the debt service fund increased by \$ 60,778.	354,664
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. These amounts were for general obligation bonded debt \$ 25,020,000; and capital lease of \$ 16,600.	25,036,600
Premium on the issuance of bonds provides current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was \$ 3,388,516. (Premium on bonds issued of \$ 4,592,787 less current amortization of \$ 1,204,271).	(3,388,516)
Long-term debt proceeds provide current financial resources to government funds, but issuing debt increases long-term liabilities in the governmental activities statement of net position. Long-term debt proceeds from bonds were \$ 45,915,000.	(45,915,000)
Deferred outflows on gains and losses on debt refundings are amortized over the term of the bonds in the statement of activities but are expensed in the year incurred in governmental funds.	(28,356)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	(62,146)
Internal service funds are used by management to charge the costs of insurance and health and worker's compensation to individual funds. The net revenue (expense) of the internal service funds is reported in the governmental activities statement of activities (see D-2)	38,196
Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activity but is not reported in governmental funds.	(125,837)
Change in net position of governmental activities (see B-1)	<u>\$ 43,597,809</u>

The notes to the financial statements are an integral part of this statement.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2018

Exhibit D-1

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Funds (See H-3)</u>
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	
	Current Assets:	
1110	Cash and cash equivalents	\$ 324,428
1120	Investments	<u>2,222,154</u>
1000	Total assets	<u>2,546,582</u>
	DEFERRED OUTFLOWS OF RESOURCES:	
1700	Deferred outflows of resources	<u> </u>
	Total deferred outflows of resources	<u> -0-</u>
	Total assets and deferred outflows of resources	<u>\$ 2,546,582</u>
	LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION:	
	Liabilities:	
2165	Accrued liabilities	\$ <u>192,055</u>
2000	Total liabilities	<u>192,055</u>
	DEFERRED INFLOWS OF RESOURCES:	
2600	Deferred inflows of resources	<u> </u>
	Total deferred inflows of resources	<u> -0-</u>
	NET POSITION:	
3900	Unrestricted net position	<u>2,354,527</u>
3000	Total net position	<u>2,354,527</u>
	Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,546,582</u>

The notes to the financial statements are an integral part of this statement.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2018

Exhibit D-2

	Governmental Activities Internal Service Funds (See H-4)
Operating Revenues:	
Charges for services	\$ <u>959,402</u>
Total operating revenues	<u>959,402</u>
Operating Expenses:	
Insurance claims and expenses	<u>942,764</u>
Total operating expenses	<u>942,764</u>
Operating income	<u>16,638</u>
Nonoperating Revenues:	
Interest and investment revenue	<u>21,558</u>
Total nonoperating revenues	<u>21,558</u>
Changes in net position	38,196
Net position – beginning	<u>2,316,331</u>
Net position – ending	<u>\$ 2,354,527</u>

The notes to the financial statements are an integral part of this statement.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2018

Exhibit D-3

	Governmental Activities Internal Service Funds (See H-5)
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 959,402
Payments to suppliers	(4,685)
Claims paid	<u>(915,205)</u>
Net cash provided by operating activities	<u>39,512</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net cash provided (used) by noncapital financing activities	<u>-0-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net cash provided (used) by capital and related financing activities	<u>-0-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(2,267,902)
Interest and investment revenue	<u>21,558</u>
Net cash used by investing activities	<u>(2,246,344)</u>
Net decrease in cash and cash equivalents	(2,206,832)
Balances – beginning of year	<u>2,531,260</u>
Balances – end of year	<u><u>\$ 324,428</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 16,638
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Accrued expenses payable	<u>22,874</u>
Net cash provided by operating activities	<u><u>\$ 39,512</u></u>

The notes to the financial statements are an integral part of this statement.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2018

Exhibit E-1

	Private- Purpose Trusts	Agency Funds
	<u> </u>	<u> </u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:		
Assets:		
Cash and cash equivalents	\$ <u>16,000</u>	\$ <u>282,632</u>
Receivables:		
Total receivables	<u>-0-</u>	<u>-0-</u>
Total assets	<u>16,000</u>	<u>\$ 282,632</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows	<u> </u>	
Total deferred outflows of resources	<u>-0-</u>	
Total assets and deferred outflows of resources	<u>\$ 16,000</u>	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:		
Liabilities:		
Accounts payable	\$	\$ 50,921
Amounts due to student and employee groups	<u> </u>	<u>231,711</u>
Total liabilities	<u>-0-</u>	<u>\$ 282,632</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows	<u> </u>	
Total deferred inflows of resources	<u>-0-</u>	
NET POSITION:		
Held in trust for other purposes	<u>16,000</u>	
Total net position	<u>16,000</u>	
Total liabilities, deferred inflows of resources, and net position	<u>\$ 16,000</u>	

The notes to the financial statements are an integral part of this financial statement.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED AUGUST 31, 2018

Exhibit E-2

	<u>Private- Purpose Trusts</u>
ADDITIONS	
Investment Earning:	
Interest	\$ <u>163</u>
Total additions	<u>163</u>
DEDUCTIONS	
Total deductions	<u>-0-</u>
Change in net position	163
NET POSITION	
Net position – beginning of the year	<u>15,837</u>
Net position – end of the year	<u><u>\$ 16,000</u></u>

The notes to the financial statements are an integral part of this statement.

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Brazosport Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees that are elected by registered voters of the District. The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

Reporting Entity

The Board of the District is elected by the public; has the authority to make decisions, appoint administrators and managers; significantly influence operations; and has the primary accountability for fiscal matters. Therefore, the District is not included in any other governmental “reporting entity” as defined by GASB in its Statement No. 61, “*The Financial Reporting Entity: Omnibus – and amendment of GASB Statement No. 14 and No. 34*”. A blended component unit, although a legally separate entity is, in substance, part of the District’s operations.

- Blended Component Unit: The Brazosport Independent School District Educational Foundation (the “Foundation”) was established under Internal Revenue Service regulations as a conduit for tax-deductible donations to the District. The Superintendent serves as a Board Member. The Foundation is a supporting organization of the District and is presented as a special revenue fund of the District.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* are supported by tax revenues and intergovernmental revenues. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. 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 in separate columns in the fund financial statements.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and fiduciary 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

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 government 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.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation (Continued)

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Major revenue sources include local property taxes, state funding under the Foundation School Program and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal and state government, food service, debt service, and capital projects.

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 for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the related debt obligations have been met. Major revenue sources include local property taxes, and interest earnings. Expenditures include all costs associated with related debt service.

The *capital projects* fund accounts for the resources accumulated and made for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. The major revenue source includes investment earnings and other resources from proceeds from sale of general obligation bonded debt.

The District reports the following proprietary funds:

The *internal service funds* account for the District's self-funded dental insurance plan provided for the benefit of eligible employees and its self-funded worker's compensation program. The revenues of these funds are received from both the general and special revenue funds, and District employees and the expenses are comprised of claims paid on behalf of the District and its employees. The general fund is contingently liable for liabilities of these funds. Sub-fund accounting is employed to maintain the integrity of the self-insurance activities of the District. See Note 14 for additional discussion of the District's self-funded insurance plans.

The dental insurance plan is intended to be self-supporting and contributions for premiums are increased periodically to cover the cost of claims, insurance premiums and administrative fees. As of August 31, 2018, liabilities totaled \$ 36,739 and net position of the dental insurance plan was \$ 377,337.

The worker's compensation program provides for incurred but not reported costs for worker's compensation claims through the establishment of undiscounted liability accounts and net position. As of August 31, 2018, undiscounted liabilities totaled \$ 155,316 and net position of the worker's compensation program was \$ 1,977,190.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation
(Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating 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.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards.

Additionally, the District reports the following fiduciary funds:

The *private-purpose trust funds* are used to account for donations for endowments received from individuals and/or organizations for specified donor purposes for which the principal and earned interest or revenue may be used.

The *agency fund* accounts for resources held in a custodial capacity by the District, and consists of funds that are the property of students or others.

Cash and Investments

The District considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Interfund Receivables, Payables and Transfers

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 outstanding balances between funds are reported as "due to/from other funds". The District had no advances between funds. See Note 5 for additional discussion of interfund receivables, payables and transfers.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the district in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years.

Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value (adjusted) of the property tax roll on August 1, 2017, upon which the levy for the 2017-18 fiscal year was based, was \$ 11,394,834,859. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2018, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 1.0400 and \$ 0.2153 per \$ 100 valuation, respectively, for a total of \$ 1.2553 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2018 were 99.57% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 661,016 and \$ 136,857 for the general and debt service funds, respectively.

Inventories

The consumption method is used to account for inventories (food products, school supplies and athletic equipment) of governmental funds. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. Governmental fund inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their market value is recorded as inventory and deferred revenue when received in the governmental funds. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets, which include land and land improvements, buildings and improvements, and furniture, equipment and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government to be \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture, equipment and vehicles	5-15

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Compensated Absences

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying financial statements.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

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 or proprietary fund type statement of net position. Bond premiums and discounts are unearned and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures or expenses in the current period.

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 the debt is reported as other financing resources. 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.

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.

Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan 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 OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

Budgetary Data

Formal budgetary accounting is employed for all required governmental funds, as outlined in TEA's FASRG, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund and the Child Nutrition Program special revenue fund. The remaining special revenue funds and the capital projects fund (if utilized) adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget was properly amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

The Official Budget was prepared for adoption for the general fund, food service (special revenue fund) and debt service fund prior to August 31, 2017. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within fund groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board of Trustees at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System. Should any change in the approved budget be required, budget amendment requests are presented to the Board of Trustees for consideration. Amendments are made before the fact and once approved are reflected in the official minutes. During the year the budget was properly amended in accordance with the above procedures. The Board of Trustees approved the final budget amendment on August 20, 2018.

Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

As of August 31, 2018, the District did not have any encumbrances outstanding.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity

The District's Board of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The District's Unassigned General Fund Balance is maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees. Fund Balance of the District may be committed for a specific source by formal action of the District's Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action by the District's Board of Trustees. When it is appropriate for fund balance to be assigned, the Board of Trustees has delegated authority to the Superintendent and the Chief Financial and Governmental Affairs Officer. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The District implemented GASB 54, "Fund Balance, Reporting and Governmental Fund Type Definitions", for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

Non-spendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a Board of Trustees Resolution by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amount had been restricted, committed or assigned.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity (Continued)

As of August 31, 2018, non-spendable fund balances include \$ 277,850 for inventories and \$ 1,146,631 for prepaid items in the General Fund, \$ 127,047 for inventories in the Child Nutrition Program (special revenue fund). Restricted fund balances include \$ 3,605,000 for debt service in the General Fund, \$ 13,183,690 for the debt service fund, \$ 56,242,294 for the capital projects fund, \$ 448,426 for the Child Nutrition Program (special revenue fund), and \$ 1,687,857 for Math & Literacy Achievement, Campus Activity Funds, BISS Education Foundation, Lowe's Grants, PPCD Program, Fluor Industries Grant, City of Lake Jackson PEG and Dow Education Grants (special revenue funds). Committed fund balances include \$ 250,000 for claims and judgments and \$ 500,000 for capital expenditures for equipment in General Fund. Assigned fund balances include \$ 10,000,000 for other purposes in the General Fund. Unassigned fund balance includes \$ 40,356,217 in the General Fund.

Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure 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 reporting amounts of assets and deferred outflows of resources, and, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. This statement was implemented and impacted the District's financial statements as described in Note 2. This statement is effective for periods beginning after June 15, 2017.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements (Continued)

GASB No. 83 “Certain Asset Retirement Obligations” was issued in November 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2018.

GASB No. 84 “Fiduciary Activities” was issued in January 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2018.

GASB No. 85 “Omnibus 2017” was issued in March 2017. This statement was implemented and did not have a material effect on the District’s financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 86 “Certain Debt Extinguishment Issues” was issued in May 2017. This statement was implemented and did not have a material effect on the District’s financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 87 “Leases” was issued in June 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2019.

GASB No. 88 “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements” was issued in April 2018. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 89 “Accounting for Interest Cost Incurred before the End of a Construction Period” was issued in June 2018. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 90 “Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61” was issued in August 2018. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 2. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

During the year ended August 31, 2018, the District implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement replaces the requirements of Statements No. 45 and No. 57 and requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. It requires a government employer to recognize a net OPEB liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, it requires that the government recognize its contribution as a deferred outflow of resources. The following represents the retroactive restatement of net position as a result of implementation of GASB Statement No. 75 and prior period adjustment as noted above:

	<u>2017</u>
<u>Governmental Activities</u>	
Net position, August 31, previously reported	\$ 68,567,607
Addition of Outflows of Resources – Subsequent OPEB Contributions	569,077
Addition of net OPEB liability	<u>(84,034,481)</u>
Net position, August 31, restated	<u>\$ (14,897,797)</u>

This change in accounting principle had no effect on governmental funds fund balance or changes in fund balance.

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2018***NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)****Deposits (Continued)**

Cash and cash equivalents are reported on the statement of net position at August 31, 2018 are as follows:

	Governmental Funds	Proprietary (Internal Service) Funds	Fiduciary Funds	Total
Cash and Cash Equivalents:				
Cash (petty cash accounts) \$	9,131	\$	\$ 1,000	\$ 10,131
Financial Institution Deposits:				
Demand deposits	8,290,408	311,479	286,301	8,888,188
Broker-Dealer:				
Demand deposits	27,170,498	12,949		27,183,447
Repurchase agreement	6,249,498			6,249,498
Public Funds Investment Pool:				
Lone Star	31,038,370		11,331	31,049,701
Texas Term	<u>2,069,939</u>			<u>2,069,939</u>
	<u>\$ 74,827,844</u>	<u>\$ 324,428</u>	<u>\$ 298,632</u>	<u>\$ 75,450,904</u>

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to them. The District requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

At August 31, 2018, in addition to petty cash of \$ 10,131, the carrying amount of the District's cash, savings, and time deposits was \$ 8,888,188. The financial institutions balances were \$ 11,224,578 at August 31, 2018. Financial institution balances of \$ 500,943 were covered by federal depository insurance, \$ 10,430,079 were covered by collateral pledged in the District's name and \$ 293,556 was uninsured. The uninsured balance is a result of the blended component unit having deposits at the financial institution with no collateral pledged to their name. The District's financial institution balances were covered by federal depository insurance and collateral pledged in the District's name. The collateral was held in safekeeping departments of unrelated financial institutions, which act as the pledging bank's agent.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Deposits (Continued)

In addition the following is disclosed regarding coverage of combined balances on the date of highest deposit:

Depository:

- a. Name of bank: Texas Gulf Bank, Freeport, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 40,136,737.
- c. Largest cash, savings and time deposit combined account balance amounted to \$ 40,386,737 and occurred on February 14, 2018.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$ 250,000.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The District's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes it complied with the requirements of the PFIA and the District's investment policy.

The District's Investment Officer submits an investment report each quarter to the Board of Trustees. The report details the investment positions of the District and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the U.S. or its agencies and instrumentalities;
2. Obligations of the State of Texas or its agencies;
3. Other obligations guaranteed by the U.S. or the State of Texas or their agencies and instrumentalities;
4. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent;
5. Guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas;
6. Fully collateralized repurchase agreements; and,
7. Public funds investment pool meeting the requirements of Government Code 2256.016-2256.019.

The District participates in one investment services repurchase agreement of U.S. Government securities agreement with the Bank of New York Mellon for the purpose of investing funds to pay future matured bonds. This agreement governs the sale and purchase of U.S. Government-backed securities by and between the District and the depository on scheduled dates.

This agreement is not considered deposits and is not insured by federal deposit insurance or any other insurance. This investment has a custodial risk as uninsured and unregistered, with securities held by the financial institution's trust department or agent in the District's name.

The District entered into this agreement for the purpose of repaying bonds. This agreement shall not be terminable upon demand. The District will participate in this agreement until completion of terms with interest rates guaranteed to provide sufficient funds to repay the 2005 QZAB bond. The District will repay this bond with these investments.

The District participates in Local Government Investment Pools (LGIP): Lone Star Investment Pool and Texas Term. The Lone Star Investment Pool (the "Pool") was established on July 25, 1991, as a public funds investment pool in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. Lone Star is a 2(a)7 like fund, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Standard and Poor's has assigned its "AAAm" fund risk ratings to the Pool's Government Overnight Fund, Corporate Overnight Fund and Corporate Overnight Plus Fund.

Texas Term is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texas Term is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texas Term are rated AAAM from Standard and Poors and AAAM from Fitch, respectively, and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

At August 31, 2018, the Government Overnight Fund had a weighted average maturity of 20 days, the Corporate Overnight Fund had a weighted average maturity of 37 days, the Corporate Overnight Plus Fund had a weighted average maturity of 48 days, and Texas Term had a weighted average maturity of 31 days. Although these four funds had weighted average maturities of 20, 37, 48 and 31 days, respectively, the District considers holdings of these funds to have a one day weighted average maturity. This is due to the fact that the share position can normally be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The District's investment in LGIP are insured, registered, or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the District at August 31, 2018:

	<u>Market Value</u>	<u>Weighted Average Maturity (In Days)</u>
Local Government Investment Pool:		
Lone Star Investment Pool:		
Government Overnight Fund	\$ 806,469	20
Corporate Overnight Fund	5,358	37
Corporate Overnight Plus Fund	30,237,874	48
Texas Term	<u>2,069,939</u>	31
Total local government investment pool	33,119,640	46
Certificates of deposit	4,110,275	36
Agency securities	567,469	5
Commercial Paper	<u>57,146,811</u>	20
	61,824,555	30
Repurchase agreement	<u>6,249,498</u>	
Total investments	<u>\$ 101,193,693</u>	

Credit Risk – As of August 31, 2018, 35% of the investment portfolio was invested in AAAM rated funds in the LGIP (2(a)7 likepools), 60% invested in commercial paper with Standard and Poor's rated A-1 or better, 4% are invested in certificates of deposits that are fully insured by the FDIC and 1% are invested in agency securities with Standard and Poor's rated AA+. The Repurchase Agreement is invested in direct obligations of the United States of America backed by the full faith and credit of the United States of America.

Interest rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's cash flow requirements.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Fair Value Measures

Financial Accounting Standards Board Accounting Standards Codification 820-10, *Fair Value Measurements* (FASB Codification 820-10), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Codification 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of August 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Agency securities	\$ 567,469	\$	\$	\$ 567,469
Commercial paper	<u>57,146,811</u>	<u> </u>	<u> </u>	<u>57,146,811</u>
Total assets at fair value	<u>\$57,714,280</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 57,714,280</u>

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The District made no direct investments in derivatives during the year ended August 31, 2018, and holds no direct investments in derivatives at August 31, 2018.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND UNEARNED REVENUES

Receivables and Allowances

Receivables as of August 31, 2018, for the government's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Receivables:				
Property taxes	\$ 1,212,637	\$ 236,470	\$	\$ 1,449,107
Receivables from other governments	1,942,458		2,090,873	4,033,331
Other receivables	<u>38,269</u>		<u>23,967</u>	<u>62,236</u>
Gross receivables	3,193,364	236,470	2,114,840	5,544,674
Less: allowance for uncollectibles	<u>551,621</u>	<u>99,613</u>		<u>651,234</u>
Net receivables	<u>\$ 2,641,743</u>	<u>\$ 136,857</u>	<u>\$ 2,114,840</u>	<u>\$ 4,893,440</u>

Receivables/Payables from/to Other Governments

The District participates in a variety of federal and state programs from which it receives grants to, partially or fully, finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. All federal grants shown below are passed through the TEA or other state agency and are reported on the combined financial statements as either Receivable from or to Other Governments, as applicable.

Amounts due from federal, state, and local governments as of August 31, 2018 are summarized below.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>State Grants and Other</u>	<u>Total</u>
Major Governmental Funds:				
General fund	\$ 1,914,031	\$	\$ 28,427	\$ 1,942,458
Other funds	<u>433,057</u>	<u>1,657,816</u>		<u>2,090,873</u>
Total	<u>\$ 2,347,088</u>	<u>\$ 1,657,816</u>	<u>\$ 28,427</u>	<u>\$ 4,033,331</u>

For the year ended August 31, 2018, the District was determined to be subject to Chapter 41 under the Texas Education Code (TEC). During the year ended August 31, 2018, the District was required to pay \$ 7,913,576 to the state and at August 31, 2018, the District had paid the state \$ 9,074,879. The overpayment amount of \$ 1,161,303 and the amount accrued from the 2018-2019 planning estimate of \$ 2,490,983 is recorded as a payable to other governments. The amount incurred as Chapter 41 costs of \$ 9,504,285 (after settle-ups) is reported as expenditures under Function 91 - Contracted Instructional Services Between Public Schools. The District will continue to be classified as a Chapter 41 District for the 2018-2019 year.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)

Deferred Outflows and Inflows of Resources and Unearned Revenues

Governmental Funds

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of August 31, 2018, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	Deferred Inflows of Resources <u>(Unavailable)</u>	Unearned Revenue <u>Revenue</u>
Delinquent property taxes receivable (general fund)	\$ 589,315	\$
Delinquent property taxes receivable (debt service fund)	122,102	
Federal food commodities		116,081
Local grants		38,293
Advance Funding:		
Other	<u> </u>	<u>20,887</u>
Totals:	<u>\$ 711,417</u>	<u>\$ 175,261</u>

Governmental Activities

Governmental activities defer the recognition of pension expense for contributions made from the measurement date (August 31, 2017) to the current year-end of August 31, 2018 and report these as deferred outflows of resources. Governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of August 31, 2018, the various components of deferred inflows and outflows of resources and unearned revenue reported in the governmental activities were as follows:

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)

Deferred Outflows and Inflows of Resources and Unearned Revenues (Continued)

Governmental Activities (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Unearned Revenue</u>
TRS pension deferred inflows and outflows of Resources	\$ 11,434,846	\$ 7,868,777	\$
Pension contributions subsequent to the measurement date	2,824,013		
TRS OPEB deferred inflows and outflows of resources	7,449	19,910,953	
OPEB contributions subsequent to the measurement date	749,171		
Bond refunding costs	114,965		
Federal food commodities			116,081
Local grants			38,293
Other			<u>20,887</u>
Totals	<u>\$ 15,130,444</u>	<u>\$ 27,779,730</u>	<u>\$ 175,261</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivables and Payables

Interfund balances at August 31, 2018 consisted of the following individual fund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>8-31-18</u>
General Fund	Other Governmental Funds	\$ 3,217,430
Debt Service Fund	General Fund	12,903
Other Governmental Funds	General Fund	1,196,621
Other Governmental Funds	Other Governmental Funds	<u>521</u>
		<u>\$ 4,427,475</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Interfund Transfers

Interfund transfers for the year ended August 31, 2018 were as follows:

<u>Transferring Fund</u>	<u>Receiving Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 25,737
Other Governmental Funds	General Fund	59,759
Other Governmental Funds	Other Governmental Funds	<u>7,697</u>
		<u>\$ 93,193</u>

The transfer from General Fund to Child Nutrition was made to cover the negative student and adult balances as of August 31, 2018. The transfer from the BISD Education Foundation to the Dow Education Grants is for a grant received from Dow for the Rocketry program. The transfer from the BISD Education Foundation to the General Fund provided a general purpose donation to the District to seek alternative funds to enhance the educational opportunities.

