

**BRAZOSPORT COLLEGE DISTRICT**  
**ANNUAL FINANCIAL AND COMPLIANCE REPORT**  
**YEARS ENDED AUGUST 31, 2014 AND 2013**

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

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# BRAZOSPORT COLLEGE DISTRICT

## *Annual Financial and Compliance Report Years Ended August 31, 2014 and 2013*

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# BRAZOSPORT COLLEGE DISTRICT

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**INTRODUCTORY SECTION**

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# BRAZOSPORT COLLEGE DISTRICT

## ORGANIZATIONAL DATA

Fiscal Year 2013-2014

### Board of Trustees/Regents

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#### Officers

Carolyn Johnson  
Sharon Rogers

Chair  
Vice-Chair

#### Members

#### Term Expires

John R. Gilbert  
Joe C. Greer, Jr.  
Carolyn Johnson  
Lucilla Henderson  
Jerry Hinojosa  
Robert Perryman  
Jane Leidlein, M.D.  
Harry F. Koester, Jr.  
Sharon Rogers

Lake Jackson, Texas  
Freeport, Texas  
Freeport, Texas  
Lake Jackson, Texas  
Lake Jackson, Texas  
Jones Creek, Texas  
Lake Jackson, Texas  
Lake Jackson, Texas  
Lake Jackson, Texas

May 14, 2016  
May 14, 2016  
May 14, 2016  
May 12, 2018  
May 12, 2018  
May 12, 2018  
May 9, 2020  
May 9, 2020  
May 9, 2020

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#### Principal Administrative Officers

Millicent M. Valek, Ph.D.  
Lynda Villanueva, Ed.D.  
Herb E. Miles, Ed.D.  
Fred J. Scott, MBA  
Serena Andrews  
Anne Bartlett  
David Marshall, MBA

President  
Vice President, Academic & Student Affairs  
Vice-President, Human Resources  
Vice-President, Administrative Services  
Vice President, Institutional Advancement  
Vice President, Industry & Community Resources  
Vice President, Financial Services & CFO

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**FINANCIAL SECTION**

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# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

**Lake Jackson Office:**  
8 West Way Court  
Lake Jackson, Texas 77566

**El Campo Office:**  
201 W. Webb  
El Campo, Texas 77437

**Houston Office:**  
10260 Westheimer, Suite 410  
Houston, Texas 77042

## Independent Auditor's Report

To the Board of Regents  
Brazosport College District  
Lake Jackson, Texas 77566

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Brazosport College District (the "District") as of and for the years ended August 31, 2014 and 2013, 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.

www.kmkwllc.com – Email: kmkw@kmkwllc.com

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the Brazosport College District, as of August 31, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 3 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 - 26 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, and supplemental schedules, required by the Texas Higher Education Coordinating Board, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the *Texas Single Audit Circular*, and are also not a required part of the basic financial statements.

**Other Matters - Continued**

*Other Information - Continued*

The supplemental schedules and the schedules of expenditures of federal and state 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 supplemental schedules, required by the Texas Higher Education Coordinating Board, and the schedules of expenditures of federal and state 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 November 19, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Kerremers, Masters & Hunzford, LLC*

Certified Public Accountants  
Lake Jackson, Texas  
November 19, 2014

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**BRAZOSPORT COLLEGE DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEARS ENDED AUGUST 31, 2014, 2013 AND 2012**

This section of Brazosport College District's annual financial report presents a discussion and analysis of the financial performance of the District during the fiscal year ended August 31, 2014. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with them. The financial statements, footnotes, and this discussion are the responsibility of management.

Financial reporting format has been presented in a manner required by the Governmental Accounting Standards Board's Statements No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

**Using This Annual Report**

This report consists of three basic financial statements for the District and three basic financial statements for the Foundation. The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows provide information on Brazosport College District as a whole and present a long-term view of the District's finances. The Statement of Financial Position; the Statement of Activities; and the Statement of Cash Flows provide information on the Brazosport College Foundation as a whole.

**The Statement of Net Position**

The Statement of Net Position presents the financial position of the District at the end of the fiscal year and includes all assets and liabilities. The difference between total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources – net position – is an indicator of the current financial condition of the District. Assets and liabilities are generally measured using current values. Capital assets, which represent 84% of total assets and deferred outflow of resources, are stated at historical cost less an allowance for depreciation.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the District equity in property, plant and equipment owned. The next category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the District, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. The unrestricted net position is available for use by the District for any legal purpose.

**Statement of Net Position**  
**As of August 31, 2014, 2013 and 2012**  
**(in thousands of dollars)**

	2014	2013	Restated 2012
Assets:			
Current assets	\$ 6,116	\$ 4,855	\$ 6,083
Capital assets, net	98,611	100,365	101,767
Other assets	11,980	9,591	6,271
Total assets	116,707	114,811	114,121

(continued)

**BRAZOSPORT COLLEGE DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEARS ENDED AUGUST 31, 2014, 2013 AND 2012**

**The Statement of Net Position - Continued**

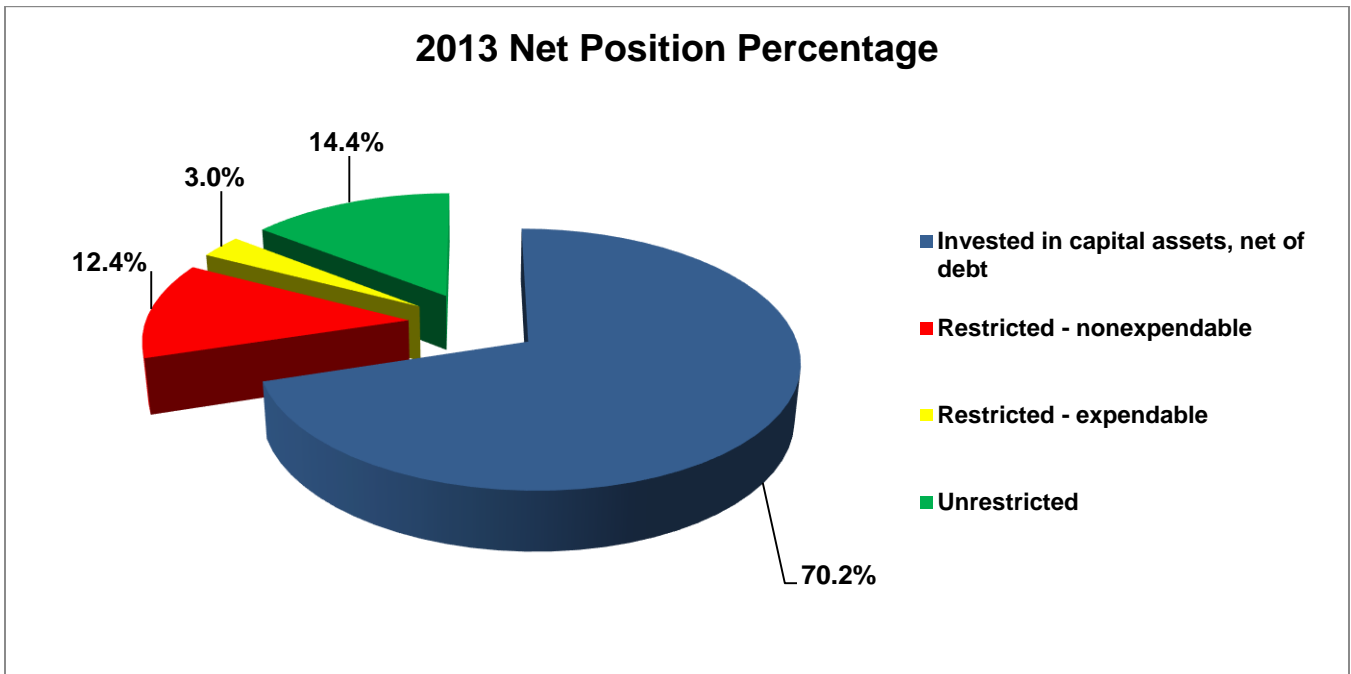
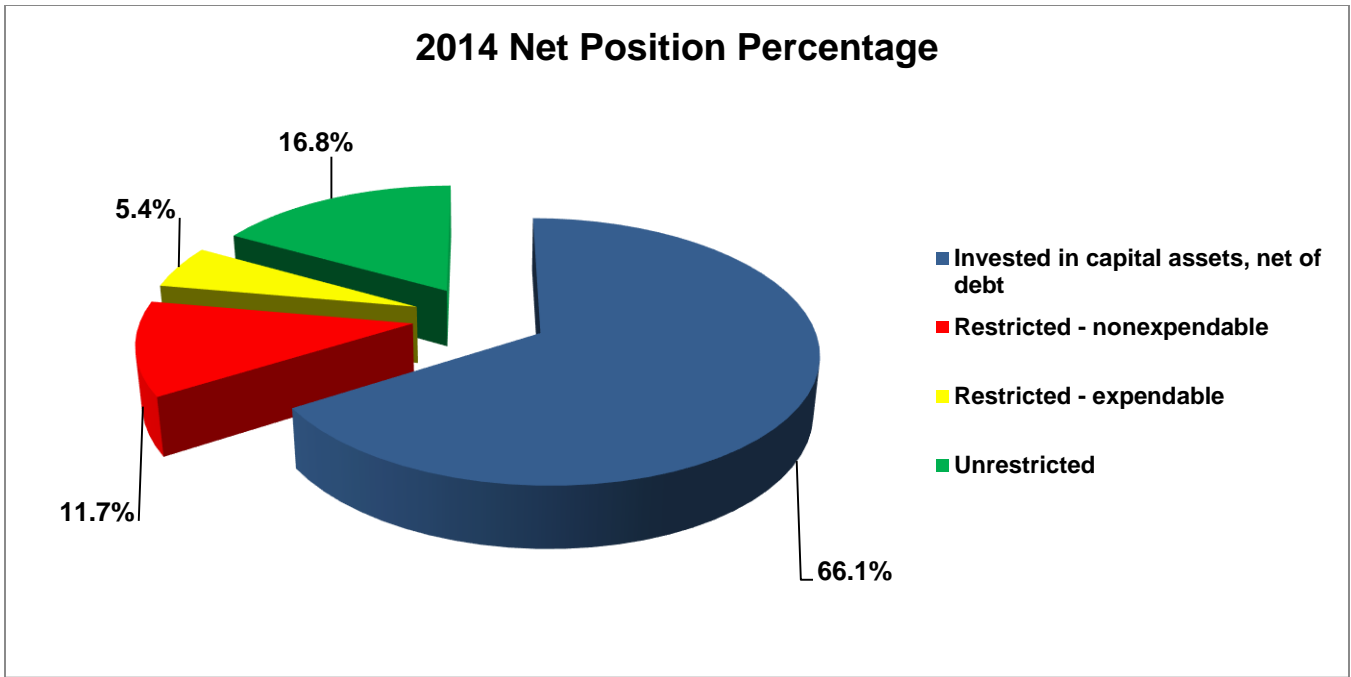
	<u>2014</u>	<u>2013</u>	<u>Restated 2012</u>
Deferred Outflows of Resources :			
Deferred outflows of resources	\$ <u>195</u>	\$ <u>219</u>	\$ <u>244</u>
Total deferred outflows of resources	<u>195</u>	<u>219</u>	<u>244</u>
Liabilities:			
Current liabilities	6,464	5,758	6,134
Noncurrent liabilities	<u>68,234</u>	<u>70,952</u>	<u>73,879</u>
Total liabilities	<u>74,698</u>	<u>76,710</u>	<u>80,013</u>
Deferred Inflows of Resources:			
Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net Position Consists Of:			
Net Investment in capital assets	27,919	26,909	25,606
Restricted – nonexpendable	4,940	4,753	2,484
Restricted – expendable	2,272	1,148	721
Unrestricted	<u>7,073</u>	<u>5,510</u>	<u>5,541</u>
Total net position	<u>\$ <u>42,204</u></u>	<u>\$ <u>38,320</u></u>	<u>\$ <u>34,352</u></u>

Assets consist primarily of cash and cash equivalents, investments, accounts, notes and grants receivable, and capital assets. Liabilities include long-term bonded debt, compensated absences, and deferred revenue. The District records asset acquisitions that have a unit value of \$ 5,000 or more as capital assets that are depreciated over time related to the useful life of the assets. Furnishings, fixtures, and other equipment having unit values less than \$ 5,000 are recorded as expenses during the period acquired.



**BRAZOSPORT COLLEGE DISTRICT**  
*MANAGEMENT DISCUSSION AND ANALYSIS*  
*YEARS ENDED AUGUST 31, 2014, 2013 AND 2012*

The following chart reflects the percentage of net position at August 31, 2014 and 2013:



**BRAZOSPORT COLLEGE DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEARS ENDED AUGUST 31, 2014, 2013 AND 2012**

**The Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position present the operating results of the District and the non-operating revenues and expenses.

**Statement of Revenues, Expenses and Changes in Net Position**  
**For Fiscal Years Ended August 31, 2014, 2013 and 2012**  
**(in thousands of dollars)**

	<u>2014</u>	<u>2013</u>	<u>Restated 2012</u>
Operating Revenues:			
Net tuition and fees	\$ 9,679	\$ 8,764	\$ 8,186
Auxiliary enterprises	105	98	143
Grants and contracts	4,668	3,713	6,812
Other	<u>1,029</u>	<u>843</u>	<u>798</u>
Total operating revenues	<u>15,481</u>	<u>13,418</u>	<u>15,939</u>
Operating Expenses:			
Instruction	17,469	15,131	15,501
Public service	200	199	194
Academic support	1,937	1,932	1,742
Student services	2,700	2,572	2,274
Institutional support	5,519	5,109	5,320
Operation and maintenance of plant	3,672	3,650	3,582
Scholarships and fellowships	2,897	2,856	3,607
Auxillary enterprises	580	420	752
Depreciation	<u>3,665</u>	<u>3,549</u>	<u>2,857</u>
Total operating expenses	<u>38,639</u>	<u>35,418</u>	<u>35,829</u>
Operating loss	<u>( 23,158)</u>	<u>( 22,000)</u>	<u>( 19,890)</u>
Nonoperating Revenues and Expenses:			
State appropriations	7,422	6,025	6,000
Title IV federal grants	3,676	3,723	4,276
Taxes for maintenance and operations	13,443	12,008	10,647
Taxes for debt service	4,757	4,901	4,058
Investment income	630	86	149
Debt service expenses	<u>( 3,013)</u>	<u>( 3,096)</u>	<u>( 3,261)</u>
Net nonoperating revenues and expenses	<u>26,915</u>	<u>23,647</u>	<u>21,869</u>

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**BRAZOSPORT COLLEGE DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEARS ENDED AUGUST 31, 2014, 2013 AND 2012**

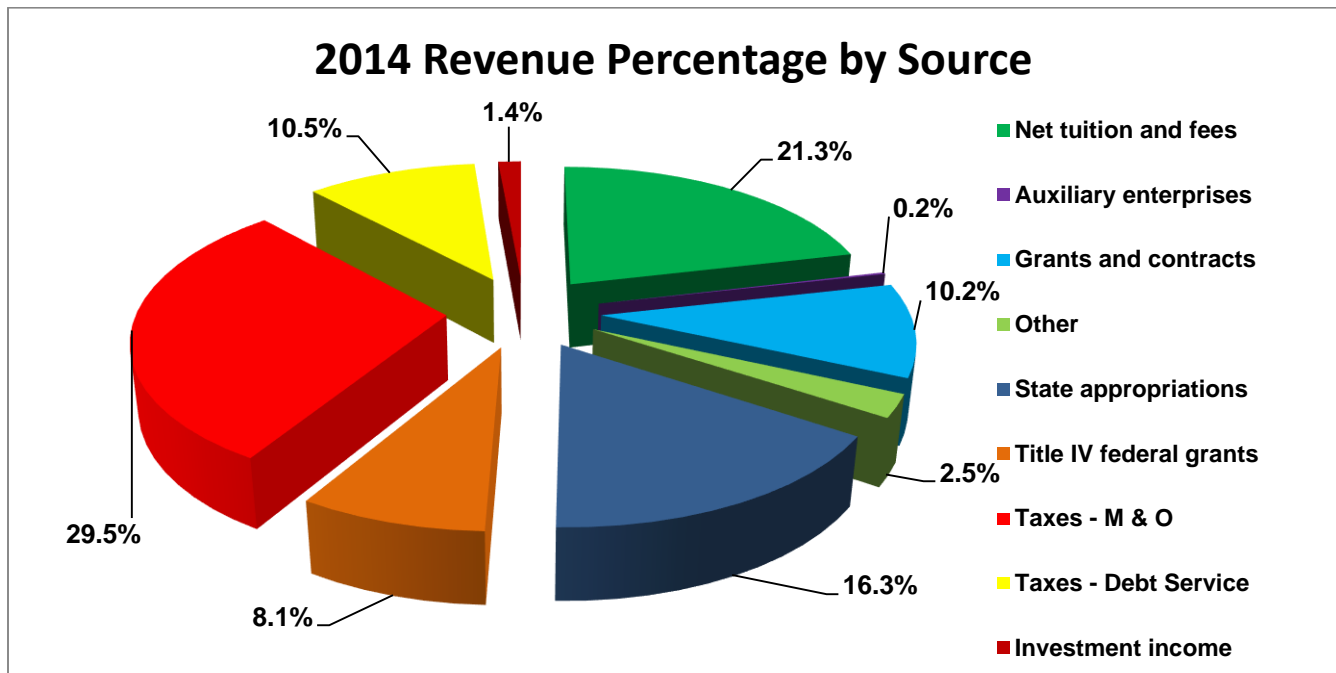
**The Statement of Revenues, Expenses, and Changes in Net Position - Continued**

	2014	2013	Restated 2012
Income before other revenues, expenses, gains or losses	\$ 3,757	\$ 1,647	\$ 1,979
Other Revenues, Expenses, Gains or Losses:			
Additions to permanent and term endowments	127	2,321	2
Increase in net position	3,884	3,968	1,981
Net position at beginning of year (restated)	38,320	34,352	32,371
Net position at end of year	\$ 42,204	\$ 38,320	\$ 34,352

The following graphic information illustrates the changes in revenues, expenses and the results of both operating and non-operating activity for the years ended August 31, 2014 and 2013.