NOTE 6. CAPITAL ASSETS

Changes in Capital Assets and Accumulated Depreciation

The following provides a summary of changes in capital assets and accumulated depreciation for the year ended August 31, 2018:

	<u>September 1, 2017</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>August 31, 2018</u>
Non-Depreciated Capital Assets:				
Land	\$ 2,260,973	\$	\$	\$ 2,260,973
Construction in progress	<u>32,472,994</u>	<u>27,125,793</u>	<u>28,409,094</u>	<u>31,189,693</u>
Total non-depreciated	<u>34,733,967</u>	<u>27,125,793</u>	<u>28,409,094</u>	<u>33,450,666</u>
Depreciated Capital Assets:				
Buildings and improvements	227,465,287	28,961,810	12,300	256,414,797
Furniture, equipment & vehicles	<u>20,790,153</u>	<u>1,526,472</u>	<u>191,870</u>	<u>22,124,755</u>
Total depreciated	<u>248,255,440</u>	<u>30,488,282</u>	<u>204,170</u>	<u>278,539,552</u>
Total additions/retirements		<u>\$ 57,614,075</u>	<u>\$ 28,613,264</u>	
Accumulated Depreciated:				
Buildings and improvements	78,164,123	\$ 6,780,898	\$ 12,300	84,932,721
Furniture, equipment & vehicles	<u>14,043,376</u>	<u>1,283,423</u>	<u>191,870</u>	<u>15,134,929</u>
Total accumulated depreciation	<u>92,207,499</u>	<u>\$ 8,064,321</u>	<u>\$ 204,170</u>	<u>100,067,650</u>
Net depreciated capital assets	<u>156,047,941</u>			<u>178,471,902</u>
Net capital assets	<u>\$ 190,781,908</u>			<u>\$ 211,922,568</u>

See Note 1 for additional information regarding capital assets.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2018***NOTE 6. CAPITAL ASSETS (Continued)****Depreciation Expense**

In accordance with requirements of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, depreciation expense of the governmental activities was charged to functions as follows:

<u>Data Control Codes</u>	<u>Function</u>	<u>Amount</u>
0011	Instruction	\$ 4,178,126
0012	Instructional resources and media services	379,023
0013	Curriculum and staff development	19,354
0021	Instructional leadership	50,805
0023	School leadership	316,121
0031	Guidance, counseling, and evaluation services	60,482
0033	Health services	31,451
0034	Student transportation	913,688
0035	Food service	556,438
0036	Extracurricular activities	1,059,652
0041	General administration	45,967
0051	Plant maintenance and operations	433,860
0053	Data processing services	<u>19,354</u>
	Total depreciation expense	<u>\$ 8,064,321</u>

Governmental Fund Construction Commitments

At August 31, 2018, the District had the following construction commitments:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended To Date</u>	<u>Commitment</u>
Package C2: Various Renovation Projects at Brazoswood, Brazosport, Rasco, Lanier Velasco, Polk and Griffith	\$ 1,463,471	\$ 1,262,134	\$ 201,337
New Campus: Ogg Elementary	19,144,328	4,804,151	14,340,177
New Campus: Freeport Elementary	19,243,208	18,258,724	984,484
Package C1: Kitchen and Pressbox Improvements	1,040,895	771,049	269,846
Roof at Brazoswood	<u>778,000</u>	<u>605,850</u>	<u>172,150</u>
	<u>\$ 41,669,902</u>	<u>\$ 25,701,908</u>	<u>\$ 15,967,994</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 7. LONG-TERM DEBT

Loans

Short-term debts are accounted for through the appropriate fund, and consist of notes made in accordance with the provisions of the Texas Education Code. The District did not borrow any funds through loan transactions during the year ended August 31, 2018.

General Obligation Bonds

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, contractual obligations and loans. Contractual obligations are issued at parity with general obligation bonds, but carry a secondary revenue stream pledge; however, all certificates of obligation are tax, not revenue, supported. This debt, unlike other tax-supported debt, can be issued without a vote of the citizens. Bond premiums and discounts are amortized using the effective interest method.

The following is a summary of the District's general obligation bonded debt as of August 31, 2018:

<u>Date of Issue</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>% Rates</u>	<u>Outstanding Balance</u>
2005	\$ 8,000,000	2021	0.00	\$ 8,000,000
2010	6,985,000	2019	2.00-5.00	250,000
2011	7,365,000	2023	2.00-4.00	6,450,000
2011	2,036,256	2021	3.00	2,526,374
2012	30,385,000	2023	2.00-4.00	19,440,000
2012	56,870,000	2025	2.00-3.00	33,465,000
2013	9,415,000	2023	3.00	2,220,000
2015	54,785,000	2035	2.00-5.00	47,950,000
2016	6,180,000	2022	2.00-4.00	5,585,000
2017	34,465,000	2042	3.00-5.00	33,885,000
2017	<u>45,915,000</u>	2037	3.00-5.00	<u>45,650,000</u>
Total	<u>\$ 262,401,256</u>			<u>\$ 205,421,374</u>

Presented below is a summary of general obligation bond requirements to maturity:

<u>Year Ended August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2019	\$ 19,310,000	\$ 6,918,700	\$ 26,228,700
2020	20,240,000	6,190,300	26,430,300
2021	23,965,000	5,568,550	29,533,550
2022	16,890,000	4,979,600	21,869,600
2023	16,940,000	4,316,531	21,256,531
2024-2028	40,165,000	15,116,797	55,281,797
2029-2033	33,515,000	8,561,409	42,076,409
2034-2038	26,545,000	885,053	27,430,053
2039-2042	<u>8,050,000</u>	<u>574,556</u>	<u>8,624,556</u>
Totals	<u>\$ 205,620,000</u>	<u>\$ 53,111,496</u>	<u>\$ 258,731,496</u>

Difference in bond payable and future principal payments is due to \$ 198,626 of accretion, which will occur in future years prior to payment.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 7. LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

The District entered into two repurchase agreements for 2003B Unlimited Tax School Building QZAB Bonds and the 2005 Unlimited Tax School Building QZAB Bonds. The 2003B Unlimited Tax School Building QZAB Bonds repurchase agreement calls for annual payments of \$ 377,642 and will yield an interest rate of 4.21% with maturity date of August 15, 2018. As of August 31, 2018, all sinking fund requirements were made by the District and the principal of the 2003B Unlimited Tax School Building QZAB Bonds was paid in full. The 2005 Unlimited Tax School Building QZAB Bonds repurchase agreement calls for annual payments of \$ 401,939 and will yield an interest rate of 2.83% with maturity date of June 30, 2021. The total requirement deposited for the year ended August 31, 2018 was \$ 779,580. The sinking fund balance as of August 31, 2018 was \$ 6,244,882.

Presented below is a summary of the sinking fund requirements:

<u>Year Ended</u> <u>August 31</u>	<u>Series</u> <u>2005</u>
2019	\$ 401,939
2020	401,939
2021	<u>401,939</u>
Total minimum requirements	<u>\$ 1,205,817</u>

Bond indebtedness of the District is recorded in the governmental activities statement of net position, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Proceeds of long-term issues are reflected as "Other Resources" in the operating statement of the recipient fund.

The District has entered into continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Brazosport Independent School District.

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2018.

Maintenance Tax Note

On November 30, 2010 the District issued \$ 9,330,000 of Taxable Series 2010Q Maintenance Tax Qualified School Construction Notes, maturing in 2029. The notes have stated interest rates ranging from 3.75% to 5.20%. The bonds are to be paid from annual ad valorem maintenance taxes levied. The District has irrevocably designated the Series 2010Q Notes as "specified tax credit notes" within the meaning of Section 6431(F)(3)(b) of the Internal Revenue Code. Therefore, the District will be eligible to receive a cash subsidy from the United States Treasury in connection with the election. The Federal subsidy received by the District will not be pledged to payment of the Series 2010Q Notes and may be used for any lawful purpose of the District, including but not limited to, payment of debt service on the Series 2010Q Notes.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 7. LONG-TERM DEBT (Continued)

Maintenance Tax Note - Continued

The following is a summary of the District's maintenance tax school construction note debt as of August 31, 2018:

<u>Date of Issue</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>% Rates</u>	<u>Outstanding Balance</u>
2010	\$ <u>9,330,000</u>	2029	3.75-5.20	\$ <u>9,330,000</u>
Total	\$ <u>9,330,000</u>			\$ <u>9,330,000</u>

Presented below is a summary of maintenance tax note requirements to maturity:

<u>Year Ended August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2019	\$	\$ 409,583	\$ 409,583
2020	4,635,000	409,584	5,044,584
2021		235,771	235,771
2022		235,771	235,771
2023		235,771	235,771
2024-2028	2,575,000	802,263	3,377,263
2029	<u>2,120,000</u>	<u>110,240</u>	<u>2,230,240</u>
	\$ <u>9,330,000</u>	\$ <u>2,438,983</u>	\$ <u>11,768,983</u>

Current requirements for interest expenditures accounted for in the General Fund were \$ 409,584.

The 2010Q Maintenance Tax Qualified School Construction Notes call for annual payments of \$ 515,000 from August 15, 2012 through August 15, 2025 and \$ 530,000 from August 15, 2026 through August 15, 2029, and will yield \$ 9,330,000 for the payment of principal on the notes.

Presented below is a summary of sinking fund requirements and estimated Federal subsidy for the 2010Q Maintenance Tax Qualified School Construction Notes. Listed is the original subsidy follows by the adjusted and reduced subsidy as a result of the federal sequestration. Beginning March of 2013 the subsidy was reduced by 8.7% from the original subsidy and in October of 2014 from it was reduced by 7.2% the original subsidy amount.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2018***NOTE 7. LONG-TERM DEBT (Continued)****Maintenance Tax Note (Continued)**

<u>Year Ended August 31</u>	<u>Original Federal Subsidy</u>	<u>Reduced Federal Subsidy</u>	<u>Annual Sinking Fund Requirement</u>
2019	\$ 409,584	\$ 344,460	\$ 515,000
2020	409,584	344,460	515,000
2021	235,771	198,284	515,000
2022	235,771	198,284	515,000
2023	235,771	198,284	515,000
2024-2028	802,263	674,703	2,620,000
2029	<u>110,240</u>	<u>92,712</u>	<u>530,000</u>
Totals	<u>\$ 2,438,984</u>	<u>\$ 2,051,187</u>	<u>\$ 5,725,000</u>

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended August 31, 2018, was as follows:

	<u>Balance 09-01-17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 08-31-18</u>	<u>Due Within One Year</u>
Long-Term Debt:					
General obligation bonds	\$ 184,400,537	\$ 46,040,837	\$ 25,020,000	\$ 205,421,374	\$ 19,310,000
Tax Notes	9,330,000			9,330,000	
Capital leases	16,600		16,600	-	
Net pension liability	28,611,962	2,589,012	5,548,056	25,652,918	
Net OPEB liability	84,034,481	7,314,866	43,749,865	47,599,482	
Premium on bonds	<u>9,757,368</u>	<u>4,592,787</u>	<u>1,204,271</u>	<u>13,145,884</u>	<u>1,202,150</u>
Totals	<u>\$ 316,150,948</u>	<u>\$ 60,537,502</u>	<u>\$ 75,538,792</u>	<u>\$ 301,149,658</u>	<u>\$ 20,512,150</u>

NOTE 8. LEASES**Capital Leases**

The District leases various office machines under capital leases. During the year ended August 31, 2014, the District had \$ 219,675 of net additions of new office equipment through capital leases. The effective interest rate of the capital lease is 17.69%, expiring in 2018. The leased assets and related obligations are accounted for in the government activities column of the government-wide financial statements as capital assets and noncurrent liabilities. Current requirements for principal and interest expenditures accounted for in the General Fund, were \$ 16,660 and \$ 15, respectively. As of August 31, 2018, the capital leases were paid off.

Operating Leases

As of August 31, 2018, the District is not involved in any non-cancelable lease agreements. All leases are on a "month-to-month" basis. The District did not incur any rental expenditures for the fiscal year ending August 31, 2018.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 9. DEFINED BENEFIT PENSION PLANS

Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan 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-supposed education institutions in Texas who are employed for one-half or more of the standard work load 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

Detail 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. The report may be obtained on the Internet at <http://www.trs.state.tx.us/amount/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

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 credit 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 COLAs can be granted by the Texas Legislature as noted in the Plan Description above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. 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.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 9. DEFINED BENEFIT PENSION PLANS (Continued)

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 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018:

<u>Contribution Rates</u>	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer # 1398 – 2017 Employer Contributions	\$	2,629,439
Employer # 1398 – 2017 Member Contributions	\$	2,601,471
Employer # 1398 – 2017 NECE On-behalf Contributions	\$	3,957,855
Employer # 1398 – 2018 Medicare Part D	\$	257,185

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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 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 age surcharge.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 9. DEFINED BENEFIT PENSION PLANS (Continued)

- 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.

Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
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 8.00%. 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 the 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. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 9. DEFINED BENEFIT PENSION PLANS (Continued)

Asset Class	Target Allocation*	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns**
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	100%		8.7%

* Target allocations are based on the FY2014 policy model. Infrastructure was moved from Real Assets to Energy and Natural Resources in FY2017, but the reallocation does not affect the long-term expected geometric real rate of return or expected contribution to long-term portfolio returns.

** The Expected Contribution to Long-Term Portfolio Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

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 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the Net pension liability	\$ 43,245,751	\$ 25,652,918	\$ 11,004,029

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2018***NOTE 9. DEFINED BENEFIT PENSION PLANS (Continued)****Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At August 31, 2018, the District reported a liability of \$ 25,652,918 for its proportionate share of 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's Proportionate share of the collective net pension liability	\$ 25,652,918
State's proportionate share that is associated with the District	<u>13,292,486</u>
 Total	 <u>\$ 38,945,404</u>

The net pension liability was measured as of August 31, 2017 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, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0802290176% which was an increase of 0.0045129865% from its proportion measured as of August 31, 2016.

Changes since the prior Actual Valuation

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2018, the District recognized pension expense of \$ 2,951,438 and revenue of \$ 3,957,855 for support provided by the State.

At August 31, 2018, the District reported its proportionate share of TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 375,314	\$ 1,383,428
Changes in actuarial assumptions	1,168,531	668,957
Difference between projected and actual investment earnings	3,945,121	5,814,650
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	5,945,880	1,742
Contributions paid to TRS subsequent to the measurement date	<u>2,824,013</u>	<u> </u>
 Total	 <u>\$ 14,258,859</u>	 <u>\$ 7,868,777</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 9. DEFINED BENEFIT PENSION PLANS (Continued)

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended August 31,</u>	<u>Pension Expense Amount</u>
2019	\$ 542,508
2020	2,180,000
2021	416,690
2022	(69,693)
2023	346,363
Thereafter	150,201

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

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

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents are not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan with two optional plans.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

TRS-Care Plan Premium Rates
Effective September 1, 2016 – December 31, 2017

	<u>TRS-Care 1</u> <u>Basic Plan</u>	<u>TRS-Care 2</u> <u>Optional Plan</u>	<u>TRS-Care 3</u> <u>Optional Plan</u>
Retiree*	\$ -0-	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only	28	62	82

* or surviving spouse

Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded as a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of Trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates

	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
Employer # 1398 – 2017 Employer Contributions		\$ 569,077
Employer # 1398 – 2017 Member Contributions		\$ 233,411
Employer # 1398 – 2017 NECE On-behalf Contributions		\$ 765,249

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS Care OPEB Program). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$ 535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$ 15.6 million in fiscal year 2017 and \$ 182.6 million in fiscal year 2018.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study by TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The Post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation; Rates of Mortality, Rates of Retirement, Rates of Termination, Rates of Disability Incidence, General Inflation, Wage Inflation and Expected Payroll Growth.

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Inflation	2.50%
Discount Rate*	3.42%*
Aging Factors	Based on plan specific experience
Expenses	third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases**	3.50% to 9.50%**
Healthcare Trend Rates***	4.50% to 12.00%***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

* Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017

** Includes Inflation at 2.50%

*** Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.

Other Information: There was a significant plan change adopted in fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2018***NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)****Discount Rate**

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projected of cash flows used to determine the discount rate is assumed that contributions from active 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 OPEB plan’s fiduciary net position was project to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of August 31, 2017.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount <u>Rate (2.42%)</u>	Discount Rate (3.42%)	1% Increase in Discount <u>Rate (4.42%)</u>
District’s proportionate share of the Net OPEB Liability	\$ <u>56,179,206</u>	\$ <u>47,599,482</u>	\$ <u>40,703,319</u>

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

At August 31, 2018, the District reported a liability of \$ 47,599,482 for its proportionate share of TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s Proportionate share of the collective net OPEB liability	\$ 47,599,482
State’s proportionate share that is associated with the District	<u>27,817,714</u>
Total	<u>\$ 75,417,196</u>

The net OPEB liability was measured as of August 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer’s proportion of the net OPEB liability was based on the employer’s contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the employer’s proportion of the collective net OPEB liability was 0.1094586992%, which was the same proportion measured as of August 31, 2016.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Changes since the prior Actual Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

1. Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

In this valuation, the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$ 850/\$ 2,292 were indexed annually by 2.50%
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis point addition to the long term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

There were no changes of benefit terms that affected measurement of the Total OPEB liability during the measurement period.

For the year ended August 31, 2018, the District recognized OPEB expense of \$ (15,957,176) and revenue of \$ 765,249 for support provided by the State.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

At August 31, 2018, the District reported its proportionate share of TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 993,675
Changes in actuarial assumptions		18,917,278
Difference between projected and actual investment earnings	7,230	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	219	
Contributions paid to TRS subsequent to the measurement date	<u>749,171</u>	
Total	<u>\$ 756,620</u>	<u>\$ 19,910,953</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended August 31,</u>	<u>OPEB Expense Amount</u>
2019	\$ (2,626,290)
2020	(2,626,290)
2021	(2,626,290)
2022	(2,626,290)
2023	(2,628,098)
Thereafter	(6,770,246)

NOTE 11. GENERAL FUND FEDERAL SOURCE REVENUES

Following is a schedule of federal source revenue recorded in the General Fund.

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Total</u>
Direct Costs:		
School Health and Related Services (SHARS)	---	\$ 839,462
Build America Bonds	---	382,551
ROTC Program	12.000	68,433
Medicaid Administrative Claiming Program (MAC)	93.778	10,021
Indirect Costs:		
School Breakfast Program	10.553	107,103
National School Lunch Program	10.555	392,897
ESEA, Title I, Part A	84.010A	27,823
IDEA Part B – Formula	84.027A	72,477
ESEA, Title II, Part A	84.367A	<u>4,433</u>
		<u>\$ 1,905,200</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 11. GENERAL FUND FEDERAL SOURCE REVENUES (Continued)

The School Health and Related Services (SHARS) funds and Build America Bond subsidy are not considered federal financial assistance for inclusion in the Schedule of Federal Financial Awards.

NOTE 12. LOCAL AND INTERMEDIATE REVENUES

During the current year, local and intermediate revenues for governmental funds consisted of the following:

Fund	General Fund	Debt Service Fund	Capital Projects Funds	Other Funds	Total
Property Taxes	\$116,339,797	\$ 25,480,301	\$	\$	\$141,820,098
Food sales				1,431,268	1,431,268
Investment income	1,030,093	484,609	610,686	20,221	2,145,609
Penalties, interest and other tax related income	409,486	65,616			475,102
Co-curricular income	181,185				181,185
Other tuition and fees from patrons	2,850			31,193	34,043
Enterprise activities	9,904			1,321,943	1,331,847
Grants and contributions	11,317			685,805	697,122
Other	<u>2,376,993</u>			<u>60,945</u>	<u>2,437,938</u>
Total	<u>\$120,361,625</u>	<u>\$ 26,030,526</u>	<u>\$ 610,686</u>	<u>\$ 3,551,375</u>	<u>\$150,554,212</u>

NOTE 13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year 2018, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage.

NOTE 14. SELF-INSURANCE

Dental Plan

Beginning September 1, 2001, the District established its self-funding Dental (Health) Plan program. The accrued liability for the Dental Plan self-insurance program is projected to be \$ 36,739 as of August 31, 2018.