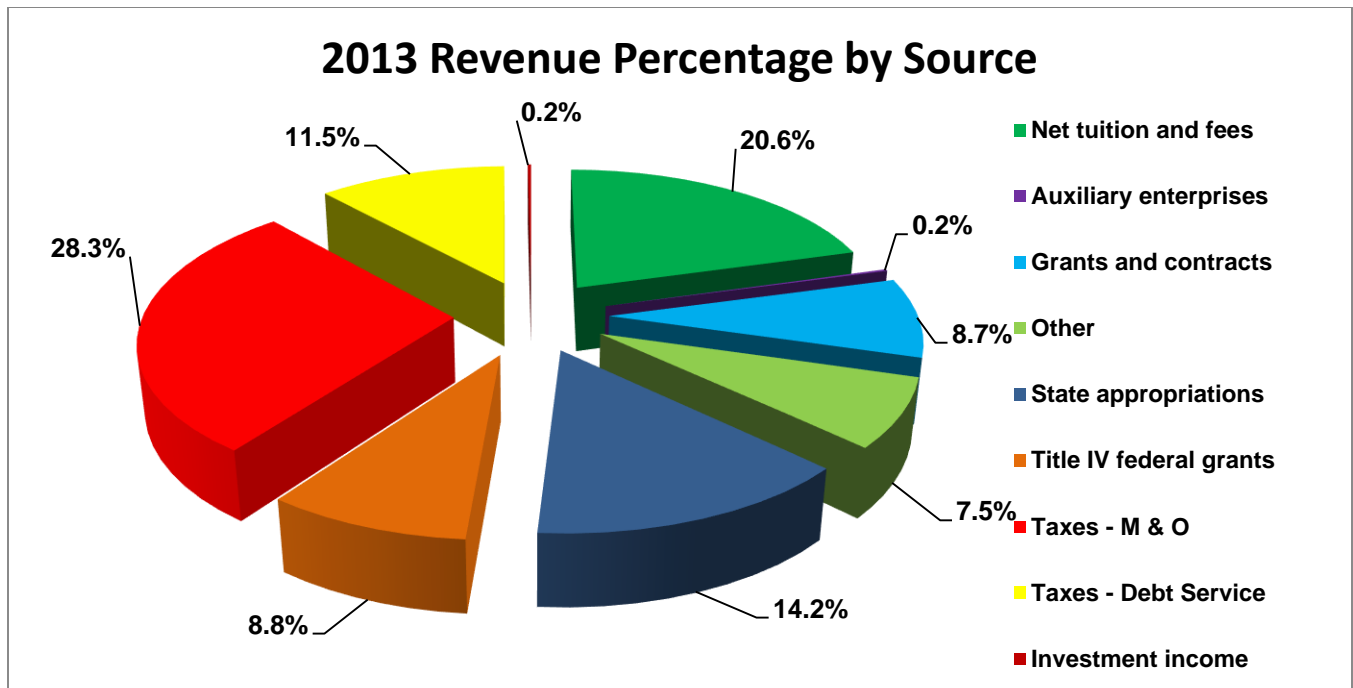
Revenues

The following is a graphic illustration of revenues by source (both operating and non-operating), which were used to fund the District's operating activities for the years ended August 31, 2014 and 2013.



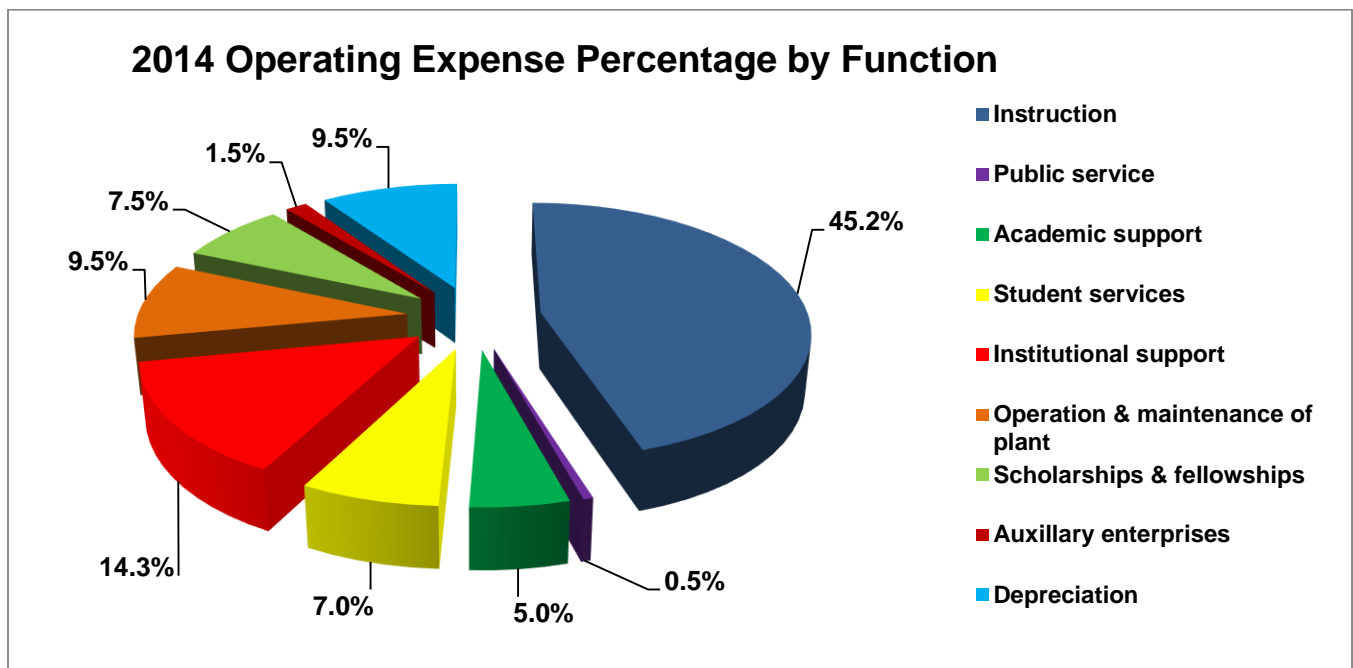
**BRAZOSPORT COLLEGE DISTRICT**  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 YEARS ENDED AUGUST 31, 2014, 2013 AND 2012

**The Statement of Revenues, Expenses, and Changes in Net Position – Continued**



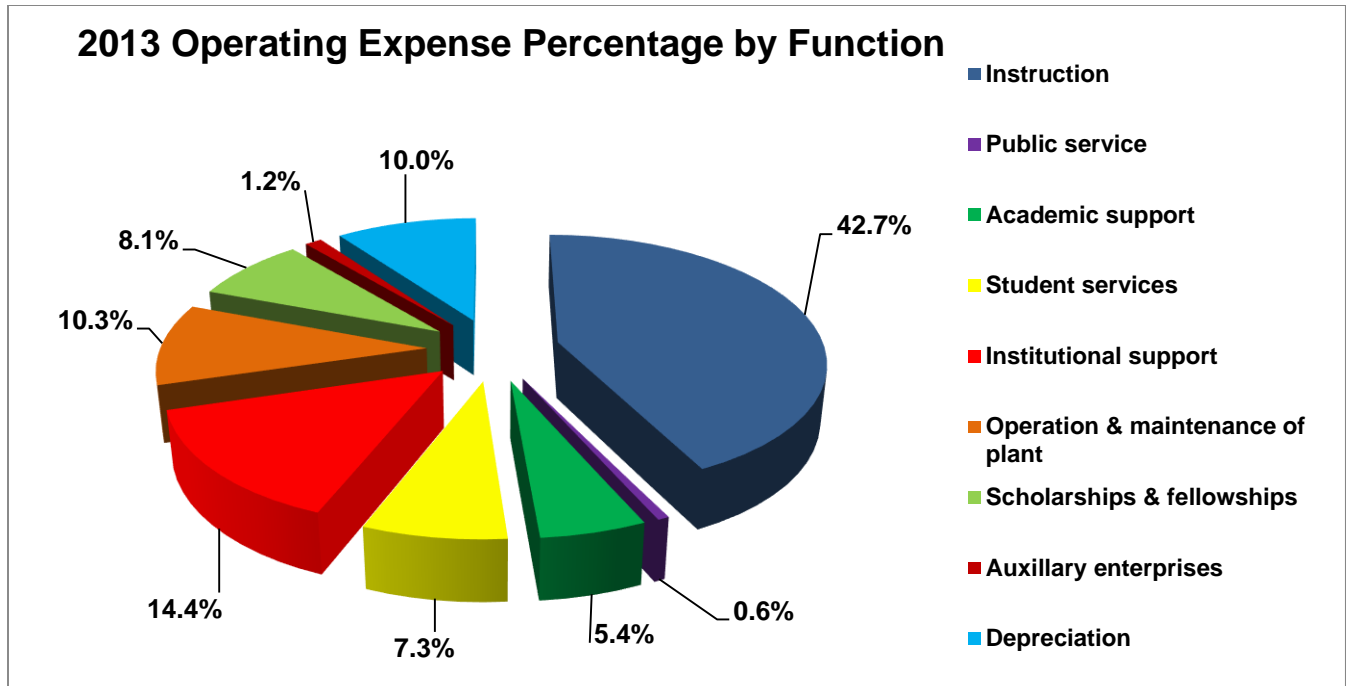
Expenses

Operating expenses can be displayed in two formats, natural classification and functional classification. Both formats are displayed below (as a percentage of total operating expenses), for the years ended August 31, 2014 and 2013.



**BRAZOSPORT COLLEGE DISTRICT**  
*MANAGEMENT DISCUSSION AND ANALYSIS*  
*YEARS ENDED AUGUST 31, 2014, 2013 AND 2012*

**The Statement of Revenues, Expenses, and Changes in Net Position – Continued**

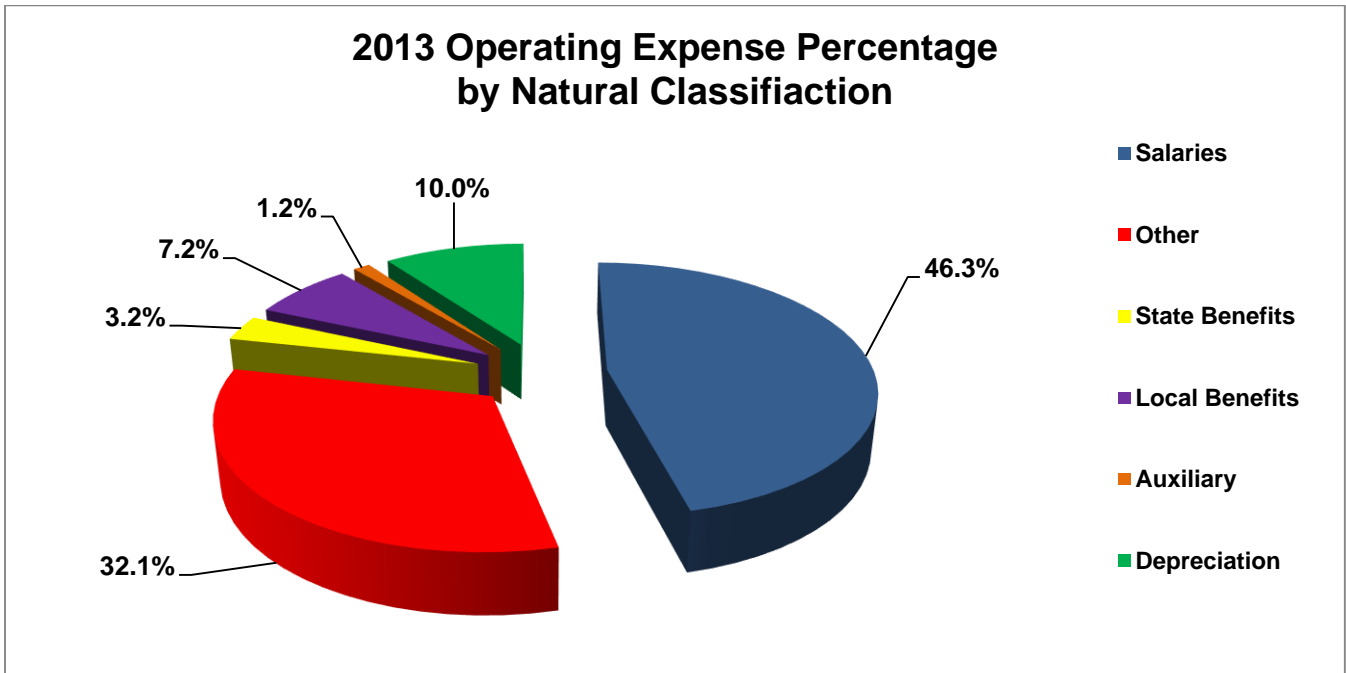
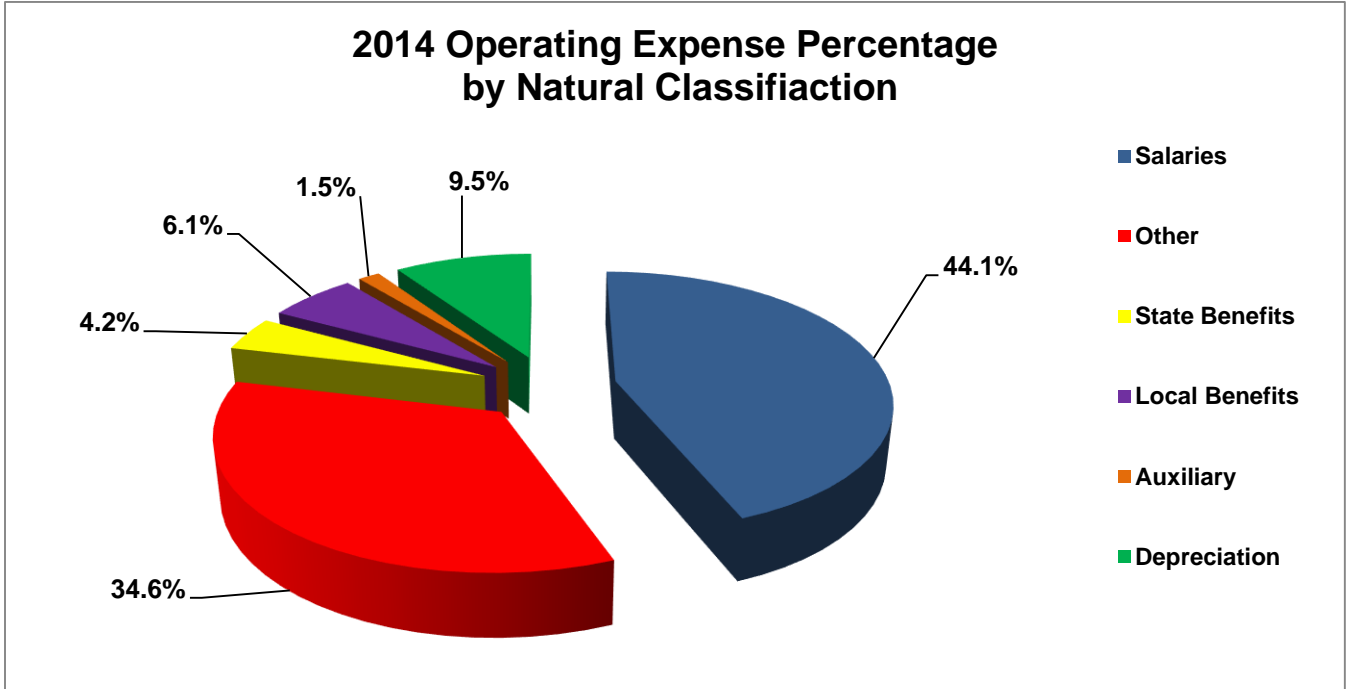


For the years ended August 31, 2014 and 2013, forty-five point two percent and forty-two point seven percent of operating expenses by function are attributable to instruction, respectively. The percentages for the remaining functional areas range from five tenths of a percent to fourteen point three percent of total operating expenses.

For the years ended August 31, 2014 and 2013, fifty-four point four percent and fifty-six point seven percent of expenses are attributed to salaries and benefits, while other operating expenses represent thirty-four point six percent and thirty-two point one percent of total expenses, and depreciation represent the remaining nine point five percent and ten percent of expenses, respectively. Total Auxiliary expenses represented one point five percent and one point two percent of total expenses.

**BRAZOSPORT COLLEGE DISTRICT**  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 YEARS ENDED AUGUST 31, 2014, 2013 AND 2012

**The Statement of Revenues, Expenses, and Changes in Net Position – Continued**



**BRAZOSPORT COLLEGE DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEARS ENDED AUGUST 31, 2014, 2013 AND 2012**

**The Statement of Cash Flows**

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the ability of the District to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

**Statement of Cash Flows**  
**For the Fiscal Years Ended August 31, 2014, 2013 and 2012**  
**(in thousands of dollars)**

	2014	2013	Restated 2012
Cash Provided (Used) By:			
Operating activities	\$( 17,413)	\$( 17,942)	\$( 18,337)
Non-operating financing activities	27,814	27,798	23,805
Capital and related financing activities	( 7,692)	( 7,993)	( 1,963)
Investing activities	22	( 3,357)	( 491)
 Net increase (decrease) in cash	 2,731	 ( 1,494)	 3,014
 Cash and cash equivalents, beginning of year	 3,853	 5,347	 2,333
 Cash and cash equivalents, end of year	 \$ 6,584	 \$ 3,853	 \$ 5,347

Material sources of cash included state appropriations, tuition and fees, and grants and contracts. Material uses of cash were for payments to suppliers and vendors, payments to employees, and payments for scholarships and fellowships.