The dental plan is funded through the employee flex spending program. During the year ended August 31, 2018, the Plan received \$ 662,509 in employee contributions, of which \$ -0- were forfeitures.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018

NOTE 14. SELF-INSURANCE (Continued)

Dental Plan (Continued)

The accrued liability for the Dental Plan self-insurance of \$ 36,739 includes estimated incurred but not reported claims. This liability reported in the fund at August 31, 2018, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

Changes in the dental plan claims liability amounts in fiscal 2016-2017 and 2017-2018 are presented below:

	<u>Beginning of Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2016-2017 Dental Plan	\$ 80,292	\$ 674,664	\$ 719,808	\$ 35,148
2017-2018 Dental Plan	\$ 35,148	\$ 717,352	\$ 715,761	\$ 36,739

Workers' Compensation

Beginning September 1, 2001, the District established its self-funding Workers' Compensation program. The District met its statutory worker's compensation obligations by participating as a self-funded member of the TASB Risk Management Fund. The accrued liability for the Workers' Compensation self-insurance program is projected to be \$ 155,316 as of August 31, 2018.

The District has maintained a self-insured retention of \$ 325,000 per occurrence during the year ended August 31, 2018. The District currently purchases specific excess coverage of \$ 325,000 per occurrence from Midwest Employers Casualty Company and \$ 1,000,000 in the aggregate. Claims administration is also provided by Texas Association of School Boards.

The accrued liability for Workers' Compensation self insurance of \$ 155,316 includes estimated incurred but not reported claims. This liability reported in the fund at August 31, 2018, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 14. SELF-INSURANCE (Continued)

Workers' Compensation (Continued)

The following year-by-year exposure details the number of annual claims.

<u>Fiscal Year</u>	<u>Claims</u>
2009-10	112
2010-11	84
2011-12	77
2012-13	77
2013-14	85
2014-15	92
2015-16	93
2016-17	75
2017-18	72
9 Yr. Average	85

Changes in the workers' compensation claims liability amounts in fiscal 2016-2017 and 2017-2018 are presented below:

	<u>Beginning of Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2016-2017 Workers' Compensation	\$ 212,370	\$ 211,722	\$ 244,311	\$ 179,781
2017-2018 Workers' Compensation	\$ 179,781	\$ 174,979	\$ 199,444	\$ 155,316

NOTE 15. UNEMPLOYMENT COMPENSATION POOL

During the year ended August 31, 2018, Brazosport Independent School District provided unemployment compensation coverage to its employees through participation in 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. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2017 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 16. LITIGATION AND CONTINGENCIES

The District participates in numerous state and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 17. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS

The District participates in a Shared Services Arrangement (“SSA”) for teaching and services for the Juvenile Justice Alternative Education Program with seven other school districts. The District does not account for revenues or expenditures of this program and does not disclose them in these financial statements. Brazoria County is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement. The District does not 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 Brazosport Independent School District. The District reimburses Brazoria County for expenditures attributable to their participation. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the expenditures attributable to the District’s participation.

Expenditures:

6200	Professional and Contracted Services	\$	30,400
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The District participates in a Shared Services Arrangement for the hearing impaired through the Brazoria-Fort Bend Cooperative with eleven other school districts. 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, Fort Bend Independent School District, 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 Brazosport Independent School District. The fiscal manager is responsible for all financial activities of the shared services arrangement. The amount of state revenues and expenditures attributable to the District’s participation is not available.

The District reimburses Fort Bend Independent School District for their share of expenditures incurred which exceed the state funded portion. Local revenues are utilized to cover these expenditures. The District included the following expenditures in these financial statements.

Expenditures:

6400	Other Operating Costs	\$	110,700
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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 18. TAX ABATEMENTS

The District enters into appraised value limitations with local businesses under the Texas Economic Development Act (Tax Code Chapter 313). Under the Act, an appraised value limitation is an agreement in which a taxpayer agrees to build or install property and create jobs in exchange for a 10-year limitation on the taxable property value for the District's maintenance and operations tax (M&O) purposes. The minimum limitation value varies by District. The application for a limitation on the appraised value for M&O purposes is submitted directly to the District and requires an application fee that is established by the District. Tax credits are applicable only to applications determined to be complete prior to January 1, 2014. To qualify for a tax credit, a separate application must be submitted to the District after property taxes for the last complete year of the qualifying time period are paid. The credit is for M&O taxes paid in excess of the limitation amount in each complete year of the qualifying time period. The District's tax collector must credit the overage in equal parts over the last seven years of the agreement, but the credit in each year may not exceed 50 percent of the total taxes paid on the qualified property during that year. Any eligible amount not credited during the seven-year period are to be credited over the following three years, but the amount credited in each year may not exceed the total taxes paid on the qualified property in that year. The following are brief descriptions of each agreement followed by a summary of the agreements as of August 31, 2018:

The District entered in an agreement with Oyster Creek ASU #3 on December 18, 2007. In addition to the tax abatement, Oyster Creek ASU #3 has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 62.

The District entered in an agreement with Olin Chlorine 7, LLC on January 4, 2011. In addition to the tax abatement, Olin Chlorine 7, LLC has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 172.

The District entered in an agreement with High Purity Water Oasis on May 1, 2012. In addition to the tax abatement, High Purity Water Oasis has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 213.

The District entered in an agreement with Dispersions Facility on November 5, 2012. In addition to the tax abatement, Dispersions Facility has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 237.

The District entered in an agreement with Dow Agrosciences, LLC on May 1, 2013. The project scope was to design and construct a new Dichlorophenol plant in Freeport, Texas. Dichlorophenol is used in the production of Dow Agrosciences Frontline 2, 4-D herbicide. In addition to the tax abatement, Dow Agrosciences, LLC has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 216.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

NOTE 18. TAX ABATEMENTS (Continued)

The District entered into an agreement with Freeport Ammonia, LLC/Yara Freeport, LLC on November 11, 2014. The project scope was to design and construct an ammonia production facility, as well as related utility, infrastructure and logistics improvements. The plant will manufacture ammonia that is used in products such as nylon, polyurethanes, water treatment products, personal health care products and many others. In addition to the tax abatement, Freeport Ammonia, LLC/Yara Freeport, LLC has committed to the payment in lieu of taxes program. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 1007.

Application Number	Project Value	Project's Value Limitation Amount	Amount of Applicant's M&O Taxes Paid	Amount of Applicant's M&O Taxes Reduced	Company Revenue Loss Payments to the District	Company PILOT Payment to District	Net Benefit (Loss) to the District
62	\$ 43,638,070	\$ 30,000,000	\$ 312,000	\$ 141,836	\$ 2,669	\$ 50,000	\$ 364,669
172	778,153,500	30,000,000	312,000	7,780,796		877,448	1,189,448
213	69,364,650	30,000,000	312,000	409,392		40,939	352,939
216	85,576,520	30,000,000	312,000	577,996	254,436	32,356	598,792
237	80,475,750	30,000,000	312,000	524,948		52,495	364,495
1007	<u>53,440,000</u>	<u>30,000,000</u>	<u>312,000</u>	<u>243,776</u>	<u>235,224</u>	<u>855</u>	<u>548,079</u>
	\$ <u>1,110,648,490</u>	\$ <u>180,000,000</u>	\$ <u>1,872,000</u>	\$ <u>9,678,744</u>	\$ <u>492,329</u>	\$ <u>1,054,093</u>	\$ <u>3,418,422</u>

NOTE 19. SUBSEQUENT EVENT

The District has evaluated subsequent events through December 20, 2018, the date which the financial statements were available to be issued.

On October 1, 2018, the District issued \$ 42,320,000 of Series 2018 Unlimited Tax School Building Bonds for the construction, renovation, and equipment of school facilities, maturing in 2034. The bonds have stated interest rates of 3.00% - 4.00%. The bonds are to be paid from annual ad valorem interest and bonded indebtedness.

The following is a schedule of principal maturity for the Series 2018 Unlimited Tax School Building Bonds:

Maturing February 15	Principal
2019	\$ 3,865,000
2020	2,700,000
2021	2,440,000
2022	1,860,000
2023	1,875,000
2024-2028	12,235,000
2029-2033	14,345,000
2034	<u>3,000,000</u>
Total	\$ <u>42,320,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2018**

Exhibit G-1

Data Control Codes		General Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and intermediate sources	\$ 113,900,834	\$ 115,218,054	\$ 120,361,625	\$ 5,143,571
5800	State program revenues	12,040,938	12,040,938	14,116,627	2,075,689
5900	Federal program revenues	<u>1,588,800</u>	<u>1,588,800</u>	<u>1,905,200</u>	<u>316,400</u>
5020	Total revenues	<u>127,530,572</u>	<u>128,847,792</u>	<u>136,383,452</u>	<u>7,535,660</u>
EXPENDITURES:					
Current:					
0011	Instruction	63,583,389	63,890,764	62,248,254	1,642,510
0012	Instructional resources and media services	1,663,658	1,789,348	1,531,259	258,089
0013	Curriculum and staff development	3,371,180	3,499,328	3,249,948	249,380
0021	Instructional leadership	2,925,936	2,986,542	2,737,527	249,015
0023	School leadership	7,798,108	7,808,285	7,806,724	1,561
0031	Guidance, counseling, and evaluation services	4,792,696	4,734,304	4,472,123	262,181
0032	Social work services	343,394	393,394	351,274	42,120
0033	Health services	1,390,999	1,490,999	1,331,544	159,455
0034	Student transportation	2,599,062	2,549,062	2,382,884	166,178
0036	Extracurricular activities	3,803,652	3,874,671	3,602,237	272,434
0041	General administration	2,750,075	2,748,675	2,579,386	169,289
0051	Plant maintenance and operations	13,044,996	13,164,828	12,518,778	646,050
0052	Security and monitoring services	1,228,782	1,492,367	1,258,455	233,912
0053	Data processing services	2,206,194	2,466,194	2,109,062	357,132
0061	Community services	5,600	5,600	5,055	545
0071	Principal on long-term debt	571,000	571,000	16,600	554,400
0072	Interest on long-term debt	450,000	450,000	409,599	40,401
0091	Contracted instructional services between public schools	10,029,988	12,893,083	9,504,285	3,388,798
0093	Payments related to shared services arrangements	159,900	159,900	98,400	61,500
0095	Payments to Juvenile Justice Alternative Education Programs	40,000	40,000	30,400	9,600
0099	Other intergovernmental	<u>999,371</u>	<u>999,371</u>	<u>934,400</u>	<u>64,971</u>
6030	Total expenditures	<u>123,757,980</u>	<u>128,007,715</u>	<u>119,178,194</u>	<u>8,829,521</u>
1100	Excess of revenues over expenditures	<u>3,772,592</u>	<u>840,077</u>	<u>17,205,258</u>	<u>16,365,181</u>
OTHER FINANCING SOURCES (USES):					
7912	Sale of real or personal property			74,000	74,000
7915	Operating transfers in			59,759	59,759
8911	Operating transfers out			(25,737)	(25,737)
	Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>108,022</u>	<u>108,022</u>
1200	Net change in fund balances	3,772,592	840,077	17,313,280	16,473,203
0100	Fund balances – beginning	<u>38,822,418</u>	<u>38,822,418</u>	<u>38,822,418</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 42,595,010</u>	<u>\$ 39,662,495</u>	<u>\$ 56,135,698</u>	<u>\$ 16,473,203</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND RELATED RATIOS – COST SHARING EMPLOYER PLAN
FOR THE LAST TEN YEARS (1)
AUGUST 31, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017**