**Capital Asset and Debt Administration**

Capital Assets

At August 31, 2014, Brazosport College District had \$ 98,611,576 invested in capital assets, net of accumulated depreciation. Depreciation charges totaled \$ 3,665,092 for the current fiscal year. Details of these assets are shown below.

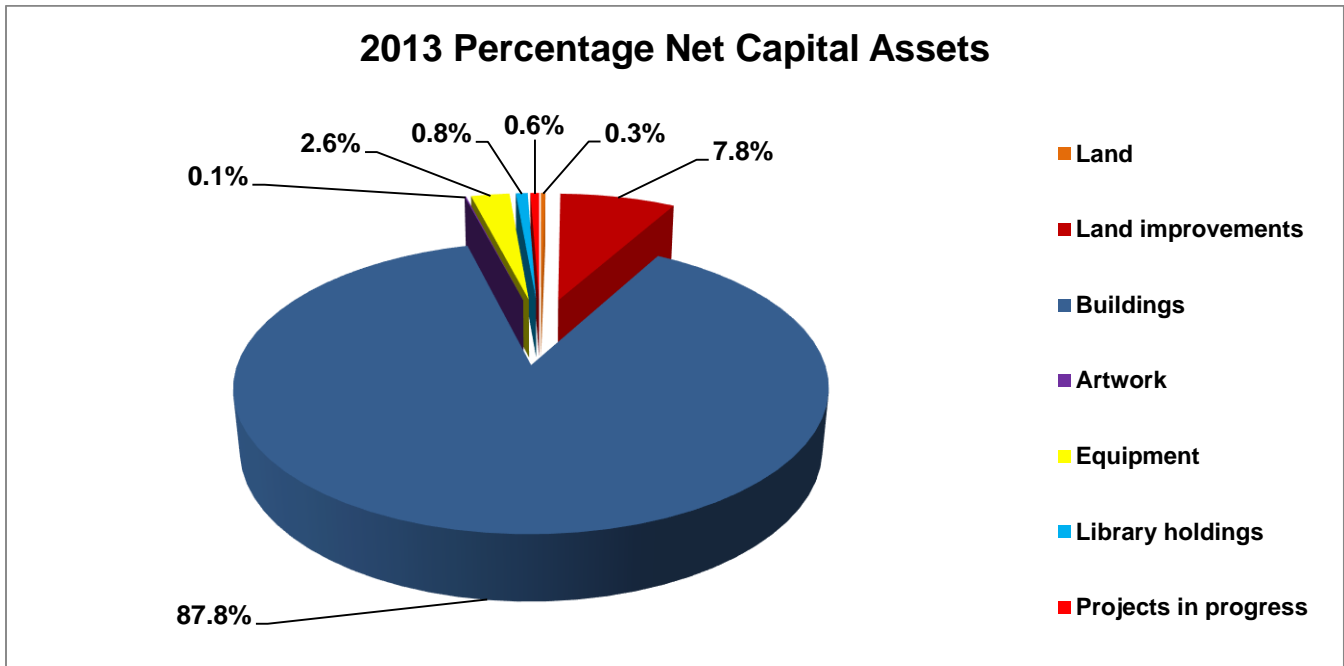
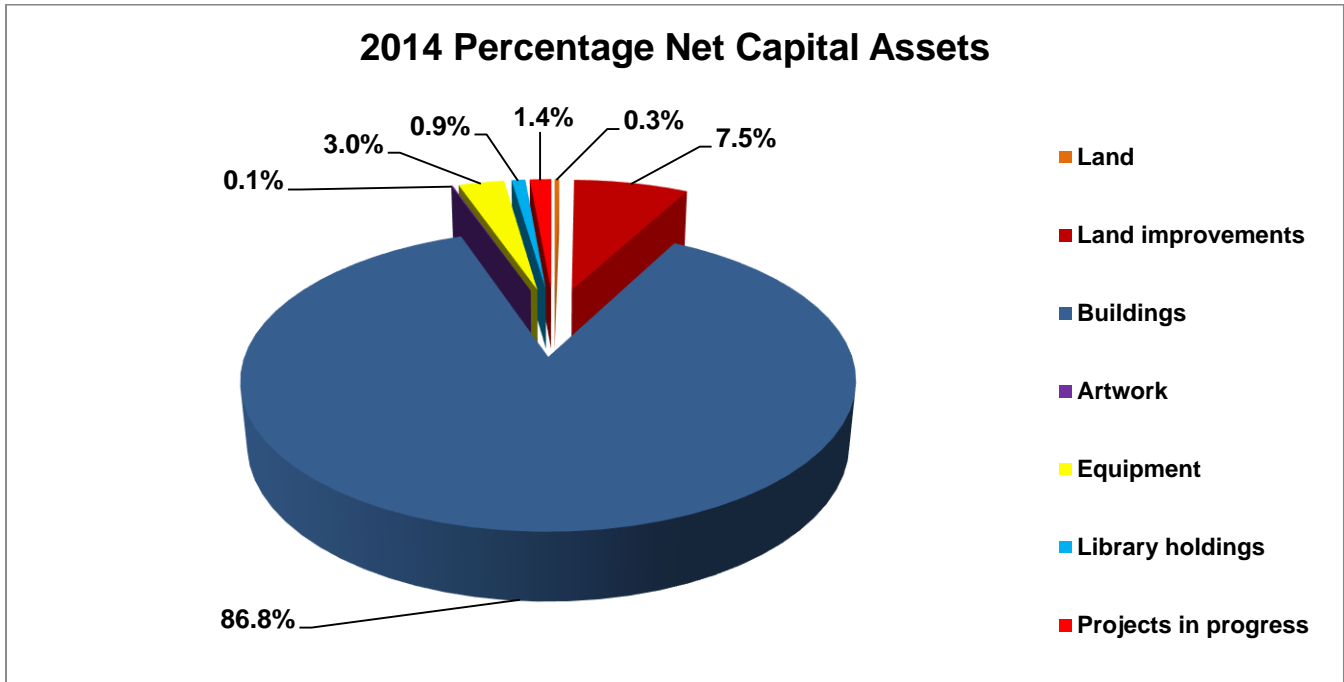
**Schedule of Capital Assets, Net of Depreciation**  
**As of August 31, 2014, 2013 and 2012**  
**(in thousands of dollars)**

	2014	2013	Restated 2012
Land	\$ 296	\$ 296	\$ 296
Land improvements	7,421	7,811	8,118
Buildings	85,614	88,103	83,749
Artwork	147	147	91
Equipment	2,916	2,627	1,562
Library holdings	881	779	810
Construction in progress	1,336	602	7,141
 Total	 \$ 98,611	 \$ 100,365	 \$ 101,767

**BRAZOSPORT COLLEGE DISTRICT**  
*MANAGEMENT DISCUSSION AND ANALYSIS*  
*YEARS ENDED AUGUST 31, 2014, 2013 AND 2012*

**Capital Asset and Debt Administration - Continued**

The following is a graphic illustration of the make-up of net capital assets at August 31, 2014 and 2013:





**BRAZOSPORT COLLEGE DISTRICT**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEARS ENDED AUGUST 31, 2014, 2013 AND 2012**

**Capital Asset and Debt Administration - Continued**

More detailed information about the District capital assets is presented in Note 6 to the financial statements.

Debt

At August 31, 2014, the District had \$ 70,886,955 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

**Outstanding Debt Schedule – Net of Premiums**  
**As of August 31, 2014, 2013 and 2012**  
**(in thousands of dollars)**

	2014	2013	Restated 2012
Revenue bonds	\$ 6,090	\$ 6,860	\$ 7,595
General obligation bonds	63,555	65,510	67,100
Total debt	\$ 69,645	\$ 72,370	\$ 74,695

On May 23, 2008, the District authorized and issued \$ 28,470,000 in General Obligation Bonds, Series 2008 to construct the Master Plan which adds several buildings and renovates and improves the campus. These bonds are the first issue of bonds approved by voters in the amount of \$ 70,000,000 on November 6, 2007.

On October 14, 2010, the District authorized and issued \$ 29,360,000 in General Obligation Bonds, Series 2010 to construct the Master Plan which adds several buildings and renovates and improves the campus. These bonds are the second issue of bonds approved by voters in the amount of \$ 70,000,000 on November 6, 2007.

On November 8, 2011, the District authorized and issued \$ 11,820,000 in General Obligation Bonds, Series 2011 to continue to construct the Master Plan which adds several buildings and renovates and improves the campus. These bonds are the third issue of bonds approved by voters in the amount of \$ 70,000,000 on November 6, 2007.

Brazosport College currently is rated as Aa3 by Moody's and as AA- by Standard & Poor's. More detailed information about the District long-term liabilities is presented in Notes 7-10 to the financial statements.

**BRAZOSPORT COLLEGE DISTRICT**  
*MANAGEMENT DISCUSSION AND ANALYSIS*  
*YEARS ENDED AUGUST 31, 2014, 2013 AND 2012*

**Economic Factors That Will Affect the Future**

For fiscal year 2014-2015, the District Board of Regents approved an increase in property tax in September, 2014 of \$ 0.013569 per \$ 100 of valuation. This sets the rate at \$ 0.2113 per \$ 100 of valuation for the 2014 assessment. This increase applied to an increase in the tax base will generate approximately \$ 837,464 more tax revenue for the 2014-2015 fiscal year. The Board of Regents also approved a tax rate of 0.069578 per \$ 100 valuation to pay the debt service on the General Obligation Bonds. Therefore, the total tax rate for the District is \$ 0.280878 per \$ 100 of valuations.

Brazosport College Board or Regents approved a construction contract to construct the Welding Center at a cost of \$ 3,730,000 from Construction Masters of Houston in Pearland, Texas on November 17, 2014. This will be financed through donations from the Brazosport College Foundation and financing option that are to be determined. The College has already received \$ 1,173,000 from the foundation and expects to receive an additional \$ 1,000,000 during the year ending August 31, 2015.

Other than the above, the District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year.

**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 Vice-President, Financial Services and CFO, Brazosport College District, 500 College Drive, Lake Jackson, Texas 77566.

**BASIC FINANCIAL STATEMENTS**

**BRAZOSPORT COLLEGE DISTRICT**  
**STATEMENTS OF NET POSITION**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

EXHIBIT 1  
Page 1 of 2

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 4,892,224	\$ 3,179,061
Accounts and notes receivable (net of allowance for doubtful accounts)	1,098,138	1,038,497
Inventories	43,353	38,241
Other assets	<u>738,913</u>	<u>599,093</u>
Total current assets	<u>6,772,628</u>	<u>4,854,892</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents	1,692,003	673,935
Accounts receivable (net of allowance for doubtful accounts)	535,639	436,493
Investments	5,596,822	5,067,696
Other assets	7,566	1,000
Investments	3,490,544	3,411,740
Capital assets, (net of accumulated depreciation)	<u>98,611,576</u>	<u>100,365,069</u>
Total noncurrent assets	<u>109,934,150</u>	<u>109,955,933</u>
Total assets	<u>116,706,778</u>	<u>114,810,825</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows of resources – bond refunding costs (net of accumulated amortization)	<u>194,978</u>	<u>219,484</u>
Total deferred outflows of resources	<u>194,978</u>	<u>219,484</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts and accrued liabilities	1,196,204	776,415
Funds held for others	136,370	124,040
Unearned revenues	1,536,492	1,554,513
Accrued compensated absences	55,000	55,000
Liabilities Payable from Restricted Assets:		
Accounts and accrued liabilities	302,424	164,127
Unearned revenue	358,031	160,327
Bonds payable	<u>2,878,603</u>	<u>2,788,603</u>
Total current liabilities	<u>6,463,124</u>	<u>5,623,025</u>
Noncurrent liabilities:		
Bonds payable	68,008,352	71,087,440
Accrued compensated absences	<u>225,895</u>	<u>200,485</u>
Total noncurrent liabilities	<u>68,234,247</u>	<u>71,087,440</u>
Total liabilities	<u>74,697,371</u>	<u>76,710,465</u>

(continued)

**BRAZOSPORT COLLEGE DISTRICT**  
*STATEMENTS OF NET POSITION – Continued*  
*FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013*

EXHIBIT 1  
Page 2 of 2

	<u>2014</u>	<u>2013</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows of resources	\$ <u>                    </u>	\$ <u>                    </u>
Total deferred inflows of resources	<u>                    -0-</u>	<u>                    -0-</u>
NET POSITION		
Net investment in capital assets	27,919,199	26,908,995
Restricted:		
Nonexpendable:		
Endowments	4,939,978	4,753,331
Expendable:		
Endowments	656,908	280,414
Student aid	265,936	303,417
Instructional programs	17,088	16,907
Capital projects	1,000,086	214,400
Debt service	332,588	332,588
Unrestricted	<u>7,072,602</u>	<u>5,509,792</u>
Total net position	<u>\$ 42,204,385</u>	<u>\$ 38,319,844</u>

The accompanying notes are an integral part of this statement.

**BRAZOSPORT COLLEGE FOUNDATION**  
**AFFILIATED ORGANIZATION**  
**BRAZOSPORT COLLEGE FOUNDATION**  
*STATEMENTS OF FINANCIAL POSITION*  
*FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013*

EXHIBIT 1A  
PAGE 1 OF 1

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 80,543	\$ 74,911
Pledges receivable (net of allowance for doubtful accounts)	<u>12,215</u>	<u>29,682</u>
Total current assets	<u>92,758</u>	<u>104,593</u>
Noncurrent Assets:		
Pledges receivable (net of allowance for doubtful accounts and discounts)	56,725	27,345
Investments	<u>3,555,298</u>	<u>4,050,360</u>
Total noncurrent assets	<u>3,612,023</u>	<u>4,077,705</u>
Total assets	<u>3,704,781</u>	<u>4,182,298</u>
<b>Liabilities:</b>		
Current Liabilities:		
Accounts payable	3,126	11,445
Unearned revenue	<u>27,400</u>	<u>24,900</u>
Total current liabilities	30,526	36,345
Noncurrent liabilities:		
Total noncurrent liabilities	<u>          </u>	<u>          </u>
Total liabilities	<u>30,526</u>	<u>36,345</u>
<b>NET ASSETS</b>		
Restricted:		
Permanently restricted	1,653,476	1,550,343
Temporarily restricted	1,382,744	2,063,338
Unrestricted	<u>638,035</u>	<u>532,272</u>
Total net assets	<u>\$ 3,674,255</u>	<u>\$ 4,145,953</u>

The accompanying notes are an integral part of this statement.

**BRAZOSPORT COLLEGE DISTRICT****STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**EXHIBIT 2  
Page 1 of 1

REVENUES	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Tuition and fees (net of discounts of \$ 2,354,686 and \$ 2,054,529, respectively)	\$ 9,678,512	\$ 8,763,635
Federal grants and contracts	1,320,818	1,251,432
State grants and contracts	1,365,425	1,569,325
Local grants and contracts	1,859,333	786,900
Non-governmental grants and contracts	122,870	105,776
Sales and services of educational activities	249,709	229,593
Auxiliary enterprises	105,444	98,269
Other operating revenues	<u>778,915</u>	<u>613,254</u>
Total operating revenues	<u>15,481,026</u>	<u>13,418,184</u>
EXPENSES		
Operating Expenses:		
Instruction	17,469,360	15,130,868
Public service	199,725	198,431
Academic support	1,936,499	1,932,296
Student services	2,700,423	2,571,449
Institutional support	5,518,931	5,109,128
Operation and maintenance of plant	3,672,326	3,650,280
Scholarships and fellowships	2,897,399	2,855,983
Auxiliary enterprises	579,450	419,918
Depreciation	<u>3,665,092</u>	<u>3,549,441</u>
Total operating expense	<u>38,639,205</u>	<u>35,417,794</u>
Operating loss	<u>( 23,158,179 )</u>	<u>( 21,999,610 )</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	7,421,937	6,025,230
Title IV federal programs	3,676,474	3,723,254
Taxes for maintenance and operations	13,443,042	12,007,827
Debt service ad valorem taxes	4,757,220	4,900,970
Investment income net of investment expenses	629,841	85,599
Interest on capital related debt	<u>( 3,012,486 )</u>	<u>( 3,095,739 )</u>
Net non-operating revenues	<u>26,916,028</u>	<u>23,647,141</u>
Income before other revenues, (expenses), gains, (losses)	3,757,849	1,647,531
Other Revenues, (Expenses), Gains, (Losses)		
Additions to permanent and term endowments	<u>126,692</u>	<u>2,320,447</u>
Increase in net position	3,884,541	3,967,978
<b>NET POSITION</b>		
Net position – beginning of year	<u>38,319,844</u>	<u>34,351,866</u>
Net position – end of year	<u>\$ 42,204,385</u>	<u>\$ 38,319,844</u>

The accompanying notes are an integral part of this statement.

**BRAZOSPORT COLLEGE FOUNDATION**  
**AFFILIATED ORGANIZATION**  
**BRAZOSPORT COLLEGE FOUNDATION**  
*STATEMENTS OF ACTIVITIES*  
*FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013*

EXHIBIT 2A  
PAGE 1 OF 1

	<u>2014</u>	<u>2013</u>
<b>REVENUE</b>		
Gifts (net of discounts)	\$ 532,124	\$ 454,123
Fundraising	124,717	210,501
Interest and dividend income	123,977	88,971
Gain (loss) on investments	69,143	9,872
Unrealized investment income	<u>241,562</u>	<u>9,295</u>
Total revenue	<u>1,091,523</u>	<u>772,762</u>
<b>EXPENSES</b>		
Fundraising expenses	119,941	92,256
Investment expenses	11,215	10,188
Administrative	7,200	7,200
Student aid scholarships	251,865	185,217
Grants to Brazosport College District	<u>1,173,000</u>	<u>100,000</u>
Total operating expenses	<u>1,563,221</u>	<u>394,861</u>
Increase (decrease) in net assets	( 471,698 )	377,901
<b>NET ASSETS</b>		
Net assets - beginning of year	<u>4,145,953</u>	<u>3,768,052</u>
Net assets - end of year	<u>\$ 3,674,255</u>	<u>\$ 4,145,953</u>

The accompanying notes are an integral part of this statement.



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**BRAZOSPORT COLLEGE DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

EXHIBIT 3  
Page 1 of 2

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Receipts from students and other customers	\$ 12,549,347	\$ 10,970,181
Receipts of grants and contracts	4,755,385	3,977,939
Collection of loans to students and employees	48,694	69,690
Receipts from student organizations	47,340	36,133
Other receipts	778,915	613,254
Payments to or on behalf of employees	( 19,688,171 )	( 19,596,917 )
Payments to suppliers of goods and services	( 12,902,595 )	( 11,049,417 )
Payments of scholarships	( 2,897,399 )	( 2,855,983 )
Loans to students and employees	( 69,806 )	( 55,213 )
Payment on behalf of student organizations	( 35,010 )	( 51,229 )
Net cash used by operating activities	<u>( 17,413,300 )</u>	<u>( 17,941,562 )</u>
Cash Flows from Noncapital Financing Activities:		
State appropriations	5,803,174	4,875,390
Ad valorem tax revenues	18,207,888	16,879,199
Title IV federal programs	3,676,474	3,723,254
Gifts and grants (other than capital)	<u>126,692</u>	<u>2,320,447</u>
Net cash provided by non-capital and related financing activities	<u>27,814,228</u>	<u>27,798,290</u>
Cash Flows from Capital and Related Financing Activities:		
Principal payments on bonded debt	( 2,725,000 )	( 2,325,000 )
Interest and fees paid on bonded debt	( 3,055,009 )	( 3,521,486 )
Purchases of capital assets	<u>( 1,911,599 )</u>	<u>( 2,147,349 )</u>
Net cash used by capital and related financing activities	<u>( 7,691,608 )</u>	<u>( 7,993,835 )</u>
Cash Flows from Investing Activities		
Proceeds from sale and maturity of investments	522,485	4,729,459
Investment earnings	354,341	207,075
Purchases of investments	<u>( 854,915 )</u>	<u>( 8,293,784 )</u>
Net cash used by investing activities	<u>21,911</u>	<u>( 3,357,250 )</u>
Increase (decrease) in cash and cash equivalents	2,731,231	( 1,494,357 )
Cash and cash equivalents – September 1,	<u>3,852,996</u>	<u>5,347,353</u>
Cash and cash equivalents – August 31,	<u>\$ 6,584,227</u>	<u>\$ 3,852,996</u>

(continued)

**BRAZOSPORT COLLEGE DISTRICT**  
**STATEMENTS OF CASH FLOWS - Continued**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

EXHIBIT 3  
Page 2 of 2

	<u>2014</u>	<u>2013</u>
Noncash Transactions Affecting Financial Position:		
Change in value of investments – from cost to fair value increase (decrease)	\$ 275,500	\$( 119,297 )
Donated investments – at fair value	<u>                    </u>	<u>1,849,432</u>
Net noncash transactions affecting financial position	<u>\$ 275,500</u>	<u>\$ 1,730,135</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:		
Operating loss	\$( 23,158,179 )	\$( 21,999,610 )
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	3,665,092	3,549,441
State on-behalf benefits	1,618,763	1,149,840
Changes in Assets and Liabilities:		
Receivables, net	( 166,812 )	( 45,911 )
Inventories	( 5,112 )	4,056
Other assets	( 146,387 )	( 71,653 )
Accounts payable	561,912	( 469,965 )
Unearned revenue	179,683	( 39,590 )
Funds held for others	12,330	( 15,096 )
Compensated absences	<u>25,410</u>	<u>( 3,074 )</u>
Net cash used by operating activities	<u>\$( 17,413,300 )</u>	<u>\$( 17,941,562 )</u>

The accompanying notes are an integral part of this statement.

**BRAZOSPORT COLLEGE DISTRICT**  
**AFFILIATED ORGANIZATION**  
**BRAZOSPORT COLLEGE FOUNDATION**  
*STATEMENTS OF CASH FLOWS*  
*FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013*

EXHIBIT 3A  
Page 1 of 1

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Receipts from gifts	\$ 520,211	\$ 516,747
Receipts from fundraising	127,217	211,151
Receipt of interest and dividend earnings	123,977	88,971
Proceeds from sale and maturity of investments	2,259,913	365,925
Payments to suppliers of goods and services	( 138,356)	( 102,444)
Payments of investments	( 1,454,146)	( 4,397,118)
Payments of scholarships	( 251,865)	( 185,217)
Payments of scholarships and grants to Brazosport College	<u>( 1,181,319)</u>	<u>( 135,206)</u>
Net cash provided (used) by operating activities	<u>5,632</u>	<u>( 3,637,191)</u>
Cash Flows from Noncapital Financing Activities:		
Net cash provided (used) by non-capital and related financing activities	<u>-0-</u>	<u>-0-</u>
Cash Flows from Capital and Related Financing Activities:		
Net cash provided (used) by capital and related financing activities	<u>-0-</u>	<u>-0-</u>
Cash Flows from Investing Activities:		
Net cash provided (used) by investing activities	<u>-0-</u>	<u>-0-</u>
Increase (decrease) in cash and cash equivalents	5,632	( 3,637,191)
Cash and cash equivalents – September 1,	<u>74,911</u>	<u>3,712,102</u>
Cash and cash equivalents – August 31,	<u>\$ 80,543</u>	<u>\$ 74,911</u>
Noncash Transactions Affecting Financial Position:		
Contributions of in-kind services	\$ 7,200	\$ 7,200
Donated investments	7,740	2,604
Change in value of investments - from cost to fair value increase (decrease)	<u>241,562</u>	<u>9,295</u>
Net noncash transactions affecting financial position	<u>\$ 256,502</u>	<u>\$ 19,099</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)		
By Operating Activities:		
Operating income (loss)	\$( 471,698)	\$ 377,901
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)		
By Operating Activities:		
Change in Assets and Liabilities:		
Receivables, net		46,805
Pledges receivable, net	( 11,913)	23,019
Investments	495,062	( 4,050,360)
Accounts payable	( 8,319)	( 35,206)
Unearned revenue	<u>2,500</u>	<u>650</u>
Net cash provided (used) by operating activities	<u>\$ 5,632</u>	<u>\$( 3,637,191)</u>

The accompanying notes are an integral part of this statement.

# BRAZOSPORT COLLEGE DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEARS ENDED AUGUST 31, 2014 AND 2013

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**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**1. REPORTING ENTITY**

**1.A. Introduction**

The accounting and reporting framework and the more significant accounting principles and practices of Brazosport College District (the "District") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal years ended August 31, 2014 and 2013.

**1.B. Reporting Entity**

Brazosport Junior College District was established in 1948, in accordance with the laws of the State of Texas, to serve the educational needs of Brazosport and the surrounding communities. On September 15, 2003 the Board of Regents of the Brazosport Junior College District passed a resolution to change the corporate name of the college district to Brazosport College District. The Brazosport College District is considered to be a special purpose, primary government financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14. and No. 34". While the District receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of the these entities, it is not a component unit of any other governmental entity.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.A. Report Guidelines**

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The significant accounting policies followed by the District in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The District applies all applicable GASB pronouncements. The District is reported as a special-purpose government engaged in business-type activities.

**2.B. Tuition Discounting**

**Texas Public Education Grants**  
Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.0333). When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.B. Tuition Discounting (Continued)**

Title IV, Higher Education Act Program Funds

Certain Title IV Higher Education Act Program funds are received by the college to pass through to the student. The funds are initially received by the college and recorded as non-operating revenue. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Other Tuition Discounts

The college awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

**2.C. Basis of Accounting**

The financial statements of the District and the financial statements of the component unit report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. Major revenue sources susceptible to accrual include: state appropriations, tuition and fees, grants and contracts, property taxes, and investment income.

Operating income includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues include tuition and fees, grants and contracts, and charges to customers for sales and services. Principal operating expenses are the costs of providing services and include administrative expenses and depreciation of capital assets.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as needed. See Note 2.F. for information describing restricted assets.

**2.D. Budgetary Data**

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The District's Board of Regents adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.E. 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. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of \$ 5,137,892 and \$ 2,665,345 at August 31, 2014 and 2013, respectively to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

**2.F. Restricted Assets**

Certain District assets are restricted for construction funded through long-term debt, payment of debt service and fiscal fees on long-term debt, endowments, student aid and instructional programs. Restricted assets include the excess of restricted assets over restricted liabilities except for restricted liabilities related to invested in capital assets. See Note 2.C. describing the priority for use on restricted and unrestricted assets. See Note 2.L. for additional information on donor restricted endowments.

**2.G. Inventories**

Inventories consist of consumable office supplies, physical plant supplies, food service supplies, and computer equipment and related accessories. Inventories are valued at cost and are charged to expense as consumed.

**2.H. Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$ 5,000 or more and an estimated useful life in excess of one year. Renovations of \$ 100,000 to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets applying the half-year convention. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	50 years
Land Improvements	20 years
Furniture, Machinery, Vehicles and Other Equipment	10 years
Library Books	10 years
Telecommunications and Peripheral Equipment	5 years



**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.I. Capitalized Interest**

Interest costs are capitalized when incurred on debt where proceeds were used to finance construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. During the years ended August 31, 2014 and 2013, no interest was capitalized.

**2.J. Unearned Revenues**

Tuition and fees of \$ 1,536,492 and \$ 1,554,513, and federal, state and local grants of \$ 358,031 and \$ 160,327, have been reported as unearned revenues at August 31, 2014 and 2013 respectively.

**2.K. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2.L. Endowments (Donor Restricted)**

Effective January 1, 2008, the District adopted the provisions of FASB Codification (Topic 958, Sub-section 205, Section 5, paragraph 10) related to "Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" The FASB Codification provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also required disclosures about endowment funds, both donor-restricted and board-designated endowment funds.

The District's endowment consists of approximately 46 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Regents of the District has interpreted the Uniform Prudent management of Institutional Funds Act of 2007 (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the District classifies as permanently restricted net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.L. Endowments (Donor Restricted) (Continued)**

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporary restricted net position until those amounts are appropriated for expenditure by the District in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the District considers the following factors in making determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the District and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the District.
7. The investment policy of the District.

Endowment net position consists of the following at August 31, 2014 and 2013:

<u>August 31, 2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$	\$	\$ 4,939,978	\$ 4,939,978
Board-designated endowment funds	_____	656,908	_____	656,908
Total endowed net position	\$ <u>-0-</u>	\$ <u>656,908</u>	\$ <u>4,939,978</u>	\$ <u>5,596,886</u>

<u>August 31, 2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$	\$	\$ 4,753,331	\$ 4,753,331
Board-designated endowment funds	_____	280,414	_____	280,414
Total endowed net position	\$ <u>-0-</u>	\$ <u>280,414</u>	\$ <u>4,753,331</u>	\$ <u>5,033,745</u>

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.L. Endowments (Donor Restricted) (Continued)**

Changes in endowment net position for the years ended August 31, 2014 and 2013:

<u>August 31, 2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net position, September 1, 2013	\$ -0-	\$ 280,414	\$ 4,753,331	\$ 5,033,745
Investment Return:				
Investment income		196,670	25,574	222,244
Realized gains		186,255	24,220	210,475
Unrealized gains		85,218	11,081	96,299
Investments fees		( 7,087)	( 920)	( 8,007)
Total investment return	-0-	461,056	59,955	521,011
Contributions			126,692	126,692
Scholarships provided		( 84,562)		( 84,562)
Endowment net position, August 31, 2014	\$ -0-	\$ 656,908	\$ 4,939,978	\$ 5,596,886
 <u>August 31, 2013</u>				
Endowment net position, September 1, 2012	\$ -0-	\$ 106,118	\$ 2,483,643	\$ 2,589,761
Investment Return:				
Investment income		115,207	15,656	130,863
Realized gains		41,953	5,702	47,655
Unrealized losses		( 14,682)	( 1,995)	( 16,677)
Investments fees		( 4,581)	( 623)	( 5,204)
Total investment return	-0-	137,897	18,740	156,637
Contributions		69,941	2,250,506	2,320,447
Transfers		( 442)	442	-0-
Scholarships provided		( 33,100)		( 33,100)
Endowment net position, August 31, 2013	\$ -0-	\$ 280,414	\$ 4,753,331	\$ 5,033,745

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.L. Endowments (Donor Restricted) - Continued**

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the District to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Regents. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net position. There were no such deficiencies as of August 31, 2014 and 2013.

**Return Objectives and Risk Parameters**

The District has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor specified period as well as board-designated funds.

If a donor has not provided specific instructions, State law appears to permit the District's Board of Regents to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board of Regents is required to consider the District's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the District's security selection and asset allocation strategy sets a long-term percentage target for the amount of the endowment's market value that is to be invested in any one-asset class (See Note 4.B. for details).

**Spending policy and How the Investment Objectives Relate to Spending Policy**

The District's Board of Regents chooses to spend only a portion of the endowment earnings each year. Under the policy established by the Board, approximately 3 to 5 percent of the sum of the original corpus plus realized gains. The annual spending shall not reduce the original corpus value. The remaining endowment earnings, if any, is retained and classified as expendable for future years. The Board may spend income from the endowment fund for scholarships or operations of the college. At August 31, 2014 and 2013, no net appreciation was available to be spent.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.M. Operating and Non-Operating Revenue and Expenses Policy**

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a Business Type Activity (BTA) and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are tuition and related fees. In response to guidance provided by the Government Accounting Standards Board (GASB) as question/answer 7.72.10 in the Implementation Guide, revenue received for federal Title IV grant programs (Federal Supplemental Education Opportunity Grants, Student Loan Program, Federal Work Study Program, Pell Grant, and Academic Competitiveness Program) is now characterized as non-operating revenue as opposed to operating revenue. The major non-operating revenues are state allocations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The District does not perform the operation of the bookstore and the cafeteria.

**2.N. Authorized Investments**

Brazosport College District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

**2.O. 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 Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", was issued November 2010. The statement was implemented and did not have an impact on the District's financial statements. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34", was issued November 2010. The statement was implemented and did not have an impact on the District's financial statements. This statement is effective for periods beginning after June 15, 2012.

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", was issued December 2010. The statement was implemented and did not have an impact on the District's financial statements. This statement is effective for periods beginning after December 15, 2011.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.O. New Pronouncements (Continued)**

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", was issued June 2011. The statement was implemented and did not have an impact on the District's financial statements, although it has reclassified items previously recorded as assets and liabilities within the District's financial statements as deferred outflows and inflows of resources. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-and amendment of GASB Statements No. 53", was issued June 2011. The statement was implemented and did not have an impact on the District's financial statements.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", was issued March 2012. The statement was implemented and did have an impact on the District's financial statements (See Note 3 Changes in Accounting Principles / Prior Period Adjustments). This statement is effective for periods beginning after December 15, 2012 and was adopted in the current fiscal year.

GASB Statement No. 66, "Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62", was issued March 2012. This statement was implemented and did not have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2012.

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25", was issued June 2012. This statement was implemented and did not have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2013.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The management of the District believes that the implementation of this statement may have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", was issued January 2013. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2013.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", was issued April 2013. This statement was implemented and did not have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2013.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68", was issued November 2013. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2014.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**3. CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended August 31, 2013, the District implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result, bond issuance costs are no longer accounted for as an asset to be amortized over future periods. Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented.

The following represents the retroactive restatement of net position and changes in net position as a result of implementation of GASB Statement No. 65 as noted above:

	2012	2011
<u>Business-Type Activities</u>		
Net position, August 31, previously reported	\$ 35,480,583	\$ 33,373,956
Elimination of net bond issuance costs	<u>( 1,128,717)</u>	<u>( 1,002,905)</u>
Net position, August 31, restated	<u>\$ 34,351,866</u>	<u>32,371,051</u>
Change in net position for the year ended August 31, 2012, previously reported	\$ 2,106,627	
Expenses:		
Debt Service – Interest and Fees on Long-Term Debt:		
Current year bond issuance costs	( 187,878)	
Current year amortization of bond issuance costs	<u>62,066</u>	
Change in net position for the year ended August 31, 2012, restated	<u>\$ 1,980,815</u>	<u>1,980,815</u>
Net position, August 31, 2012, restated		<u>\$ 34,351,866</u>

**4. DEPOSITS AND INVESTMENTS**

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, short-term investments, and 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 short-term investments or investments. Short-term investments have maturity of one year or less and investments are those that have a maturity of one year or more. See Note 2.E. for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
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**4. DEPOSITS AND INVESTMENTS (Continued)**

Cash and cash equivalents, short-term investments, and investments as reported on the statement of net assets at August 31, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>August 31, 2014</u>			
Cash and Cash Equivalents:			
Cash (cashier and petty cash accounts)	\$ 21,746	\$	\$ 21,746
Financial Institution Deposits:			
Demand deposits	1,422,266	2,323	1,424,589
Pooled Deposits:			
TexPool, Lone Star, LOGIC & TexSTAR	<u>3,448,212</u>	<u>1,689,680</u>	<u>5,137,892</u>
Total cash and cash equivalents	<u>4,892,224</u>	<u>1,692,003</u>	<u>6,584,227</u>
Investments:			
Investments Held by Broker-Dealers:			
Certificates of deposit	\$	\$ 99,000	\$ 99,000
U.S. Agencies	3,476,765		3,476,765
Mutual funds	13,779	4,517,039	4,530,818
Real estate securities		121,603	121,603
Equities	<u>                    </u>	<u>859,180</u>	<u>859,180</u>
Total investments	<u>3,490,544</u>	<u>5,596,822</u>	<u>9,087,366</u>
	<u>\$ 8,382,768</u>	<u>\$ 7,288,825</u>	<u>\$ 15,671,593</u>
<u>August 31, 2013</u>			
Cash and Cash Equivalents:			
Cash (cashier and petty cash accounts)	\$ 35,004	\$	\$ 35,004
Financial Institution Deposits:			
Demand deposits	821,611	331,036	1,152,647
Pooled Deposits:			
TexPool, Lone Star, LOGIC & TexSTAR	<u>2,322,446</u>	<u>342,899</u>	<u>2,665,345</u>
Total cash and cash equivalents	<u>3,179,061</u>	<u>673,935</u>	<u>3,852,996</u>
Investments:			
Investments Held by Broker-Dealers:			
Certificates of deposit	\$	\$ 99,000	\$ 99,000
U.S. Agencies	3,411,740		3,411,740
Mutual funds		3,820,717	3,820,717
Real estate securities		100,645	100,645
Equities	<u>                    </u>	<u>1,047,334</u>	<u>1,047,334</u>
Total investments	<u>3,411,740</u>	<u>5,067,696</u>	<u>8,479,436</u>
	<u>\$ 6,590,801</u>	<u>\$ 5,741,631</u>	<u>\$ 12,332,432</u>



**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
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**4. DEPOSITS AND INVESTMENTS (Continued)**

**4.A. 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.

At August 31, 2014 and 2013, the carrying amounts of the District's deposits of the primary government were \$ 1,523,589 and \$ 1,251,647 and total financial institution balances equaled \$ 1,409,274 and \$ 1,629,420, respectively. At August 31, 2014 and 2013, financial institutions balances of \$ 392,269 and \$ 389,557 were covered by federal depository insurance, \$ 308,279 and \$ 410,743 were covered by the Securities Investor Protection Corporation Insurance, \$ 708,726 and \$ 829,120 were covered by collateral pledged in District's name. The collateral was held in safekeeping departments of unrelated financial institutions, which act as the pledging financial institution's agents. The District's deposits held at financial institutions were collateralized or insured.