Exhibit G-2

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability (asset)	0.0502446%	0.0762038%	0.0757160%	0.0802290%
District's proportionate share of the net pension liability (asset)	\$ 13,421,028	\$ 26,937,029	\$ 28,611,962	\$ 25,652,918
State's proportionate share of the net pension liability (asset) associated with the District	<u>8,105,161</u>	<u>14,477,947</u>	<u>15,089,480</u>	<u>13,292,486</u>
Total	<u>\$ 21,526,189</u>	<u>\$ 41,414,976</u>	<u>\$ 43,701,442</u>	<u>\$ 38,945,404</u>
District's covered payroll	\$ 70,210,198	\$ 70,210,198	\$ 77,047,832	\$ 82,198,510
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	19.12%	38.37%	37.14%	31.21%
Plan fiduciary net position as a percentage of total pension liability	83.25%	78.43%	78.00%	82.17%

(1) The first TRS actuarial report was completed for the year ended August 31, 2014 (measurement date), therefore, only four years of required supplemental information is available.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*SCHEDULE OF REQUIRED CONTRIBUTIONS -**COST SHARING EMPLOYER PLAN**FOR THE LAST TEN YEARS (1)**AUGUST 31, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017*

Exhibit G-3

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contributions	\$ 1,273,841	\$ 2,256,428	\$ 2,405,690	\$ 2,629,439
Contributions in relation to the contractually required contribution	<u>1,273,841</u>	<u>2,256,428</u>	<u>2,405,690</u>	<u>2,629,439</u>
Contribution deficiency (excess)	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>
District's covered payroll	\$ 70,210,198	\$ 77,047,832	\$ 82,198,510	\$ 85,275,018
Contributions as a percentage of covered payroll	1.81%	2.93%	2.93%	3.08%

(1) The first TRS actuarial report was completed for the year ended August 31, 2014 (measurement date), therefore, only four years of required supplemental information is available.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
AND RELATED RATIOS - COST SHARING EMPLOYER PLAN
 FOR THE PRIOR TEN YEARS (1)
 AUGUST 31, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017

Exhibit G-4

	<u>2018</u>
District's proportion of the net OPEB liability (asset)	0.1094586992%
District's proportionate share of the net OPEB liability (asset)	\$ 47,599,482
State's proportionate share of the net OPEB liability (asset) associated with the District	<u>27,817,714</u>
Total	<u>\$ 75,417,196</u>
District's covered payroll	\$ 82,198,510
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	57.91%
Plan fiduciary net position as a percentage of total OPEB liability	0.91%

(1) The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

BRAZOSPORPT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED OPEB CONTRIBUTIONS - COST SHARING
EMPLOYER PLAN FOR THE PRIOR TEN YEARS (1)
AUGUST 30, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017

Exhibit G-5

	<u>2018</u>
Contractually required contributions	\$ 569,077
Contributions in relation to the contractually required contribution	<u>569,077</u>
Contribution deficiency (excess)	<u><u>\$ -0-</u></u>
District's covered payroll	\$ 85,275,018
Contributions as a percentage of covered payroll	0.67%

(1) This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

OTHER SUPPLEMENTARY INFORMATION

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	Special					
	211	224	225	226	240	
	ESEA, Title I Part A	IDEA - Part B, Formula	IDEA - Part B, Preschool	IDEA Part B, High Cost	Child Nutrition Program	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:						
1110	Cash and cash equivalents	\$	\$	\$	\$	1,705,081
1240	Receivables from other governments	519,336	659,430	17,162	6,482	344,914
1260	Due from other funds	3	35			1,045,247
1290	Other receivables					23,967
1310	Inventories					127,047
1000	Total assets	<u>519,339</u>	<u>659,465</u>	<u>17,162</u>	<u>6,482</u>	<u>3,246,256</u>
DEFERRED OUTFLOWS OF RESOURCES						
1700	Deferred outflows of resources					
	Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	Total assets and deferred outflows of resources	<u>\$ 519,339</u>	<u>\$ 659,465</u>	<u>\$ 17,162</u>	<u>\$ 6,482</u>	<u>\$ 3,246,256</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
2110	Accounts payable	\$ 23,553	\$ 87,071	\$	\$	350,559
2160	Accrued wages payable	147,957	176,213	6,067		199,071
2170	Due to other funds	347,829	396,181	11,095	6,482	2,005,072
2180	Payable to other governments					
2300	Unearned revenue					116,081
2000	Total liabilities	<u>519,339</u>	<u>659,465</u>	<u>17,162</u>	<u>6,482</u>	<u>2,670,783</u>
DEFERRED INFLOWS OF RESOURCES						
2600	Deferred inflows of resources					
	Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:						
Non-Spendable:						
3410	Inventories					127,047
Restricted:						
3450	Grant funds					448,426
3490	Other					
3000	Total fund balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>575,473</u>
4000	Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 519,339</u>	<u>\$ 659,465</u>	<u>\$ 17,162</u>	<u>\$ 6,482</u>	<u>\$ 3,246,256</u>

Revenue Funds							
244	255	263	287	288	289	385	397
Carl D Perkins Basic Formula	ESEA, Title II Part A	ESEA, Title III, Part A	Federal Emergency Management Agency	LEP Summer Program	Title IV, Part A	Orientation & Mobility Program	Advanced Placement Incentive
\$ 8,511 462	\$ 49,898	\$ 23,190	\$ 22,854	\$	\$ 6,039	\$	\$
<u>8,973</u>	<u>49,898</u>	<u>23,190</u>	<u>22,854</u>	<u>-0-</u>	<u>6,039</u>	<u>-0-</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 8,973</u>	<u>\$ 49,898</u>	<u>\$ 23,190</u>	<u>\$ 22,854</u>	<u>\$ -0-</u>	<u>\$ 6,039</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ 401 8,572	\$ 7,774 42,124	\$ 1,939 21,251	\$ 22,854	\$	\$ 5,744 266 29	\$	\$
<u>8,973</u>	<u>49,898</u>	<u>23,190</u>	<u>22,854</u>	<u>-0-</u>	<u>6,039</u>	<u>-0-</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 8,973</u>	<u>\$ 49,898</u>	<u>\$ 23,190</u>	<u>\$ 22,854</u>	<u>\$ -0-</u>	<u>\$ 6,039</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2018

		410	427	429	461	Special 472
Data Control Codes		Instructional Materials Allotment	Criminal Justice Planning Grant	Math & Literacy Achievement	Campus Activity Funds	BISD Education Foundation
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:						
1110	Cash and cash equivalents	\$	\$	\$	\$ 1,102,454	\$ 531,748
1240	Receivables from other governments	431,307	1,750			
1260	Due from other funds			4,200		
1290	Other receivables					
1310	Inventories					
1000	Total assets	<u>431,307</u>	<u>1,750</u>	<u>4,200</u>	<u>1,102,454</u>	<u>531,748</u>
DEFERRED OUTFLOWS OF RESOURCES						
1700	Deferred outflows of resources					
	Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	Total assets and deferred outflows of resources	<u>\$ 431,307</u>	<u>\$ 1,750</u>	<u>\$ 4,200</u>	<u>\$ 1,102,454</u>	<u>\$ 531,748</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
2110	Accounts payable	\$ 77,353	\$	\$	\$	\$ 1,869
2160	Accrued wages payable					
2170	Due to other funds	353,954	1,750			
2180	Payable to other governments					
2300	Unearned revenue					
2000	Total liabilities	<u>431,307</u>	<u>1,750</u>	<u>-0-</u>	<u>-0-</u>	<u>1,869</u>
DEFERRED INFLOWS OF RESOURCES						
2600	Deferred inflows of resources					
	Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:						
Non-Spendable:						
3410	Inventories					
Restricted:						
3450	Grant funds					
3490	Other			4,200	1,102,454	529,879
3000	Total fund balances	<u>-0-</u>	<u>-0-</u>	<u>4,200</u>	<u>1,102,454</u>	<u>529,879</u>
4000	Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 431,307</u>	<u>\$ 1,750</u>	<u>\$ 4,200</u>	<u>\$ 1,102,454</u>	<u>\$ 531,748</u>

Revenue Funds

480	482	483	484	485	489	490	
Lowe's Grants	PPCD Program	Region 4 School Support	Fluor Industries Grant	National FFA Foundation	City of Lake Jackson PEG	Dow Education Grants	Total Nonmajor Governmental (See C-2)
\$	\$	\$	\$	\$	\$	\$	\$ 3,339,283
2,474	30,734		7,703		59,709	46,575	2,090,873
							1,197,142
							23,967
							127,047
<u>2,474</u>	<u>30,734</u>	<u>-0-</u>	<u>7,703</u>	<u>-0-</u>	<u>59,709</u>	<u>46,575</u>	<u>6,778,312</u>
							-0-
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 2,474</u>	<u>\$ 30,734</u>	<u>\$ -0-</u>	<u>\$ 7,703</u>	<u>\$ -0-</u>	<u>\$ 59,709</u>	<u>\$ 46,575</u>	<u>\$ 6,778,312</u>
\$	\$	\$	\$	\$	\$ 53,017	\$	\$ 593,823
	4,040						548,805
	521						3,217,951
						38,293	29
							154,374
<u>-0-</u>	<u>4,561</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>53,017</u>	<u>38,293</u>	<u>4,514,982</u>
							-0-
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
							127,047
<u>2,474</u>	<u>26,173</u>		<u>7,703</u>		<u>6,692</u>	<u>8,282</u>	448,426
<u>2,474</u>	<u>26,173</u>	<u>-0-</u>	<u>7,703</u>	<u>-0-</u>	<u>6,692</u>	<u>8,282</u>	<u>1,687,857</u>
<u>\$ 2,474</u>	<u>\$ 30,734</u>	<u>\$ -0-</u>	<u>\$ 7,703</u>	<u>\$ -0-</u>	<u>\$ 59,709</u>	<u>\$ 46,575</u>	<u>\$ 6,778,312</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2018

Data Control Codes		Special				
		211	224	225	226	240
		ESEA, Title I Part A	IDEA - Part B, Formula	IDEA - Part B, Preschool	IDEA Part B, High Cost	Child Nutrition Program
REVENUES:						
5700	Local and intermediate sources	\$ 141	\$ 208	\$	\$	\$ 1,501,485
5800	State program revenues					150,791
5900	Federal program revenues	<u>2,180,942</u>	<u>2,431,141</u>	<u>64,623</u>	<u>290,010</u>	<u>4,490,775</u>
5020	Total revenues	<u>2,181,083</u>	<u>2,431,349</u>	<u>64,623</u>	<u>290,010</u>	<u>6,143,051</u>
EXPENDITURES:						
Current:						
0011	Instruction	1,691,973	1,768,079	64,623	267,321	
0012	Instructional resources and media services					
0013	Curriculum and staff development	199,066	13,240			
0021	Instructional leadership	121,972	67,112			
0023	School leadership	8,504				
0031	Guidance, counseling and evaluation services	596	517,633			
0032	Social work services	139,611	65,285			
0034	Student transportation					
0035	Food service					6,266,598
0036	Extracurricular activities				10,389	
0041	General administration					
0051	Plant maintenance and operations					
0052	Security and monitoring services					
0061	Community services	19,361				
0093	Payments related to shared services arrangements				<u>12,300</u>	
6030	Total expenditures	<u>2,181,083</u>	<u>2,431,349</u>	<u>64,623</u>	<u>290,010</u>	<u>6,266,598</u>
1100	Excess (deficiency) of revenues over expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(123,547)</u>
OTHER FINANCING SOURCES (USES):						
7912	Sale of real and personal property					16,327
7915	Operating transfers in					25,737
8911	Operating transfers out					
	Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>42,064</u>
1200	Net changes in fund balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(81,483)</u>
0100	Fund balances - beginning	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>656,956</u>
3000	Fund balances - ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 575,473</u>