The District's deposits and investments are invested pursuant to the investment policies, which are approved by the Board of Regents. The investment policies include lists of authorized investment instruments and allowable stated maturity of individual investments. In addition they include an "Investment Strategy Statement" that specifically addresses each type's (unrestricted and restricted) investment options 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 Officer submits an investment report each quarter to the Board of Regents. 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.

**4.B. Investments**

Unrestricted Investment Policy

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 United States Government or its agencies and instrumentalities, which have the full faith and credit guarantee of the United States Government or its agencies and instrumentalities.
2. Certificates of deposit guaranteed by the Federal Deposit Insurance Corporation issued by state and national banks domiciled in Texas.
3. Demand deposits and certificates of deposit guaranteed by the Federal Deposit Insurance Corporation or secured by pledged securities issued by the depository approved by the Board of Regents.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
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**4. DEPOSITS AND INVESTMENTS (Continued)**

**4.B. Investments (Continued)**

4. Public funds investment pools as permitted by Government Code 2256.016 – 2256.019 and approved by Board resolution up to ten million dollars. Public funds investment pools may also be used to deposit bond sale proceeds up to the limit of the bonds issued. As long-term investments are purchased, the funds are transferred out of the public funds investment pool account.
5. Commercial paper that has a maturity of 270 days or fewer and is rated no less than A-1 or P-1 by at least two nationally recognized rating agencies.
6. Money market mutual funds as permitted by Government Code 2256.014 and approved by Board resolution.
7. Fully collateralized repurchase agreements as permitted by Government Code 2256.011.

Restricted Investment Policy (Endowments)

The District's endowment fund assets are to be invested in accordance with sound investment practices that emphasize long-term growth for the endowment. This endowment will be managed according to the following underlying principles:

1. The endowment's investments shall emphasize long-term capital appreciation as a primary source of return. Current income is a supplementary source of gains;
2. The investment objective recognizes that the assets are exposed to risk and may be subject to large fluctuations in market value from year-to-year. This volatile performance is acceptable, as long as the endowment is invested primarily for capital appreciation over the long-term;
3. The endowment's assets are expected to earn long-term returns sufficient to grow the purchasing power of assets over the long-term, net of disbursements and fees;
4. The investment objective implies a long-term time horizon available for investment in order to benefit from total returns that would normally accrue to a patient investment strategy;
5. The endowment shall be diversified in order to reduce the risk of wide swings in market value from year-to-year, or of incurring large losses that may result from concentrated positions; and
6. The endowment shall achieve investment results over the long-term that compare favorably with those of other professionally managed portfolios and of appropriate market indices.

The District's endowment funds are authorized to be invested in the items listed in the Unrestricted Investment Policy and the following investment instruments provided that they meet the guidelines of the investment policy:

1. Mutual Fund Investments – The investment guidelines for mutual funds and limited partnerships are detailed in the prospectus or Declaration of Trust for individual funds. The investment advisor is responsible for reviewing these guidelines to ensure they are generally consistent with District's investment policy and advising the Board.
2. Permitted Securities – The securities shall be registered with the Securities and Exchange Commission, and traded on a recognized U.S. stock exchange or over-the-counter market. Private placement issues also known as "144A" securities may not be purchased.

**BRAZOSPORT COLLEGE DISTRICT**  
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**4. DEPOSITS AND INVESTMENTS (Continued)**

**4.B. Investments (Continued)**

- a. Real Estate Securities include: Equity REITs, mortgage REITs, CMO or mortgage-related securities REITs, Health Care REITs, and equities of real estate operating companies.
- b. Fixed Income Securities include: Domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, U.S. Corporations, Yankee bonds and notes (bonds or notes issued by non-U.S. based corporations and governments but traded in the US), securitized mortgages (GNMA's, FNMA's, FHLMC's) collateralized mortgage obligations, asset-backed securities, taxable municipal bonds, convertible bonds and preferred stock.
- c. International Securities include: sponsored and unsponsored American Depository Shares (ADS's) or other depository securities of non-U.S. based companies traded in the U.S. and closed-end country funds. Equities of foreign domiciled companies that are traded in the U.S. may also be purchased so long as the securities are registered with the Securities and Exchange Commission and traded on a recognized national exchange or over-the-counter market.
- 3. Excluded Investments – The endowment's assets may not be used for the following purposes:
  - a. Short sales;
  - b. Purchases of letter stock or private placements;
  - c. Leveraged transactions except through experienced fund managers;
  - d. Commodities transactions;
  - e. Puts, calls, straddles, or other option strategies;
  - f. Purchase of real estate, oil and gas properties, or other natural resources related properties with the exception of Real Estate Investment Trusts or marketable real estate securities;
  - g. Investment in limited partnerships except for publicly traded Master Limited Partnerships and debt issued by Real Estate Master Trusts; and
  - h. Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in the investment policy statement.

The District's security selection and asset allocation strategy sets a long-term percentage target for the amount of the endowment's market value that is to be invested in any one-asset class. In line with the return objectives and risk parameters of the endowment, the mix of assets should be generally maintained as follows:

<u>Asset Class/Investment Style</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Domestic Large/Medium/Small Cap Stocks	0%	30-50%	50%
International Stocks	0%	5-15%	15%
Total equities	0%	30-50%	50%
Investment grade fixed income *	0%	35-50%	100%
Real estate funds, convertible funds, and Closed-end funds	0%	5-10%	15%
State sponsored pools	0%	**	100%**
Cash and cash equivalents	0%	**	100%**

**BRAZOSPORT COLLEGE DISTRICT**  
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**4. DEPOSITS AND INVESTMENTS (Continued)**

**4.B. Investments (Continued)**

In order to assure preservation of original corpus, managers may be required to hold cash, cash equivalents, and investment grade fixed income securities when appropriate.

\* Investment grade is securities with a minimum BBB rating by Standard & Poors.

\*\* Cash held outside the investment manager's accounts shall be the minimum amount needed to meet anticipated expenditures.

Rebalancing the Portfolio – The allocation to each asset class and to investment styles within asset classes is expected to remain stable over most market cycles. Since capital appreciation (depreciation) and trading activity in individually managed portfolios can result in deviation from overall asset allocation, the aggregate asset allocation can result in deviation from overall asset allocation; the aggregate asset allocation will be monitored by the investment advisor and readjusted at least annually. Should an allowable asset range be violated, the Board of Regents must rebalance the existing assets to the target mix within three months of the time when the deviation is discovered.

The District participates in four Local Government Investment Pools (LGIPs): TexPool, Lone Star, TexSTAR, and LOGIC. The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over Lone Star, TexSTAR, and LOGIC, advisory boards consisting of participants or their designees, maintains oversight responsibility for Lone Star, TexSTAR, and LOGIC.

The District invests in TexPool, Lone Star, TexSTAR, and LOGIC to provide its liquidity needs. TexPool, Lone Star, TexSTAR, and LOGIC are local government investment pools that were 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. TexPool, Lone Star, TexSTAR, and LOGIC are 2(a)7 like funds, 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. TexPool, Lone Star, TexSTAR, and LOGIC are rated AAAM and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At August 31, 2014 TexPool, Lone Star, TexSTAR, and LOGIC had a weighted average maturity of 53 days, 49 days, 52 days, and 56 days, respectively. Although TexPool, Lone Star, TexSTAR, and LOGIC portfolios had a weighted average maturity of 53 days, 49 days, 52 days, and 56 days, respectively, the District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the District's investments 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.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
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**4. DEPOSITS AND INVESTMENTS (Continued)**

**4.B. Investments (Continued)**

The following table includes the portfolio balances of all investment types of the District at August 31, 2014 and 2013.

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>August 31, 2014</u>			
Local government investment pools	\$ 3,448,212	\$ 1,689,680	\$ 5,137,892
Certificates of deposit		99,000	99,000
U.S. Agencies	3,476,765		3,476,765
Mutual funds	13,779	4,517,039	4,530,818
Real estate securities		121,603	121,603
Equities		859,180	859,180
	<u>\$ 6,938,756</u>	<u>\$ 7,286,502</u>	<u>\$ 14,225,258</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>August 31, 2013</u>			
Local government investment pools	\$ 2,322,446	\$ 342,899	\$ 2,665,345
Certificates of deposit		99,000	99,000
U.S. Agencies	3,411,740		3,411,740
Mutual funds		3,820,717	3,820,717
Real estate securities		100,645	100,645
Equities		1,047,334	1,047,334
	<u>\$ 5,734,186</u>	<u>\$ 5,410,595</u>	<u>\$ 11,144,781</u>

Unrestricted Funds

As of August 31, 2014 and 2013, the District's unrestricted funds had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
<u>August 31, 2014</u>		
Local government investment pools (LGIP)	\$ 3,448,212	53
U.S. Agency	<u>3,476,765</u>	1,161
	6,924,977	668
Mutual funds	<u>13,779</u>	
	<u>\$ 6,938,756</u>	
<u>August 31, 2013</u>		
Local government investment pools (LGIP)	\$ 2,322,446	56
U.S. Agency	<u>3,411,740</u>	1,526
	<u>\$ 5,734,186</u>	931

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**4. DEPOSITS AND INVESTMENTS (Continued)**

**4.B. Investments (Continued)**

Credit Risk – As of August 31, 2014 and 2013, the LGIPs (which represent approximately 47% and 38% of the unrestricted portfolio) are rated AAAM by Standard and Poor’s. The money market cash accounts (which represent approximately 6% and 6% of the unrestricted portfolio) are covered 100% by federal deposit insurance SIPC and private insurance. The U.S. agencies (which represent approximately 47% and 56% of the unrestricted portfolio are rated AAA and Aaa by Standard and Poor’s, and Moody’s. The Mutual funds (which represent -0-% and -0-% of the unrestricted portfolio complete the investment portfolio.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires 50% of unrestricted net assets not exceed one (1) year and none exceed two (2) years, unless matched to a specific requirement, such as investments required to support student scholarships. 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.

Restricted (Non-Endowment) Funds

As of August 31, 2014 and 2013, the District’s non-endowment restricted funds had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
<u>August 31, 2014</u>		
Local government investment pools (LGIP)	\$ <u>1,689,680</u>	53
	\$ <u>1,689,680</u>	
<u>August 31, 2013</u>		
Local government investment pools (LGIP)	\$ <u>342,899</u>	56
	\$ <u>342,899</u>	

Credit Risk - As of August 31, 2014 and 2013, the LGIP’s (which represent 100% and 100% of the restricted non-endowment portfolio) are rated AAAM by Standard and Poor’s.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy allows investment of these funds for periods matched to the specific purpose of such funds.

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**4. DEPOSITS AND INVESTMENTS (Continued)**

**4.B. Investments (Continued)**

Restricted (Endowment) Funds

As of August 31, 2014 and 2013, the District's endowment restricted funds had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
<u>August 31, 2014</u>		
Certificates of deposit	\$ 99,000	28
Mutual funds	4,517,039	
Real estate securities	121,603	
Equities	<u>859,180</u>	
	<u>\$ 5,596,822</u>	
<u>August 31, 2013</u>		
Certificates of deposit	\$ 99,000	28
Mutual funds	3,820,717	
Real estate securities	100,645	
Equities	<u>1,047,334</u>	
	<u>\$ 5,067,696</u>	

Credit Risk - As of August 31, 2014 and 2013, the certificates of deposit (which represent approximately 2% and 2% of the restricted portfolio) are covered 100% by SIPC. Mutual funds (which represent approximately 81% and 75% of the restricted (endowment) portfolio), real estate securities (which represent approximately 2% and 2% of the restricted (endowment) portfolio), and equities (which represent approximately 15% and 21% of the restricted (endowment) portfolio), complete the investment portfolio.

Interest Rate Risk - The District's investment policy for endowments emphasizes long-term capital appreciation as a primary source of return with and current income as a supplementary source of gains. However, quality medium-to-long term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's endowment investment strategy.

Foreign Currency Risk – The District's investment policy permits it to invest up to 15 percent of total investments in foreign investments. Amounts over 15 percent require periodic rebalancing. As of August 31, 2014 and 2013, the District's restricted investments in mutual funds and equity securities were exposed to foreign currency risk as follows:

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**4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

**4.B. Investments (Continued)**

Country	Currency	Value August 31st	
		2014	2013
Argentina	Argentinian Peso	\$ 238	\$ 157
Australia	Australian Dollar	16,687	42,213
Brazil	Real	5,951	5,543
Canada	Canadian Dollar	3,654	32,450
Cayman Island	Cayman Island Dollar	91	101
Chile	Chilean Peso		594
China	Chinese Renminbi	15,632	10,531
Columbia	Columbian Peso	111	
Czech Republic	Czech Koruna	496	246
Denmark	Danish Krone	7,968	2,746
Hong Kong	Hong Kong Dollar	11,786	12,513
Hungary	Hungarian Forint	293	220
India	Indian Rupee	11,253	4,596
Indonesia	Rupiah	1,184	659
Israel	Shekels	1,542	884
Japan	Japanese Yen	7,381	121,669
Kazakhstan	Tenge	147	112
Kuwait	Dinar		191
Malaysia	Ringgit	91	
Mexico	Mexican Peso	2,881	3,326
New Zealand	New Zealand Dollar	3,276	1
Nigeria	Naira	51	44
Norway	Norwegian Krone	11,898	1,800
Omani	Omani Rial	46	36
Peru	Peruvian New Sol	435	451
Philippines	Philippine Peso	1,148	182
Poland	Zloty	651	605
Qatar	Qatar Rial	288	275
Russia	Ruble	4,547	5,293
Singapore	Singapore Dollar	9,106	9,856
South Africa	Rand	4,523	3,855
South Korea	Won	5,796	6,658
Sri Lanka	Sri Lankan Rupee	162	105
Sweden	Krona	15,539	6,382
Switzerland	Franc	182,530	52,097
Taiwan	Taiwan Dollar	9,837	2,439
Thailand	Bhat	2,072	1,387
Turkey	Turkish Lira	744	578
Ukraine	Hryvna	96	249
United Arab Emirates	Dirhan	1,401	685
United Kingdom	Pound	65,769	122,608
Various	Euro	110,799	202,599
Total foreign investments		518,100	656,936
United States		4,993,501	4,311,760
Total mutual funds and equities		<u>\$ 5,511,601</u>	<u>\$ 4,968,696</u>



**BRAZOSPORT COLLEGE DISTRICT**  
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**4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

**4.B. Investments (Continued)**

At August 31, 2014 and 2013, the District held 7.1% and 12.1%, and 3.6% and 5.9% in foreign investments in restricted investments and total investments, respectively. These balances will be reviewed annually and adjusted as necessary to comply with the investment policy and to maximize the District's return on investment.

**4.C. 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 measurements) 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.

**BRAZOSPORT COLLEGE DISTRICT**  
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**4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

**4.C. Fair Value Measures (Continued)**

Unrestricted Funds

The following table sets forth by level, within the fair value hierarchy, the District's unrestricted assets at fair value as of August 31, 2014 and 2013:

Assets at fair value as of August 31, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Local government investment pools	\$ 2,791,305	\$	\$	\$ 2,791,305
U.S. Agencies	3,476,765			3,476,765
Mutual funds	<u>670,686</u>			<u>670,686</u>
Total assets at fair value	<u>\$ 6,938,756</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 6,938,756</u>

Assets at fair value as of August 31, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Local government investment pools	\$ 2,322,446	\$	\$	\$ 2,322,446
U.S. Agencies	<u>3,411,740</u>			<u>3,411,740</u>
Total assets at fair value	<u>\$ 5,734,186</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,734,186</u>

Restricted (Non-Endowment) Funds

The following table sets forth by level, within the fair value hierarchy; the District's restricted (non-endowment) assets at fair value as of August 31, 2014 and 2013:

Assets at fair value as of August 31, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Local government investment pools	<u>\$ 2,346,587</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,346,587</u>
Total assets at fair value	<u>\$ 2,346,587</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,346,587</u>

Assets at fair value as of August 31, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Local government investment pools	<u>\$ 342,899</u>	<u>\$</u>	<u>\$</u>	<u>\$ 342,899</u>
Total assets at fair value	<u>\$ 342,899</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 342,899</u>

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**4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

**4.C. Fair Value Measures (Continued)**

Restricted (Endowment) Funds

The following table sets forth by level, within the fair value hierarchy; the District's restricted (endowment) assets at fair value as of August 31, 2014 and 2013:

Assets at fair value as of August 31, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 3,860,133	\$	\$	\$ 3,860,133
Real estate securities	121,603			121,603
Equities	<u>859,180</u>			<u>859,180</u>
Total assets at fair value	<u>\$ 4,840,916</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,840,916</u>

Assets at fair value as of August 31, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 3,820,717	\$	\$	\$ 3,820,717
Real estate securities	100,645			100,645
Equities	<u>1,047,334</u>			<u>1,047,334</u>
Total assets at fair value	<u>\$ 4,968,696</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,968,696</u>

**5. 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 years ended August 31, 2014 and 2013, and held no direct investments in derivatives at August 31, 2014 and 2013.