Revenue Funds

244	255	263	287	288	289	385	397
Carl D Perkins Basic Formula	ESEA, Title II Part A	ESEA, Title III, Part A	Federal Emergency Management Agency	LEP Summer Program	Title IV, Part A	Orientation & Mobility Program	Advanced Placement Incentive
\$ 220	\$	\$ 613	\$ 9,738	\$	\$ 29	\$	\$
120,598	317,519	104,913	31,352	4,749	46,561	10,810	3,135
120,818	317,519	105,526	41,090	4,749	46,590	10,810	3,135
115,496		91,734		4,749	22,436	10,810	
4,860 462	317,519	8,381 1,524	487		8,095		3,135
			1,439				
			4,882 31,362 2,920		10,020 5,745 294		
		3,887					
120,818	317,519	105,526	41,090	4,749	46,590	10,810	3,135
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2018

		410	427	429	461	Special 472
Data Control Codes		Instructional Materials Allotment	Criminal Justice Planning Grant	Math & Literacy Achievement	Campus Activity Funds	BISD Education Foundation
REVENUES:						
5700	Local and intermediate sources	\$	\$	\$	\$ 1,321,943	\$ 531,759
5800	State program revenues	1,072,565	64,000	4,550		
5900	Federal program revenues					
5020	Total revenues	<u>1,072,565</u>	<u>64,000</u>	<u>4,550</u>	<u>1,321,943</u>	<u>531,759</u>
EXPENDITURES:						
Current:						
0011	Instruction	1,072,565				100,948
0012	Instructional resources and media services					29,935
0013	Curriculum and staff development			8,050		9,173
0021	Instructional leadership					
0023	School leadership					
0031	Guidance, counseling and evaluation services					
0032	Social work services		64,000			
0034	Student transportation					
0035	Food service					
0036	Extracurricular activities				1,251,337	22,906
0041	General administration					73,636
0051	Plant maintenance and operations					3,274
0052	security and monitoring services					
0061	Community services					114
0093	Payments related to shared services arrangements					
6030	Total expenditures	<u>1,072,565</u>	<u>64,000</u>	<u>8,050</u>	<u>1,251,337</u>	<u>239,986</u>
1100	Excess (deficiency) of revenues over expenditures	<u>-0-</u>	<u>-0-</u>	<u>(3,500)</u>	<u>70,606</u>	<u>291,773</u>
OTHER FINANCING SOURCES (USES):						
7912	Sale of real and personal property					
7915	Operating transfers in					
8911	Operating transfers out					<u>(67,456)</u>
	Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(67,456)</u>
1200	Net changes in fund balances			<u>(3,500)</u>	<u>70,606</u>	<u>224,317</u>
0100	Fund balances - beginning	<u>-0-</u>	<u>-0-</u>	<u>7,700</u>	<u>1,031,848</u>	<u>305,562</u>
3000	Fund balances - ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,200</u>	<u>\$ 1,102,454</u>	<u>\$ 529,879</u>

Revenue Funds

480	482	483	484	485	489	490	
Lowe's Grants	PPCD Program	Region 4 School Support	Fluor Industries Grant	National FFA Foundation	City of Lake Jackson PEG	Dow Education Grants	Total Nonmajor Governmental (See C-2)
\$	\$ 31,193	\$ 14,551	\$	\$	\$ 63,968	\$ 75,527	\$ 3,551,375
							1,305,851
							10,083,183
<u>-0-</u>	<u>31,193</u>	<u>14,551</u>	<u>-0-</u>	<u>-0-</u>	<u>63,968</u>	<u>75,527</u>	<u>14,940,409</u>
526	39,743	14,551	792	2,730	57,276	79,250	5,405,602
						1,500	29,935
							573,019
							191,557
							8,504
							518,229
							268,896
							1,439
							6,266,598
							1,284,632
							78,518
							44,656
							8,665
							23,656
							12,300
<u>526</u>	<u>39,743</u>	<u>14,551</u>	<u>792</u>	<u>2,730</u>	<u>57,276</u>	<u>80,750</u>	<u>14,716,206</u>
<u>(526)</u>	<u>(8,550)</u>	<u>-0-</u>	<u>(792)</u>	<u>(2,730)</u>	<u>6,692</u>	<u>(5,223)</u>	<u>224,203</u>
							16,327
						7,697	33,434
							(67,456)
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>7,697</u>	<u>(17,695)</u>
<u>(526)</u>	<u>(8,550)</u>	<u>-0-</u>	<u>(792)</u>	<u>(2,730)</u>	<u>6,692</u>	<u>2,474</u>	<u>206,508</u>
<u>3,000</u>	<u>34,723</u>	<u>-0-</u>	<u>8,495</u>	<u>2,730</u>	<u>-0-</u>	<u>5,808</u>	<u>2,056,822</u>
<u>\$ 2,474</u>	<u>\$ 26,173</u>	<u>\$ -0-</u>	<u>\$ 7,703</u>	<u>\$ -0-</u>	<u>\$ 6,692</u>	<u>\$ 8,282</u>	<u>\$ 2,263,330</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
AUGUST 31, 2018

Exhibit H-3

<u>Data Control Codes</u>		<u>Dental Plan</u>	<u>Worker's Compensation</u>	<u>Total (See D-1)</u>
	ASSETS:			
	Current Assets:			
1110	Cash and cash equivalents	\$ 166,780	\$ 157,648	\$ 324,428
1120	Investments	<u>247,296</u>	<u>1,974,858</u>	<u>2,222,154</u>
	Total current assets	414,076	2,132,506	2,546,582
	DEFERRED OUTFLOWS OF RESOURCES:			
1700	Deferred outflows of resources	<u> </u>	<u> </u>	<u>-0-</u>
	Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	Total assets and deferred outflows of resources	<u>\$ 414,076</u>	<u>\$ 2,132,506</u>	<u>\$ 2,546,582</u>
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:			
	Liabilities:			
2165	Accrued liabilities	<u>\$ 36,739</u>	<u>\$ 155,316</u>	<u>\$ 192,055</u>
	Total liabilities	36,739	155,316	192,055
	DEFERRED INFLOWS OF RESOURCES:			
2600	Deferred inflows of resources	<u> </u>	<u> </u>	<u>-0-</u>
	Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	NET POSITION:			
3900	Unrestricted net position	<u>377,337</u>	<u>1,977,190</u>	<u>2,354,527</u>
	Total net position	<u>377,337</u>	<u>1,977,190</u>	<u>2,354,527</u>
	Total liabilities, deferred inflows of resources and net position	<u>\$ 414,076</u>	<u>\$ 2,132,506</u>	<u>\$ 2,546,582</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUNDS
YEAR ENDED AUGUST 31, 2018

Exhibit H-4

	<u>Dental Plan</u>	<u>Worker's Compensation</u>	<u>Total (See D-2)</u>
Operating Revenues:			
Charges for services	\$ <u>662,509</u>	\$ <u>296,893</u>	\$ <u>959,402</u>
Total operating revenues	<u>662,509</u>	<u>296,893</u>	<u>959,402</u>
Operating Expenses:			
Insurance claims and expenses	<u>714,170</u>	<u>228,594</u>	<u>942,764</u>
Total operating expenses	<u>714,170</u>	<u>228,594</u>	<u>942,764</u>
Operating income (loss)	(<u>51,661</u>)	<u>68,299</u>	<u>16,638</u>
Nonoperating Revenues:			
Interest and investment revenue	<u>3,835</u>	<u>17,723</u>	<u>21,558</u>
Total nonoperating revenues	<u>3,835</u>	<u>17,723</u>	<u>21,558</u>
Change in net position	(<u>47,826</u>)	<u>86,022</u>	<u>38,196</u>
Net position – beginning	<u>425,163</u>	<u>1,891,168</u>	<u>2,316,331</u>
Net position – ending	\$ <u><u>377,337</u></u>	\$ <u><u>1,977,190</u></u>	\$ <u><u>2,354,527</u></u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED AUGUST 31, 2018

Exhibit H-5

	<u>Dental Plan</u>	<u>Worker's Compensation</u>	<u>Total (See D-3)</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 662,509	\$ 296,893	\$ 959,402
Payments to suppliers	(715,761)	(4,685)	(4,685)
Claims paid	(715,761)	(199,444)	(915,205)
Net cash provided (used) by operating activities	<u>(53,252)</u>	<u>92,764</u>	<u>39,512</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net cash provided (used) by noncapital financing activities	<u> </u>	<u> </u>	<u>-0-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Net cash provided (used) by capital and related financing activities	<u> </u>	<u> </u>	<u>-0-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(244,114)	(2,023,788)	(2,267,902)
Interest and dividends	<u>3,835</u>	<u>17,723</u>	<u>21,558</u>
Net cash used by investing activities	<u>(240,279)</u>	<u>(2,006,065)</u>	<u>(2,246,344)</u>
Net decrease in cash and cash equivalents	<u>(293,531)</u>	<u>(1,913,301)</u>	<u>(2,206,832)</u>
Balances – beginning of the year	<u>460,311</u>	<u>2,070,949</u>	<u>2,531,260</u>
Balances – end of the year	<u>\$ 166,780</u>	<u>\$ 157,648</u>	<u>\$ 324,428</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$(51,661)	\$ 68,299	\$ 16,638
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Changes in Assets and Liabilities:			
Accrued expenses payable	<u>(1,591)</u>	<u>24,465</u>	<u>22,874</u>
Net cash provided (used) by operating activities	<u>\$(53,252)</u>	<u>\$ 92,764</u>	<u>\$ 39,512</u>

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED AUGUST 31, 2018

Last Ten Years Ended August 31,	Tax Rates		Assessed/Appraised Value for School Tax Purposes	Beginning Balance September 1, 2017
	Maintenance	Debt Service		
2008 and Prior	\$ Various	\$ Various	\$ Various	\$ 158,704
2009	1.010000	0.182200	7,328,104,426	41,028
2010	1.040000	0.188500	6,666,775,818	39,194
2011	1.040000	0.201500	6,238,933,790	44,270
2012	1.040000	0.201500	6,068,476,601	36,902
2013	1.040000	0.219500	6,431,912,070	56,370
2014	1.040000	0.215300	6,409,126,185	77,771
2015	1.040000	0.215300	6,933,187,931	98,261
2016	1.040000	0.215300	8,001,042,265	186,041
2017	1.040000	0.215300	8,457,052,204	549,521
2018 (School Year Under Audit)	1.040000	0.215300	11,394,834,859	
Totals				\$ <u>1,288,062</u>

Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance August 31, 2018
\$	\$ 5,529	\$ 713	\$(3,203)	\$ 149,259
	1,647	297	(1,798)	37,286
	1,658	300	(534)	36,702
	2,708	525	(318)	40,719
	2,195	425	(319)	33,963
	12,387	2,614	10,578	51,947
	17,981	3,722	14,528	70,596
	28,310	5,861	13,368	77,458
	66,125	13,689	18,495	124,722
	237,991	49,269	(49,715)	212,546
<u>131,920,979</u>	<u>115,972,339</u>	<u>25,404,688</u>	<u>10,069,957</u>	<u>613,909</u>
<u>\$ 131,920,979</u>	<u>\$ 116,348,870</u>	<u>\$ 25,482,103</u>	<u>\$ 10,071,039</u>	<u>\$ 1,449,107</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND
AUGUST 31, 2018
UNAUDITED

Exhibit J-3

Data Control Code	Explanation	Amount
1	Total General Fund Balance as of 08/31/18 (Exhibit C-1 object 3000 for the General Fund only)	\$ <u>56,135,698</u>
2	Total Non-Spendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	1,424,481
3	Total Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	3,605,000
4	Total Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	750,000
5	Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	10,000,000
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds representing deferred revenues)	16,209,845
7	Estimate of two months' average cash disbursements during the regular School session (9/1/17 – 8/31/18)	19,863,032
8	Estimate of delayed payments from state sources (58XX)	
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
10	Estimate of delayed payments from federal sources (59XX)	
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	
12	Optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10+11)	<u>51,852,358</u>
13	Excess unassigned General Fund fund balance (1- 12)	\$ <u><u>4,283,340</u></u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL – CHILD NUTRITION PROGRAM SPECIAL REVENUE FUND
YEAR ENDED AUGUST 31, 2018**

Exhibit J-4

Data Control Codes		Child Nutrition Program Special Revenue Fund			
		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 1,695,471	\$ 1,695,471	\$ 1,501,485	\$(193,986)
5800	State program revenues	40,000	265,000	150,791	(114,209)
5900	Federal program revenues	<u>4,389,988</u>	<u>4,389,988</u>	<u>4,490,775</u>	<u>100,787</u>
5020	Total revenues	<u>6,125,459</u>	<u>6,350,459</u>	<u>6,143,051</u>	<u>(207,408)</u>
	EXPENDITURES:				
	Current:				
0035	Food service	<u>6,125,459</u>	<u>6,350,459</u>	<u>6,266,598</u>	<u>83,861</u>
6030	Total expenditures	<u>6,125,459</u>	<u>6,350,459</u>	<u>6,266,598</u>	<u>83,861</u>
1100	Deficiency of revenues over expenditures	-0-	-0-	(123,547)	(123,547)
	OTHER FINANCING SOURCES:				
7912	Sale of real and personal property			16,327	16,327
7915	Operating transfers in			<u>25,737</u>	<u>25,737</u>
	Total other financing sources	<u>-0-</u>	<u>-0-</u>	<u>42,064</u>	<u>42,064</u>
1200	Net change in fund balances	-0-	-0-	(81,483)	(81,483)
0100	Fund balances – beginning	<u>656,956</u>	<u>656,956</u>	<u>656,956</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 656,956</u>	<u>\$ 656,956</u>	<u>\$ 575,473</u>	<u>\$(81,483)</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED AUGUST 31, 2018

Exhibit J-5

Data Control Codes		Debt Service Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 24,975,031	\$ 24,975,031	\$ 26,030,526	\$ 1,055,495
2800	State program revenues	<u>199,905</u>	<u>199,905</u>	<u>209,666</u>	<u>9,761</u>
5020	Total revenues	<u>25,174,936</u>	<u>25,174,936</u>	<u>26,240,192</u>	<u>1,065,256</u>
	EXPENDITURES:				
	Current:				
0071	Principal on long-term debt	17,848,646	25,848,646	25,020,000	828,646
0072	Interest on long-term debt	7,304,386	7,325,519	7,021,025	304,494
0073	Bond issuance costs and fees	<u>177,730</u>	<u>664,384</u>	<u>505,308</u>	<u>159,076</u>
6030	Total expenditures	<u>25,330,762</u>	<u>33,838,549</u>	<u>32,546,333</u>	<u>1,292,216</u>
1100	Excess (deficiency) of revenues over expenditures	(155,826)	(8,663,613)	(6,306,141)	2,357,472
	OTHER FINANCING SOURCES:				
7916	Premium on issuance of bonds	<u> </u>	<u>507,787</u>	<u>507,787</u>	<u> </u>
	Total other financing sources	<u>-0-</u>	<u>507,787</u>	<u>507,787</u>	<u>-0-</u>
1200	Net change in fund balances	(155,826)	(8,155,826)	(5,798,354)	2,357,472
0100	Fund balances – beginning	<u>18,982,044</u>	<u>18,982,044</u>	<u>18,982,044</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 18,826,218</u>	<u>\$ 10,826,218</u>	<u>\$ 13,183,690</u>	<u>\$ 2,357,472</u>

FEDERAL AWARDS SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

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

To the Board of Trustees
Brazosport Independent School District
Freeport, Texas 77542

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, each major fund, and the aggregate remaining fund information of Brazosport Independent School District (the "District"), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 20, 2018.

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.

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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.

Kerremers, Masters & Hungford, LLC

Lake Jackson, Texas
December 20, 2018

Kennemer, Masters & Lunsford

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Independent Auditor's Report

On Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Trustees
Brazosport Independent School District
Freeport, Texas 77542

Report on Compliance for Each Major Federal Program

We have audited Brazosport 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of 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.

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Opinion on Each Major Federal Program

In our opinion, Brazosport Independent School 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, 2018.

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 a 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.

Kennemer, Masters & Hunsford, LLC

Lake Jackson, Texas
December 20, 2018

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2018

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unmodified.
2. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None
4. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unmodified.
6. Did the audit disclose findings, which are required to be reported in accordance with 2 CFR 200.516(a): No.
7. Major programs include:
 - Cluster Program:
 - National School Breakfast Program – CFDA 10.553
 - National School Lunch Program – CFDA 10.555
 - Commodity Supplement Program – CFDA 10.555
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000.
9. Low risk auditee: Yes.

II. Findings related to the financial statements

The audit disclosed no findings required to be reported.

III. Findings and questioned costs related to the federal awards.

The audit disclosed no findings required to be reported.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2018

None.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2018

None.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2018

EXHIBIT K-1
PAGE 1 OF 2

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures Indirect Costs or Award Amount
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
ESEA, Title I, Part A - Improving Basic Programs*	84.010A	18610101020905	\$ 1,937,966
ESEA, Title I, Part A - Improving Basic Programs*	84.010A	19610101020905	196,630
ESEA, Title I, Part A - Priority and Focus Programs*	84.010A	18610112020905000	<u>74,169</u>
			<u>2,208,765</u>
IDEA - Part B, Formula **	84.027A	186600010209056600	2,333,727
IDEA - Part B, Formula **	84.027A	196600010209056610	<u>169,891</u>
			<u>2,503,618</u>
IDEA - Part B, Preschool **	84.173A	186610010209056610	58,556
IDEA - Part B, Preschool **	84.173A	196610010209056610	<u>6,067</u>
			<u>64,623</u>
IDEA - Part B, High Cost**	84.027A	186600060209056	<u>290,010</u>
			<u>290,010</u>
Title I, Part C - Carl D. Perkins	84.048A	18420006020905	<u>120,598</u>
			<u>120,598</u>
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	18671001020905	100,389
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	19671001020905	<u>4,524</u>
			<u>104,913</u>
ESEA, Title II, Part A - Teacher/Principal Training and Recruiting	84.367A	18694501020905	301,049
ESEA, Title II, Part A - Teacher/Principal Training and Recruiting	84.367A	19694501020905	<u>20,903</u>
			<u>321,952</u>
Title IV, Part A, Subpart 1 – Improving Academic Achievement	84.424A	1868010020905	40,522
Title IV, Part A, Subpart 1 – Improving Academic Achievement	84.424A	1968010020905	<u>6,039</u>
			<u>46,561</u>
English Second Language (ESL) - Summer School Program	84.369A	069551702	<u>4,749</u>
			<u>4,749</u>
TOTAL DEPARTMENT OF EDUCATION			\$ <u>5,665,789</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2018

EXHIBIT K-1
PAGE 2 OF 2

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures Indirect Costs or Award Amount
<u>U.S. Department of Agriculture</u>			
Direct Program:			
Commodity Supplement Program ***	10.555	020905	\$ <u>388,867</u>
			<u>388,867</u>
Passed Through State Department of Education:			
School Breakfast Program ***	10.553	71601701	936,587
National School Lunch Program ***	10.555	71601701	3,451,984
			<u>4,388,571</u>
Passed Through State Department of Agriculture:			
Child and Adult Care Food Program	10.558	00116	213,337
			<u>213,337</u>
TOTAL DEPARTMENT OF AGRICULTURE			\$ <u>4,990,775</u>
<u>U.S. Department of Defense</u>			
Direct Programs:			
ROTC	12.000	-	\$ <u>68,433</u>
TOTAL DEPARTMENT OF DEFENSE			\$ <u>68,433</u>
<u>U.S. Department of Health & Human Services</u>			
Passed Through State Department of Human Services:			
Medicaid Administrative Claiming Program – MAC	93.778	-	\$ <u>10,021</u>
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES			\$ <u>10,021</u>
<u>U.S. Department of Homeland Security</u>			
Direct Programs:			
Disaster Grants - Public Assistance	97.036	4332-DR-TX	\$ <u>31,352</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY			\$ <u>31,352</u>
TOTAL FEDERAL ASSISTANCE			\$ <u>10,766,370</u>
*, **, *** - Cluster Programs			
RECONCILIATION:			
Federal Program Revenues (Exhibit C-2)			\$ 11,988,383
Less: School Health and Related Services (SHARS) not considered federal revenue for the Schedule of Federal Awards			(839,462)
Build America Bonds not considered federal revenue for the Schedule of Federal Awards			(382,551)
Total federal financial assistance (Schedule of expenditures of Federal Awards)			\$ <u>10,766,370</u>

See notes to supplemental Schedule of Expenditures of Federal Awards

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2018

NOTE 1 – BASIS OF ACCOUNTING

The District accounts for all awards under federal programs in the General and certain special revenue funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources 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 position.

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

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

Commodity Supplement (CFDA 10.555) received like kind goods and no grant revenue received was reported on the schedule for the monetary value of these goods. The monetary value of goods received was \$ 504,948, while the monetary value of goods used and recognized as income and expenditures was \$ 388,867.

NOTE 2 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 – FEDERAL INDIRECT RATE

The District has elected to use the 10 percent de minimis indirect cost rate.