**6. CAPITAL ASSETS**

**6.A. Changes in Capital Assets**

The following provides a summary of changes in capital assets and accumulated depreciation for the years ended August 31, 2014 and 2013:

<u>August 31, 2014</u>	<u>Balance</u> <u>September 1,</u> <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>August 31,</u> <u>2014</u>
Non-Depreciated Capital Assets:				
Land	\$ 296,189	\$	\$	\$ 296,189
Art	146,795			146,795
Construction in progress	<u>601,793</u>	<u>1,244,335</u>	<u>509,571</u>	<u>1,336,557</u>
Total non-depreciated	<u>1,044,777</u>	<u>1,244,335</u>	<u>509,571</u>	<u>1,779,541</u>

(continued)

**BRAZOSPORT COLLEGE DISTRICT**  
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**6. CAPITAL ASSETS (Continued)**

**6.A. Changes in Capital Assets ( Continued)**

<u>August 31, 2014</u>	<u>Balance September 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2014</u>
Depreciated Capital Assets:				
Land improvements	11,633,976			11,633,976
Buildings	109,439,216	39,570		109,478,786
Furniture, machinery, vehicles, and other equipment	5,163,595	258,717		5,422,312
Library books	2,324,215	268,041	16,587	2,575,669
Telecommunication and peripheral equipment	<u>3,425,428</u>	<u>610,507</u>	<u>          </u>	<u>4,035,935</u>
Total depreciated capital assets	<u>131,986,430</u>	<u>1,176,835</u>	<u>16,587</u>	<u>133,146,678</u>
Total assets	<u>133,031,207</u>	2,421,170	526,158	<u>134,926,219</u>
Construction in progress		<u>509,571</u>	<u>509,571</u>	
Total additions/retirements		<u>\$ 1,911,599</u>	<u>\$ 16,587</u>	
Accumulated Depreciated:				
Land improvements	\$ 3,823,040	\$ 389,974	\$	\$ 4,213,014
Buildings	21,336,107	2,528,841		23,864,948
Furniture, machinery, vehicles and other equipment	3,418,398	219,769		3,638,167
Library books	1,545,655	149,136		1,694,791
Telecommunications and peripheral equipment	<u>2,542,938</u>	<u>377,372</u>	<u>16,587</u>	<u>2,903,723</u>
Total accumulated depreciation	<u>32,666,138</u>	<u>\$ 3,665,092</u>	<u>\$ 16,587</u>	<u>36,314,643</u>
Net depreciated capital assets	<u>99,320,292</u>			<u>96,832,035</u>
Net capital assets	<u>\$ 100,365,069</u>			<u>\$ 98,611,576</u>

See Note 2.H. for additional information regarding capital assets.

**BRAZOSPORT COLLEGE DISTRICT**  
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**6. CAPITAL ASSETS (Continued)**

**6.A. Changes in Capital Assets ( Continued)**

<u>August 31, 2013</u>	<u>Balance September 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2013</u>
<b>Non-Depreciated Capital Assets:</b>				
Land	\$ 296,189	\$	\$	\$ 296,189
Art	91,209	55,586		146,795
Construction in progress	<u>7,141,322</u>	<u>818,428</u>	<u>7,357,957</u>	<u>601,793</u>
Total non-depreciated	<u>7,528,720</u>	<u>874,014</u>	<u>7,357,957</u>	<u>1,044,777</u>
<b>Depreciated Capital Assets:</b>				
Land improvements	11,551,228	82,748		11,633,976
Buildings	102,563,743	6,875,473		109,439,216
Furniture, machinery, vehicles, and other equipment	4,065,080	1,098,515		5,163,595
Library books	2,212,199	115,485	3,469	2,324,215
Telecommunication and peripheral equipment	<u>2,966,357</u>	<u>459,071</u>	<u>                    </u>	<u>3,425,428</u>
Total depreciated capital assets	<u>123,358,607</u>	<u>8,631,292</u>	<u>3,469</u>	<u>131,986,430</u>
Total assets	<u>130,887,327</u>	9,505,306	7,361,426	<u>133,031,207</u>
Construction in progress		<u>7,357,957</u>	<u>7,357,957</u>	
Total additions/retirements		<u>\$ 2,147,349</u>	<u>\$ 3,469</u>	
<b>Accumulated Depreciated:</b>				
Land improvements	\$ 3,433,066	\$ 389,974	\$	\$ 3,823,040
Buildings	18,815,004	2,521,104		21,336,108
Furniture, machinery, vehicles and other equipment	3,256,739	161,659		3,418,398
Library books	1,402,211	146,912	3,469	1,545,654
Telecommunications and peripheral equipment	<u>2,213,146</u>	<u>329,792</u>	<u>                    </u>	<u>2,542,938</u>
Total accumulated depreciation	<u>29,120,166</u>	<u>\$ 3,549,441</u>	<u>\$ 3,469</u>	<u>32,666,138</u>
Net depreciated capital assets	<u>94,238,441</u>			<u>99,320,292</u>
Net capital assets	<u>\$ 101,767,161</u>			<u>\$ 100,365,069</u>

**BRAZOSPORT COLLEGE DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**6. CAPITAL ASSETS (Continued)**

**6.B. Depreciation Expense**

Depreciation expense has not been charged to functional categories. This does not comply with Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments. However, the Texas Higher Education Coordinating Board guidelines contained in the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges* does not require allocation of depreciation to functional categories. Since the District is reported as a special-purpose government engaged in business-type activities, this is not considered material to the financial statements.

**6.C. Unexpended Plant Construction Commitments**

The District has entered into contracts for construction as of August 31, 2014 and 2013 as follows:

	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Commitment</u>	<u>Required Further Financing</u>
<u>August 31, 2014</u>				
Master Plan Projects:				
Architecture	\$ 513,260	\$ 513,260	\$	\$
Improvements	<u>850,306</u>	<u>343,342</u>	<u>506,964</u>	<u></u>
Total	<u>\$ 1,363,566</u>	<u>\$ 856,602</u>	<u>\$ 506,964</u>	<u>\$ -0-</u>
	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Commitment</u>	<u>Required Further Financing</u>
<u>August 31, 2013</u>				
Master Plan Projects:				
Architecture	\$ 283,020	\$ 183,886	\$ 99,134	\$
Improvements	20,000	19,645	355	
Engineering	<u>6,400</u>	<u></u>	<u>6,400</u>	<u></u>
Total	<u>\$ 309,420</u>	<u>\$ 203,531</u>	<u>\$ 105,889</u>	<u>\$ -0-</u>

**BRAZOSPORT COLLEGE DISTRICT**  
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**7. LONG-TERM LIABILITIES**

The following is a summary of changes in long-term debt for the years ended August 31, 2014 and 2013:

	Balance September 1, 2013	Additions	Reductions	Balance August 31, 2014	Current Portion
Revenue bonds	\$ 6,860,000	\$	\$ 770,000	\$ 6,090,000	\$ 795,000
Limited tax bonds	65,510,000		1,955,000	63,555,000	2,020,000
Components of Long-Term Debt:					
Premium on revenue bonds	31,072		3,469	27,603	3,469
Premium on limited tax bonds	1,274,486		60,134	1,214,352	60,134
Accrued interest	135,055	131,229	135,055	131,229	131,229
Compensated absences	<u>255,485</u>	<u>96,139</u>	<u>70,729</u>	<u>280,895</u>	<u>55,000</u>
Total long-term liabilities	<u>\$ 74,066,098</u>	<u>\$ 227,368</u>	<u>\$ 2,994,387</u>	<u>\$ 71,299,079</u>	<u>\$ 3,064,832</u>
	Balance September 1, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
Revenue bonds	\$ 7,595,000	\$	\$ 735,000	\$ 6,860,000	\$ 770,000
Limited tax bonds	67,100,000		1,590,000	65,510,000	1,955,000
Components of Long-Term Debt:					
Premium on revenue bonds	34,541		3,469	31,072	3,469
Premium on limited tax bonds	1,334,620		60,134	1,274,486	60,134
Accrued interest	521,703	135,055	521,703	135,055	135,055
Compensated absences	<u>258,559</u>	<u>54,135</u>	<u>57,209</u>	<u>255,485</u>	<u>55,000</u>
Total long-term liabilities	<u>\$ 76,844,423</u>	<u>\$ 189,190</u>	<u>\$ 2,967,515</u>	<u>\$ 74,066,098</u>	<u>\$ 2,978,658</u>

**BRAZOSPORT COLLEGE DISTRICT**  
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**7. LONG-TERM LIABILITIES (Continued)**

The annual debt service requirements to maturity for bonded debt as of August 31, 2014 are as follows:

For the Year Ended August 31,	Revenue Bonds Series 2002		Revenue Bonds Series 2006	
	Principal	Interest	Principal	Interest
2015	\$ 270,000	\$ 12,150	\$ 525,000	\$ 232,800
2016			835,000	211,800
2017			875,000	178,400
2018			905,000	143,400
2019			950,000	107,200
2020-2022			1,730,000	114,400
Total	<u>\$ 270,000</u>	<u>\$ 12,150</u>	<u>\$ 5,820,000</u>	<u>\$ 988,000</u>

For the Year Ended August 31,	Total Revenue Bonds		General Obligation Bonds Series 2008	
	Principal	Interest	Principal	Interest
2015	\$ 795,000	\$ 244,950	\$ 845,000	\$ 1,140,331
2016	835,000	211,800	875,000	1,108,044
2017	875,000	178,400	910,000	1,072,344
2018	905,000	143,400	950,000	1,035,144
2019	950,000	107,200	990,000	996,344
2020-2024	1,730,000	114,400	5,605,000	4,316,015
2025-2029			7,020,000	2,900,750
2030-2033			7,125,000	810,837
Total	<u>\$ 6,090,000</u>	<u>\$ 1,000,150</u>	<u>\$ 24,320,000</u>	<u>\$ 13,379,809</u>

For the Year Ended August 31,	General Obligation Bonds Series 2010		General Obligation Bonds Series 2011	
	Principal	Interest	Principal	Interest
2015	\$ 850,000	\$ 1,089,669	\$ 325,000	\$ 486,781
2016	870,000	1,065,994	335,000	475,256
2017	900,000	1,039,444	345,000	463,331
2018	925,000	1,012,069	360,000	449,231
2019	955,000	983,869	375,000	434,532
2020-2024	5,270,000	4,422,819	2,140,000	1,909,632
2025-2029	6,385,000	3,301,968	2,715,000	1,334,200
2030-2034	7,875,000	1,807,591	3,355,000	697,647
2035-2036	3,700,000	174,343	1,555,000	66,831
Total	<u>\$ 27,730,000</u>	<u>\$ 14,897,766</u>	<u>\$ 11,505,000</u>	<u>\$ 6,317,441</u>



**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
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**7. LONG-TERM LIABILITIES (Continued)**

For the Year Ended August 31,	Total		Total Bonds	
	General Obligation Bonds		Principal	Interest
	Principal	Interest		
2015	\$ 2,020,000	\$ 2,716,781	\$ 2,815,000	\$ 2,961,731
2016	2,080,000	2,649,294	2,915,000	2,861,094
2017	2,155,000	2,575,119	3,030,000	2,753,519
2018	2,235,000	2,496,444	3,140,000	2,639,844
2019	2,320,000	2,414,745	3,270,000	2,521,945
2020-2024	13,015,000	10,648,466	14,745,000	10,762,866
2025-2029	16,120,000	7,536,918	16,120,000	7,536,918
2030-2034	18,355,000	3,316,075	18,355,000	3,316,075
2035-2036	<u>5,255,000</u>	<u>241,174</u>	<u>5,255,000</u>	<u>241,174</u>
Total	<u>\$ 63,555,000</u>	<u>\$ 34,595,016</u>	<u>\$ 69,645,000</u>	<u>\$ 35,595,166</u>

**8. BONDS PAYABLE**

General information related to bonds payable is summarized below:

- 8.A.** Combined Fee Revenue Bonds, Series 2002
- To construct new buildings on campus.
  - Issue date was July 24, 2002.
  - Original amount of issue; amount authorized \$ 5,000,000.
  - The sources of revenue for debt service are the registration fee, pledged tuition fee, building fee, and corporate learning fee.
  - Balance as of August 31 2014 and 2013 was \$ 270,000 and \$ 530,000.
- 8.B.** Combined Fee Revenue Refunding Bonds, Series 2006
- To refund part of Series 2001 (\$ 4,190,000) and Series 2002 (\$ 2,320,000).
  - Issue date was November 28, 2006.
  - Original amount of issue; amount authorized \$ 6,885,000.
  - The sources for debt service are the registration fee, pledged tuition fee, building fee, and corporate learning fee.
  - Balance as of August 31, 2014 and 2013 was \$ 5,820,000 and \$ 6,330,000.
  -
- 8.C.** Limited Tax Bonds, Series 2008
- To construct the Master Plan which adds several buildings and renovates and improves the campus.
  - Issue date was May 23, 2008.
  - Original amount of issue; amount authorized \$ 28,470,000.
  - General Obligation Bond Issue was approved by the voters of the Brazosport College District for \$ 70,000,000. Property taxes will pay the debt.
  - Balance as of August 31, 2014 and 2013 was \$ 24,320,000 and \$ 25,135,000.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
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**8. BONDS PAYABLE (Continued)**

**8.D.** Limited Tax Bonds, Series 2010

- To construct the Master Plan, which adds several buildings, and renovates, and improves the campus.
- Issue date was October 14, 2010.
- Original amount of issue: amount authorized \$ 29,360,000.
- General Obligation Bond Issue was approved by the voters of the Brazosport College District for \$ 70,000,000. Property taxes will pay the debt.
- Balance as of August 31, 2014 and 2013 was \$ 27,730,000 and \$ 28,555,000.

**8.E.** Limited Tax Bonds, Series 2011

- To construct the Master Plan, which adds several buildings, and renovates, and improves the campus.
- Issue date was October 14, 2010.
- Original amount of issue: amount authorized \$ 11,820,000.
- General Obligation Bond Issue was approved by the voters of the Brazosport College District for \$ 70,000,000. Property taxes will pay the debt.
- Balance as of August 31, 2014 and 2013 was \$ 11,505,000 and \$ 11,820,000.

Bonds (principal and interest) payable are due in annual installments varying from \$ 2,745,172 to \$ 5,783,519 with interest rates from 2.50% to 5.50% with the final installment due in 2036.

**9. ADVANCE REFUNDING BONDS**

- Refunded \$ 4,190,000 of Combined Fee Bonds, Series 2001 and \$ 2,320,000 of Combined Fee Bonds, Series 2002
- Issued refunding bonds on November 29, 2006
- \$ 6,885,000 all authorized bond have been issued
- Combined Fee Revenue Refunding Bonds, Series 2006
- Average interest rate of bonds refunded was 5.75%.
- Net proceeds from Refunding Series \$ 6,869,638; after payment of \$ 207,836 in underwriting fees, insurance, and other issuance costs.
- Additional \$ 6,832,346 of 2006 Series sinking fund monies was used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 2001 and 2002 Series bonds.
- Advance refunding of the 2006 Series bonds reduced the District's debt service payments over the next 16 years by approximately \$ 231,800.
- Economic Gain - \$ 205,753 difference between the net present value of the old and new debt service payments.
- Accounting Loss - \$ 383,644 accounting loss was resulted from the advanced refunding. This loss will be amortized over the life of the new bonds.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**10. DEFEASED BONDS OUTSTANDING**

Bond Issue	Year Refunded	Par Value Outstanding
Revenue Bonds Series 2001	2006	\$ 3,295,000
Revenue Bonds Series 2002	2006	2,320,000
Total		\$ 5,615,000

The outstanding balance of these defeased bonds at August 31, 2014 and 2013 was \$ 5,615,000 and \$ 6,075,000 and the balance held in escrow was \$ 5,743,379 and \$ 6,232,699.

**11. SHORT-TERM DEBT AND LEASE COMMITMENTS**

**11.A. Short-Term Debt**

The District had and incurred no short-term debt at and for the years ended August 31, 2014 and 2013.

**11.B. Lease Commitments**

Operating Lease Obligations

The college held facility leases up to September 1, 2012 at which time they were converted to month-to-month leases. The District also leased storage facilities on a month to month basis. The District paid \$ 59,702 and \$ 46,139 as rent expense for the years ended August 31, 2014 and 2013.

**12. EMPLOYEE RETIREMENT PLANS**

**12.A. Teacher Retirement System**

The State of Texas has joint contributory retirement plans for almost all its employees. One of the primary plans in which the District participates is administered by the Teacher Retirement System of Texas (TRS). The percentages of participant salaries currently contributed by the state, the college, and by each participant are 3.40% and 6.40% respectively, of annual compensation. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% on the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS on behalf of Brazosport College District employees for the years ended August 31, 2014 and 2013 was \$ 298,234 and \$ 514,547, respectively. The District's total payroll for the years ended August 31, 2014 and 2013 was \$ 17,158,196 and \$ 16,469,576 of which \$ 8,771,575 and \$ 9,222,155 was covered payroll for this plan, respectively.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**12. EMPLOYEE RETIREMENT PLANS (Continued)**

**12.A. Teacher Retirement System (Continued)**

The Teacher Retirement System does not separately account for each of its component government agencies, because it bears sole responsibility for retirement commitments beyond contributions fixed by the Legislature.

The state has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts. The percentages of participant salaries currently contributed by the state and each participant are 6.00% and 6.65% respectively. The District contributes 0.76% for employees who were participating the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program.

**12.B. Optional Retirement System**

Brazosport College District's full-time employees and administrators as defined in accordance with Texas Civil Statutes, Title 110B, Section 31.001, Subdivision (8), Revised Statutes, as amended are eligible to participate in the Optional Retirement Program (ORP). By statute, the State of Texas contributes to the retirement program an amount equal to the current authorized rates times the aggregate annual compensation of all members of the retirement program during that fiscal year. Member benefits in the ORP vest after one year of participation in one or more optional retirement plans operating in one or more institutions of higher education in Texas.

The State of Texas contribution rate is 6.00% for fiscal year 2012-2013 and 6.00% for fiscal year 2013-2014 with a 0.76% supplement for 2012-2013 and a 0.76% supplement for 2013-2014 for those participating on August 31, 1995 or before which is paid by the District. Member contribution rate is 6.65% for fiscal years 2012-2013 and 2013-2014. These rates are set by state statutes. The contribution requirement of the fiscal years ended August 31, 2014 and 2013 for the District was \$ 685,940 and \$ 691,570, which consisted of \$ 184,375 and \$ 309,472 from the state, \$ 174,756 and \$ 38,285 from the District, and \$ 359,502 and \$ 343,427 from the employees, and, \$ 370 and \$ 386 from grantors, respectively. The District's total payroll for the years ended August 31, 2014 and 2013 was \$ 17,158,196 and \$ 16,469,576 of which \$ 4,908,899 and \$ 5,157,866 was covered payroll for this plan, respectively.

**12.C. Teachers Insurance Annuity Association/College Retirement Equities Fund**

Brazosport College District's part-time employees are eligible to participate in the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF). The member contribution rate was 6% for fiscal years 2012-2013, and 2013-2014. The District's contribution rate was 1.5% for the same period. The contribution requirement of the fiscal years ended August 31, 2014 and 2013 was \$ 26,686 and \$ 26,062 from the District and \$ 106,735 and \$ 104,244 from the employees, respectively. The District's total payroll for the years ended August 31, 2014 and 2013 was \$ 17,158,196 and \$ 16,469,576 of which \$ 1,778,903 and \$ 1,737,360 was covered payroll for this plan, respectively.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
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**13. DEFERRED COMPENSATION PROGRAM**

District employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants.

As of August 31, 2014 and 2013, the District has 48 and 36 employees participating in the program, 48 and 36 employees were vested as of August 31, 2014 and 2013. A total of \$ 333,886 and \$ 260,678 in contributions were deferred by employees during the fiscal year ended August 31, 2014 and 2013 creating a payable to the vested employees of zero. The District is not custodian for this plan and therefore does not administrate any type of plan where it would have any records on employee contributions. The District withholds the amount requested by the various employees and then immediately remits it to the broker selected by each employee. Since these are individual annuity contracts, the District has no additional or unfunded liability for this program and has no contractual liability.

**14. COMPENSATED ABSENCES**

Full time employees of the District earn annual leave from 12 to 20 days each year depending upon the number of years employed with the District; however, in no case shall annual leave accrue in units other than one-half day or full days. Individuals employed after March 1, shall not receive credit for a year of service under this policy. Employees may accrue to a maximum of fifteen days of leave from prior years with the approval of the District president. At August 31, 2014 and 2013 the accrued liability for unpaid leave totaled \$ 280,895 and \$ 255,485, of which \$ 55,000 and \$ 55,000, respectively is classified as a current liability.

Under the District's sick leave policy, full-time and part-time (regularly employed on 50% or more basis) employed personnel, incapable of performing duties, shall be allowed up to ninety working days disability leave (sick leave) without loss of pay during any academic year or for any continuous absence for an accident or illness in which the ninety days includes days in two academic years. No leave under this policy shall accrue from one year to another; therefore, no accrual of liability exists at August 31, 2014 and 2013.

**15. PENDING LAWSUITS AND CLAIMS**

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. The District maintains commercial insurance for these types of risks. There have been no significant changes in insurance coverage, and no settlements have significantly exceeded insurance coverage for the years ended August 31, 2014 and 2013.

The District is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the District at August 31, 2014 and 2013.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**16. DISSAGREGATION OF ACCOUNTS AND NOTES RECEIVABLE, ACCOUNTS AND ACCRUED LIABILITIES, UNCOLLECTIBLE ACCOUNTS, AND UNEARNED REVENUES**

**16.A. Accounts and Notes Receivables**

Receivables at August 31, 2014 and 2013 were as follows:

	2014	2013
Current Receivables:		
Student notes receivable	\$ 23,254	\$ 19,287
Taxes receivable	179,757	187,383
Accounts receivable	1,308,326	1,205,924
Interest receivable	10,962	10,962
Subtotal	1,522,299	1,423,556
Allowance for doubtful accounts	424,161	385,059
Net current receivables	1,098,138	1,038,497
Restricted Assets:		
Federal grants receivable	317,343	261,136
State grants receivable	217,733	175,294
Local grants receivable	500	
Interest receivable	63	63
Total restricted receivables	535,639	436,493
Total receivables	\$ 1,633,777	\$ 1,474,990

**16.B. Accounts and Accrued Liabilities**

Payables at August 31, 2014 and 2013 were as follows:

	2014	2013
Current Liabilities:		
Vendors payable	\$ 946,686	\$ 468,366
Salaries and benefits payable	241,780	295,916
Accrued interest payable	10,738	12,134
Total current liabilities	1,196,204	776,416
Liabilities Payable from Restricted Assets:		
Vendors payable	179,292	36,309
Salaries and benefits payable		113
Accrued interest	120,491	122,921
Due to other governments	2,641	4,784
Total from restricted assets	302,424	164,127
Total payables	\$ 1,498,628	\$ 940,543

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**16. DISSAGREGATION OF ACCOUNTS AND NOTES RECEIVABLE, ACCOUNTS AND ACCRUED LIABILITIES, UNCOLLECTIBLE ACCOUNTS, AND UNEARNED REVENUES (Continued)**

**16.C. Uncollectible Accounts**

Taxes

Ad valorem taxes receivable are reserved based upon historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The allowance for uncollectible taxes as of August 31, 2014 and 2013 was \$ 100,779 and \$ 113,199, respectively.

Customer Receivables

The allowance for uncollectible receivables related to District services is determined based on historical experience and evaluation of collectivity in relation to the aging of customer accounts. The allowance for uncollectible accounts as of August 31, 2014 and 2013 was \$ 323,382 and \$ 271,860, respectively.

Tuition and Fees Receivable

The allowance for uncollectible receivables related to District services is determined based on historical experience and evaluation of collectivity in relation to the aging of customer accounts. The District considers tuition and fees receivable to be fully collectible as of August 31, 2014 and 2013; accordingly no allowance for uncollectible accounts is required.

Notes Receivable - Student Loans

The allowance for uncollectible student loans is determined based on historical experience and evaluation of collectivity in relation to the aging of notes outstanding. At August 31, 2014 and 2013, no allowance was established. During the years ended August 31, 2014 and 2013, there were no write-offs of student loans.

**16.D. Unearned Revenues**

Current Unrestricted Fund revenues, consisting of tuition and fees related to academic terms in the next fiscal year, are recorded on the balance sheet as unearned revenue at August 31, 2014 and 2013. Of these amounts only the tuition and fees, and clarion tickets were collected prior to August 31, 2014 and 2013. These amounts are as follows:

	2014	2013
Current Liabilities:		
Tuition and fees	\$ 1,536,492	\$ 1,554,513
Liabilities Payable from Restricted Assets:		
State and local grants	358,031	160,327
Totals	\$ 1,894,523	\$ 1,714,840

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**17. OPERATING LEASE REVENUES**

Brazosport College District is the lessor of various properties and rights under operating leases as follows:

1. Beginning April 18, 2003 the District entered into a lease agreement with Texas Book Company to lease the bookstore for 8.5% of gross sales up to \$ 2,000,000, plus 10% of gross sales over \$ 2,000,000, but not less than \$ 100,000 annually. The District provides utilities, furniture and equipment, and maintenance of facilities while the lessee provides maintenance of furniture and equipment and specified insurance coverage. On August 21, 2006, the District approved modifications to the existing agreement, which calls for the Texas Book Company to commit up to \$ 90,000 for bookstore renovations and to provide a \$ 10,000 contribution to the District. The new agreement will be for seven years from May 1, 2007 to April 30, 2014. Upon completion of the renewal term, the lease shall automatically self-renew for three years under the same provisions. The District received \$ 105,444 and \$ 98,269 in lease income for the years ended August 31, 2014 and 2013.
2. On September 1, 2012, the District entered into a lease agreement with Tommy's to lease the cafeteria for 5% of net sales (gross sales less sales taxes), but not less than \$ 400 monthly. If not paid by the due date, the amount due will increase to 6%. The District provides utilities, specified furniture and equipment, and maintenance of facilities and the lessee provides maintenance of furniture and equipment, specified insurance coverage, inventory and business licenses and permits. Lessee agrees to comply with all applicable laws. The lease began on January 20, 1999 and was renewed several times through September 1, 2012 and is effective until August 31, 2017. The District received \$ 54,085 and \$ 43,404 of lease income on this contract for the years ended August 31, 2014 and 2013.

**18. CONTRACTS AND GRANTS**

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, Audits of Colleges and Universities. Revenues are recognized on Exhibit 2 as federal grants and contracts (operating revenue) and Title IV federal grants (non-operating revenues). For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards already committed, e.g., multi-year awards, or funds awarded during fiscal years ending August 31, 2014 and 2013 for which monies have not been received totaled zero.

**19. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee varied based upon coverage category. Monthly contributions for the year ended August 31, 2014 was \$ 500.92 for "Employee Only" coverage, \$ 788.94 for "Employee and Spouse" coverage, \$ 693.78 for "Employee and Children" coverage, and \$ 939.56 for "Employee and Family" coverage. The cost of providing those benefits for 77 retirees was \$ 264,165 and for 232 active employees was \$ 427,563. For the year ended August 31, 2013 the state contribution



**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**19. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)**

was limited to \$ 871,108. Monthly contributions for the year ended August 31, 2013 was \$ 470.38 for "Employee Only" coverage, \$ 1,008.78 for "Employee and Spouse" coverage, \$ 830.86 for "Employee and Children" coverage, and \$ 1,369.26 for "Employee and Family" coverage. The cost of providing those benefits for 75 retirees was \$ 443,545 and for 232 active employees was \$ 427,563. For the year ended August 31, 2013 the state contribution was limited to \$ 871,108.

**20. ON-BEHALF PAYMENTS**

The State of Texas provided on-behalf payments for the following benefits for the years ended August 31, 2014 and 2013:

	2014	2013
Teacher Retirement System	\$ 298,234	\$
Optional Retirement Program (ORP)	184,375	309,472
Postretirement health care and life insurance benefits	1,136,154	871,108
Total	\$ 1,618,763	\$ 1,180,580

**21. PROPERTY TAXES**

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

	2014	2013
Assessed Valuation of the District:	\$ 8,846,503,517	\$ 8,344,775,757
Less: Abatements	571,450,501	617,732,813
Less: Exemptions	1,440,270,259	1,536,538,173
Net assessed valuation of the district	\$ 6,834,782,757	\$ 6,190,504,771

	2014		
	Current Operations	Debt Service	Total
Authorized Tax Rate per \$ 100 valuation (Maximum per enabling legislation)	\$ 0.350000	\$ 0.069309	\$ 0.419309
Assessed Tax Rate per \$ 100 valuation	\$ 0.198000	\$ 0.069309	\$ 0.267309

	2013		
	Current Operations	Debt Service	Total
Authorized Tax Rate per \$ 100 valuation (Maximum per enabling legislation)	\$ 0.350000	\$ 0.075436	\$ 0.425436
Assessed Tax Rate per \$ 100 valuation	\$ 0.184000	\$ 0.075436	\$ 0.259436

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**21. PROPERTY TAXES (Continued)**

Taxes levied for the years ended August 31, 2014 and 2013 were \$ 18,271,178 and \$ 16,833,494 (which includes any penalty and interest assessed if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

The following is a summary of tax collections for the years ended August 31, 2014 and 2013:

August 31, 2014

<u>Taxes Collected</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 13,449,241	\$ 4,707,845	\$ 18,157,086
Delinquent taxes collected	79,169	28,876	108,045
Penalties and interest collected	<u>61,067</u>	<u>20,499</u>	<u>81,566</u>
Total collections	<u>\$ 13,589,477</u>	<u>\$ 4,757,220</u>	<u>\$ 18,346,697</u>

August 31, 2013

<u>Taxes Collected</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 11,836,462	\$ 4,852,691	\$ 16,689,153
Delinquent taxes collected	115,857	28,651	144,508
Penalties and interest collected	<u>55,508</u>	<u>19,628</u>	<u>75,136</u>
Total collections	<u>\$ 12,007,827</u>	<u>\$ 4,900,970</u>	<u>\$ 16,908,797</u>

Tax collections for the years ended August 31, 2014 and 2013 were 99.97 and 100.00%+ of the current tax levy, respectively. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance and operations.

**22. INCOME TAXES**

The District is exempt from income taxes under internal Revenue Code Section 115. Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The college had no unrelated business income tax liability for the year ended August 31, 2014 and 2013.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**23. COMPONENT UNITS**

Brazosport College Foundation - Discrete Component Unit

Brazosport College Foundation (the Foundation) was established as a separate nonprofit organization on November 22, 1995, to raise funds to provide student scholarships, building projects and support other projects of the District. The Governmental Standards Board Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14. and No. 34", an organization should report as a discretely presented component unit those organizations that raise and hold economic resources for the direct benefit of government unit.

Accordingly, the Foundation financial statements are included in the District's annual report as a discrete component unit (see table of contents). Complete financial statements of the Brazosport College Foundation can be obtained from the Vice President, Financial Services & CFO, Brazosport College District, 500 College Drive, Lake Jackson, Texas 77566.

**24. RELATED PARTIES**

The District has no related parties except the Brazosport College Foundation which is mentioned as a Component Unit in Note 23.

**25. EVALUATION OF SUBSEQUENT EVENTS**

The management of the District has evaluated subsequent events through November 19, 2014, the date which the financial statements were available to be issued.

**26. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Plan Description

Brazosport College District contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postemployment healthcare plan administered by the Employees Retirement System of Texas (ERS). SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by State law and may be amended by the Texas Legislature.

ERS issued a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us/>.

Funding Policy

Section 1551.055 of Chapter 1551, Texas Insurance Code provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS board of trustees. Plan member or beneficiaries receiving benefits pay any premium over and above the employer contribution.

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB statement 45.

**BRAZOSPORT COLLEGE DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEARS ENDED AUGUST 31, 2014 AND 2013*

**26. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The employer contribution rate represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (of funding excess) of the plan over a period not to exceed thirty years.

The District's contributions to SRHP for the years ended August 31, 2014, 2013 and 2012 were \$ 278,365, \$ 39,254, and \$ 32,317, respectively, which equaled the required contributions for each year.

**SUPPLEMENTAL SCHEDULES**

**BRAZOSPORT COLLEGE DISTRICT**  
**SCHEDULE OF OPERATING REVENUES**  
**FOR THE YEAR ENDED AUGUST 31, 2014**  
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

SCHEDULE A  
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	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>Total Year Ended August 31, 2014</u>	<u>Total Year Ended August 31, 2013</u>
<b>Tuition:</b>						
State Funded Courses:						
In-district resident tuition	\$ 2,925,009	\$	\$ 2,925,009	\$	\$ 2,925,009	\$ 2,911,398
Out-of-district resident tuition	2,716,535		2,716,535		2,716,535	2,682,486
TPEG (set aside)*		283,558	283,558		283,558	281,560
Non-resident tuition	99,445		99,445		99,445	86,160
Non-state funded continuing education	<u>3,812,320</u>		<u>3,812,320</u>		<u>3,812,320</u>	<u>2,695,336</u>
Total tuition	<u>9,553,309</u>	<u>283,558</u>	<u>9,836,867</u>	<u>-0-</u>	<u>9,836,867</u>	<u>8,656,940</u>
<b>Fees:</b>						
General fee	448,539		448,539	55,106	503,645	599,035
Student service fee			-0-	269,939	269,939	269,058
Out of district	54		54		54	-0-
Laboratory fee	461,760		461,760		461,760	431,734
Building use fee	<u>960,933</u>		<u>960,933</u>		<u>960,933</u>	<u>861,397</u>
Total fees	<u>1,871,286</u>	<u>-0-</u>	<u>1,871,286</u>	<u>325,045</u>	<u>2,196,331</u>	<u>2,161,224</u>
<b>Scholarship Allowances and Discounts:</b>						
Scholarship allowances	( 384,691 )		( 384,691 )		( 384,691 )	( 254,698 )
Remissions and exemptions	( 223,787 )		( 223,787 )		( 223,787 )	( 204,285 )
TPEG allowances	( 271,351 )		( 271,351 )		( 271,351 )	( 233,386 )
Federal grants to students	( 1,266,088 )		( 1,266,088 )		( 1,266,088 )	( 1,213,095 )
State grants to students	( 208,769 )		( 208,769 )		( 208,769 )	( 143,259 )
Other						( 5,806 )
Total scholarship allowances and discounts	<u>( 2,354,686 )</u>	<u>-0-</u>	<u>( 2,354,686 )</u>	<u>-0-</u>	<u>( 2,354,686 )</u>	<u>( 2,054,529 )</u>
Net tuition and fees	<u>9,069,909</u>	<u>283,558</u>	<u>9,353,467</u>	<u>325,045</u>	<u>9,678,512</u>	<u>8,763,635</u>

(continued)

**BRAZOSPORT COLLEGE DISTRICT****SCHEDULE OF OPERATING REVENUES - Continued****FOR THE YEAR ENDED AUGUST 31, 2014****(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)**

SCHEDULE A

Page 2 of 2

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	Total Year Ended August 31, 2014	Total Year Ended August 31, 2013
<b>ADDITIONAL OPERATING REVENUES:</b>						
Federal grants and contracts	\$	\$ 1,320,818	\$ 1,320,818	\$	\$ 1,320,818	\$ 1,251,432
State grants and contracts		1,365,425	1,365,425		1,365,425	1,569,325
Local grants and contracts	1,249,100	610,233	1,859,333		1,859,333	786,900
Nongovernmental grants and contracts	117,020	5,850	122,870		122,870	105,776
Sales and services of educational activities	184,000	2,125	186,125	63,584	249,709	229,593
Other operating revenues	<u>778,915</u>		<u>778,915</u>		<u>778,915</u>	<u>613,254</u>
Total other operating revenues	<u>2,329,035</u>	<u>3,304,451</u>	<u>5,633,486</u>	<u>63,584</u>	<u>5,697,070</u>	<u>4,556,280</u>
<b>AUXILIARY ENTERPRISES:</b>						
Bookstore			-0-	105,444	105,444	98,269
Total auxiliary enterprises	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>105,444</u>	<u>105,444</u>	<u>98,269</u>
Total operating revenues	<u>\$ 11,398,944</u>	<u>\$ 3,588,009</u>	<u>\$ 14,986,953</u>	<u>\$ 494,073</u>	<u>\$ 15,481,026</u> (Exhibit 2)	<u>\$ 13,418,184</u> (Exhibit 2)

\* In accordance with Education Code 56.033, \$ 271,351 and \$ 233,386 for years ended August 31, 2014 and 2013, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

**BRAZOSPORT COLLEGE DISTRICT**

**SCHEDULE OF OPERATING EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION  
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

	Operating Expenses					August 31, 2014	August 31, 2013
	Salaries and Wages	Benefits		Other Expenses			
		State	Local				
<b>Unrestricted Educational Activities:</b>							
Instruction	\$ 9,655,954	\$	\$ 1,214,264	\$ 3,449,327	\$ 14,319,545	\$ 12,682,004	
Public services	66,625		12,279	321	79,225	80,114	
Academic support	898,551		134,129	776,223	1,808,903	1,835,532	
Student services	1,625,398		226,246	505,360	2,357,004	2,270,934	
Institutional support	3,439,639		463,994	1,277,235	5,180,868	4,874,906	
Operation and maintenance of plant	440,846		179,212	3,052,269	3,672,327	3,650,280	
Scholarship and fellowships				23,052	23,052	52,105	
<b>Total unrestricted educational activities</b>	<b>16,127,013</b>	<b>-0-</b>	<b>2,230,124</b>	<b>9,083,787</b>	<b>27,440,924</b>	<b>25,445,875</b>	
<b>Restricted Educational Activities:</b>							
Instruction	709,703	1,012,031	77,763	1,350,318	3,149,815	2,448,864	
Public services	84,565	12,463	519	22,953	120,500	118,317	
Academic support		87,728	22,472	17,396	127,596	96,764	
Student services	123,167	170,718	16,450	33,084	343,419	300,515	
Institutional support		335,823	2,240		338,063	234,222	
Scholarship and fellowships			284	2,874,063	2,874,347	2,803,878	
<b>Total restricted educational activities</b>	<b>917,435</b>	<b>1,618,763</b>	<b>119,728</b>	<b>4,297,814</b>	<b>6,953,740</b>	<b>6,002,560</b>	
<b>Total educational activities</b>	<b>17,044,448</b>	<b>1,618,763</b>	<b>2,349,852</b>	<b>13,381,601</b>	<b>34,394,664</b>	<b>31,448,435</b>	
Auxiliary enterprises	113,748		25,333	440,369	579,450	419,918	
<b>Depreciation Expense:</b>							
Buildings and other real estate				2,918,814	2,918,814	2,911,078	
Equipment and furniture				597,141	597,141	491,451	
Library books				149,136	149,136	146,912	
<b>Total operating expenses</b>	<b>\$ 17,158,196</b>	<b>\$ 1,618,763</b>	<b>\$ 2,375,185</b>	<b>\$ 17,487,061</b>	<b>\$ 38,639,205</b> (Exhibit 2)	<b>\$ 35,417,794</b> (Exhibit 2)	



**BRAZOSPORT COLLEGE DISTRICT****SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES**

FOR THE YEAR ENDED AUGUST 31, 2014

(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

SCHEDULE C

Page 1 of 1

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>August 31, 2014</u>	<u>Restated August 31, 2013</u>
NON-OPERATING REVENUES:					
State appropriations:					
Education and general state support	\$ 5,803,174	\$	\$	\$ 5,803,174	\$ 4,875,390
State group insurance		1,136,154		1,136,154	871,108
State retirement matching		482,609		482,609	278,732
	<u>5,803,174</u>	<u>1,618,763</u>	<u>-0-</u>	<u>7,421,937</u>	<u>6,025,230</u>
Total state appropriations					
Title IV federal programs	3,676,474			3,676,474	3,723,254
Maintenance ad valorem taxes	13,443,042			13,443,042	12,007,827
Debt service ad valorem taxes		4,757,220		4,757,220	4,900,970
Investment income (net of fees)	35,096	222,942	3	258,041	161,006
Increase (decrease) in value of investments	65,025	210,475		275,500	( 119,296)
Gain (loss) on sale of investments		96,300		96,300	43,889
	<u>23,022,811</u>	<u>6,905,700</u>	<u>3</u>	<u>29,928,514</u>	<u>26,742,880</u>
Total non-operating revenue					
NON-OPERATING EXPENSES:					
Interest on capital related debt	<u>275,394</u>	<u>2,737,092</u>		<u>3,012,486</u>	<u>3,095,739</u>
Total non-operating expenses	<u>275,394</u>	<u>2,737,092</u>	<u>-0-</u>	<u>3,012,486</u>	<u>3,095,739</u>
Net non-operating revenues	<u>\$ 22,747,417</u>	<u>\$ 4,168,608</u>	<u>\$ 3</u>	<u>\$ 26,916,028</u> (Exhibit 2)	<u>\$ 23,647,141</u> (Exhibit 2)

**BRAZOSPORT COLLEGE DISTRICT**

*SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY*

*FOR THE YEAR ENDED AUGUST 31, 2014*

*(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)*

SCHEDULE D

Page 1 of 1

	Detail by Source				Total
	Unrestricted	Restricted		Capital Assets Net of Depreciation and Related Debt	
		Expendable	Non- Expendable		
Current:					
Unrestricted	\$ 6,352,292	\$	\$	\$	\$ 6,352,292
Board designated	799				799
Restricted		283,024			283,024
Auxiliary enterprises	689,622				689,622
Loan	29,889				29,889
Endowment:					
Quasi:					
Unrestricted					-0-
Endowment:					
True		656,908	4,939,978		5,596,886
Plant:					
Capital projects		1,000,086			1,000,086
Debt service		332,588			332,588
Investment in plant				27,919,199	27,919,199
Total net position, August 31, 2014	7,072,602	2,272,606	4,939,978	27,919,199	42,204,385 (Exhibit 1)
Total net position, August 31, 2013	<u>5,509,792</u>	<u>1,147,726</u>	<u>4,753,331</u>	<u>26,908,995</u>	<u>38,319,844</u> (Exhibit 1)
Net increase (decrease) in net position	<u>\$ 1,562,810</u>	<u>\$ 1,124,880</u>	<u>\$ 186,647</u>	<u>\$ 1,010,204</u>	<u>\$ 3,884,541</u> (Exhibit 2)

Available for  
Current Operations

<u>Yes</u>	<u>No</u>
\$ 6,352,292 799 283,024 689,622	\$   29,889  -0-  4,939,978  1,000,086 332,588 <u>27,919,199</u>
656,908     7,982,645	      34,221,740
<u>6,052,831</u>	<u>32,267,013</u>
<u>\$ 1,929,814</u>	<u>\$ 1,954,727</u>

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**FEDERAL AND STATE AWARD SECTION**

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# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

**Lake Jackson Office:**  
8 West Way Court  
Lake Jackson, Texas 77566

**El Campo Office:**  
201 W. Webb  
El Campo, Texas 77437

**Houston Office:**  
10260 Westheimer, Suite 410  
Houston, Texas 77042

## 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 Regents  
Brazosport College District  
Lake Jackson, Texas 77566

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 business-type activities, and the discretely presented component unit of Brazosport College District (the "District"), as of and for the years ended August 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 19, 2014.

### **Internal Control over Financial Reporting**

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

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

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

Board of Regents  
Brazosport College District  
Lake Jackson, Texas 77566

### **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*.

We have performed tests designed to verify the District's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2014, no instances of noncompliance were found.

### **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.

*Kennemer, Masters & Hungford, LLC*

Certified Public Accountants  
Lake Jackson, Texas  
November 19, 2014



# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditor's Report

On Compliance for each Major Program and on Internal  
Control over Compliance Required by OMB Circular A-133

To the Board of Regents  
Brazosport College District  
Lake Jackson, Texas 77566

### **Report on Compliance for Each Major Federal Program**

We have audited Brazosport College District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal and state programs for the year ended August 31, 2014. The District's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal and state 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; the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Texas Single Audit Circular*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state programs 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 and state program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Brazosport College 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 and state programs for the year ended August 31, 2014.

### **Report on Internal Control over Compliance**

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

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

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

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

*Kennemer, Masters & Hunford, LLC*

Certified Public Accountants  
Lake Jackson, Texas 77566  
November 19, 2014

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unmodified.
2. No significant internal control deficiency, which was considered a material weakness that is required to be reported in this schedule, was disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None.
4. No internal control deficiencies that are required to be reported in this schedule were disclosed in the audit of 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 under Sec. 5 I O (a): No.
7. Major Programs Include:
  - Federal:
    - SFA Cluster Programs:
      - CFDA #84.007 Federal Supplemental Education Opportunity Grants (FSEOG)
      - CFDA #84.032 Federal Family Education Loan Program (FFELP)
      - CFDA #84.033 Federal Work Study Program (FWS)
      - CFDA #84.063 Pell Grant Program
    - CFDA #84.002 Adult Basic Education Programs
  - State:
    - Texas Workforce Commission – Skills Development Fund Programs
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000.
9. Low Risk Auditee: Yes.

II. Findings related to the financial statements.

None.

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

None.

**BRAZOSPORT COLLEGE DISTRICT**  
*SCHEDULE OF STATUS OF PRIOR FINDINGS*  
*FOR THE YEAR ENDED AUGUST 31, 2014*

None.

**BRAZOSPORT COLLEGE DISTRICT**  
*SCHEDULE OF CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED AUGUST 31, 2014*

None.

**BRAZOSPORT COLLEGE DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2014**

EXHIBIT E  
Page 1 of 3

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
<u>U.S. Department of Education</u>			
Direct Programs:			
Title IV Cluster Programs:			
Federal Supplemental Education Opportunity Grants (FSEOG)	84.007	P007A128372	\$ 140,595
Student Loan Program – FFELP	84.032	P268K142911	507,360
Federal Work Study Program (FWS)	84.033	P033A138372	112,766
Pell Grant Program	84.063	P063P132911	<u>2,915,753</u>
Subtotal Title IV Cluster Programs			<u>3,676,474</u>
Passed Through From:			
Texas Workforce Commission:			
Adult Basic Education Programs:			
El Civics	84.002	2184ELC003	112,727
ABE-COOP ESL	84.002	2184ABE006	<u>485,226</u>
Subtotal Adult Basic Education			<u>597,953</u>
Texas Higher Education Coordinating Board:			
Vocational Education - Basic Grants	84.048	11549	<u>95,275</u>
Statewide Data Systems	84.372	12393	<u>2,000</u>
Wharton County Junior College:			
Title V Cooperative Grant – Developing a Viral Campus Through Technology-Assisted Distance Education Programs and Services	84.031	P031S100074-13	31,174
Title V Cooperative Grant – Developing a Virtual Campus Through Technology-Assisted Distance Education Programs and Services	84.031	P031S100074-14	<u>250,985</u>
Subtotal Title V Cooperative Grant			<u>282,159</u>
Total U.S. Department of Education			<u>4,653,861</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed Through From Brazoria County:			
Community Development Block Grant	14.218	---	<u>30,000</u>
Total U.S. Department of Housing and Urban Development			<u>30,000</u>

**BRAZOSPORT COLLEGE DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2014**

EXHIBIT E  
Page 2 of 3

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
<u>U.S. Department of Interior</u>			
Passed Through Fish and Wildlife Service:			
Refuge Revenue Sharing Act of 1978	15.000	--	\$ <u>669</u>
<u>U.S. Department of Labor:</u>			
Passed Through From San Jacinto College:			
Job Training – Healthcare	17.269	CB205671060A48	<u>64,728</u>
Total U.S. Department of Labor			<u>64,728</u>
<u>U.S. Small Business Administration</u>			
Passed Through From:			
University of Houston Small Business Development Center:			
Brazos SBDC Programs (Note 3)	59.037	R-130049-53805	12,786
Brazos SBDC Programs (Note 3)	59.037	R-140049-53805	<u>105,800</u>
Total U.S. Small Business Administration			<u>118,586</u>
<u>Nuclear Regulatory Commission</u>			
Direct:			
TexANS Scholarship Program	77.008	NRCHQ13G380033	<u>60,000</u>
<u>U.S. Department of Health and Human Services</u>			
Passed Through From:			
Texas Workforce Commission:			
Temporary Assistance for Needy Families (TANF)	93.558	2814ABE0006	26,286
Temporary Assistance for Needy Families (TANF)	93.558	2814ABE0006	<u>43,162</u>
Total U.S. Department of Health and Human Services			<u>69,448</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ <u>4,997,292</u>

**BRAZOSPORT COLLEGE DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2014**

EXHIBIT E  
 Page 3 of 3

**NOTE 1 - FEDERAL ASSISTANCE RECONCILIATION**

Federal Revenues – per Exhibit 2:		
Federal grants and contracts (operating revenues)	\$	1,320,818
Title IV federal grants (non-operating revenues)		3,676,474
Reconciling Items:		
None		<u>-0-</u>
Total pass-through and expenditures per federal schedule	\$	<u>4,997,292</u>

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING SCHEDULE**

The expenditures included in the schedule are reported for the college’s fiscal year ended August 31, 2014. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds, which have been expended by the College for purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the general purpose financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The College has followed all applicable guidelines issued by various entities in the preparation of the schedule.

**NOTE 3 - MATCHING EXPENDITURES**

The Small Business Development (SBDC) program requires local matching expenditures. The District accounts for these expenditures within the Current Unrestricted Funds. Matching expenditures for the years ended August 31, 2014 and 2013 were as follows:

	Federal CFDA Number	Pass -Through Grantor’s Number	Program Matching Required	Direct Matching Expenditures Years Ended August 31,		
				2014	2013	Total
SBDC Program (10-01-12/09-30-13)	59.037	13-603001-Z-0047-27	\$ 75,517	\$ 6,772	\$ 67,868	\$ 74,640
SBDC Program (10-01-13/09-30-14)	59.037	14-603001-Z-0047-27	77,784	<u>72,451</u>		<u>72,451</u>
				<u>\$ 79,223</u>	<u>\$ 67,868</u>	<u>\$ 147,091</u>

**NOTE 4 - INDIRECT COST**

The District did not receive reimbursement for indirect costs during the year ended August 31, 2014. Indirect costs are allowed as part of the Small Business Development program matching expenditures, however, none are reimbursed.



**BRAZOSPORT COLLEGE DISTRICT**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2014**

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<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Texas Higher Education Coordination Board Direct:		
Nursing Shortage Reduction Grant	007287	\$ 7,360
State Top Ten Percent	007287	3,000
State WS Mentorship Program	007287	17,680
Work Study Program	007287	11,514
Texas Education Opportunity Grant Program	007287	96,525
Texas Grant Program	007287	<u>130,950</u>
Total Texas Higher Education Coordinating Board		<u>267,029</u>
Texas Workforce Commission:		
Direct:		
Skills Development Fund Programs	2813SDF000	557,331
Skills Development Fund Programs	2813SDF007	<u>344,014</u>
		901,345
Adult Basic Education	2814ABE0006	<u>118,651</u>
Total Texas Workforce Commission		<u>1,019,996</u>
Texas Commission on the Arts:		
Direct:		
Texas State of the Arts Grant	13-35048	<u>6,000</u>
Total Texas Commission on the Arts		<u>6,000</u>
Texas Comptroller's Office:		
Direct:		
Texas Jet Grant – Round #8	5464-02	57,400
Passed Through Texas A & M University: Welding Program	---	<u>15,000</u>
Total Texas Comptroller's Office		<u>72,400</u>
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>		<b>\$ <u>1,365,425</u></b>

**BRAZOSPORT COLLEGE DISTRICT**  
*SCHEDULE OF EXPENDITURES OF STATE AWARDS*  
*FOR THE YEAR ENDED AUGUST 31, 2014*

EXHIBIT F  
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**NOTE 1 - STATE ASSISTANCE RECONCILIATION**

State Revenues - per Exhibit 2:	
State grants and contracts	\$ 1,365,425
Reconciling Items:	
None	<u>-0-</u>
Expenditures per state schedule	<u>\$ 1,365,425</u>

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING SCHEDULE**

The accompanying schedule is presented using the accrual basis of accounting. See Note 2 to the financial statements for the District's significant accounting policies. These expenditures are reported on the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.