

BRAZOSPORT COLLEGE DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 and 2015

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BRAZOSPORT COLLEGE DISTRICT

*Annual Financial and Compliance Report
Years Ended August 31, 2016 and 2015*

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INTRODUCTORY SECTION

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BRAZOSPORT COLLEGE DISTRICT

ORGANIZATIONAL DATA

Fiscal Year 2015-2016

Board of Regents

Officers

| | |
|-----------------|------------|
| Carolyn Johnson | Chair |
| Sharon Rogers | Vice-Chair |

Members

Term Expires

| | | |
|---------------------|---------------------|-------------|
| Lucilla Henderson | Lake Jackson, Texas | May 5, 2018 |
| Robert Perryman | Freeport, Texas | May 5, 2018 |
| Steven D. Solis | Lake Jackson, Texas | May 5, 2018 |
| Daniel L. Yates | Lake Jackson, Texas | May 5, 2018 |
| Jane Leidlein, M.D. | Lake Jackson, Texas | May 1, 2020 |
| Sharon Rogers | Lake Jackson, Texas | May 1, 2020 |
| Jason M. Cordoba | Lake Jackson, Texas | May 3, 2022 |
| Roland K. Hendricks | Lake Jackson, Texas | May 3, 2022 |
| Carolyn Johnson | Freeport, Texas | May 3, 2022 |

Principal Administrative Officers

| | |
|----------------------------|--|
| Millicent M. Valek, Ph.D. | President |
| Lynda Villanueva, Ed.D. | Vice President, Academic & Student Affairs |
| Marshall S. Campbell, J.D. | Vice-President, Human Resources |
| Serena Andrews | Vice President, College Advancement |
| Anne Bartlett | Vice President, Industry & Community Resources |
| David B. Marshall, MBA | 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
979-297-4075

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

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

Houston Office:
10850 Richmond Ave., Ste 135
Houston, Texas 77042
281-974-3416

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, 2016 and 2015, 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.kmandl.com – Email: kmkw@kmandl.com

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Brazosport College District, as of August 31, 2016 and 2015, 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 2015, the District adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*, and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and the required Texas Education Agency schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is 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 21, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kerremers, Masters & Hunzford, LLC

Certified Public Accountants
Lake Jackson, Texas
November 21, 2016

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BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

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, 2016. 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*. As noted in Note 3, the District implemented accounting changes related to pensions for the year ended August 31, 2015, however, information was not available for restatement of the year ended August 31, 2014.

Using This Annual Report

This report consists of three basic financial statements for the Brazosport College District (the “District”) and three basic financial statements for the Brazosport College Foundation (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 the 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 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 81% 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’s 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, 2016, 2015 and 2014
(in thousands of dollars)

| | 2016 | 2015 | 2014 |
|---------------------|----------|----------|----------|
| Assets: | | | |
| Current assets | \$ 5,556 | \$ 6,771 | \$ 6,116 |
| Capital assets, net | 103,980 | 98,020 | 98,611 |
| Other assets | 16,673 | 11,316 | 11,980 |
| Total assets | 126,209 | 116,107 | 116,707 |

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BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

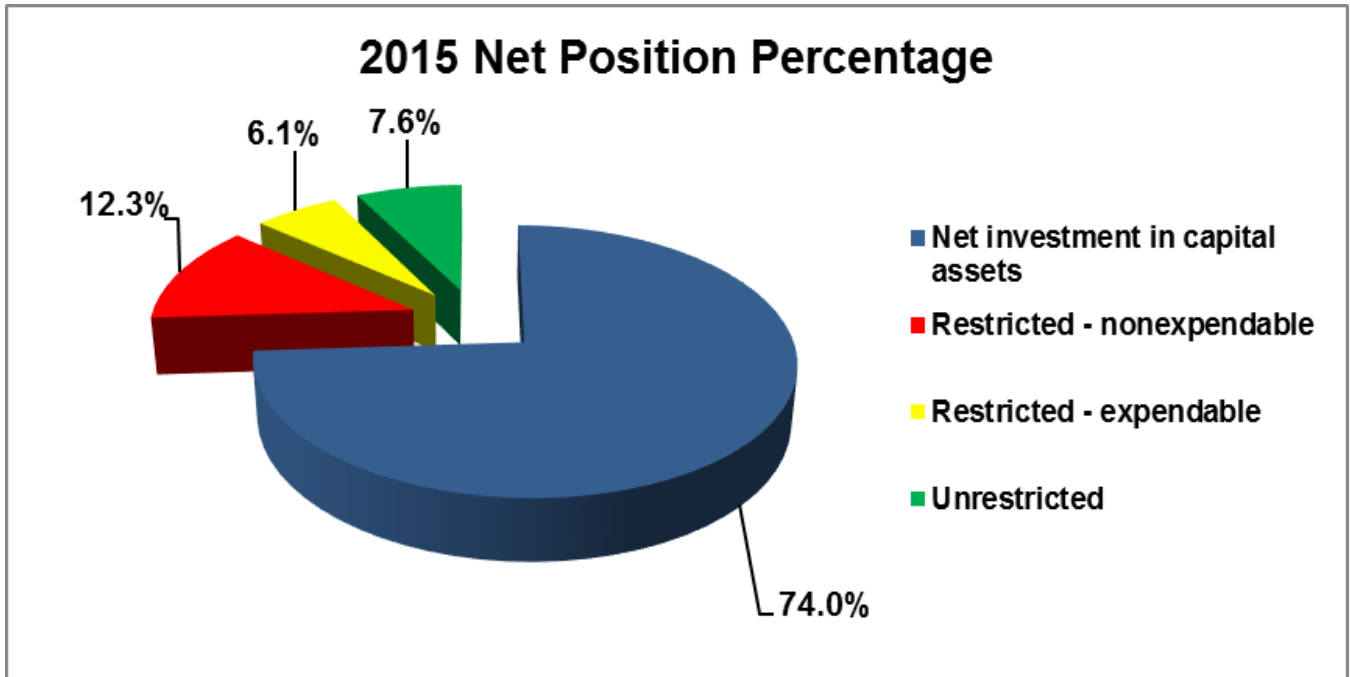
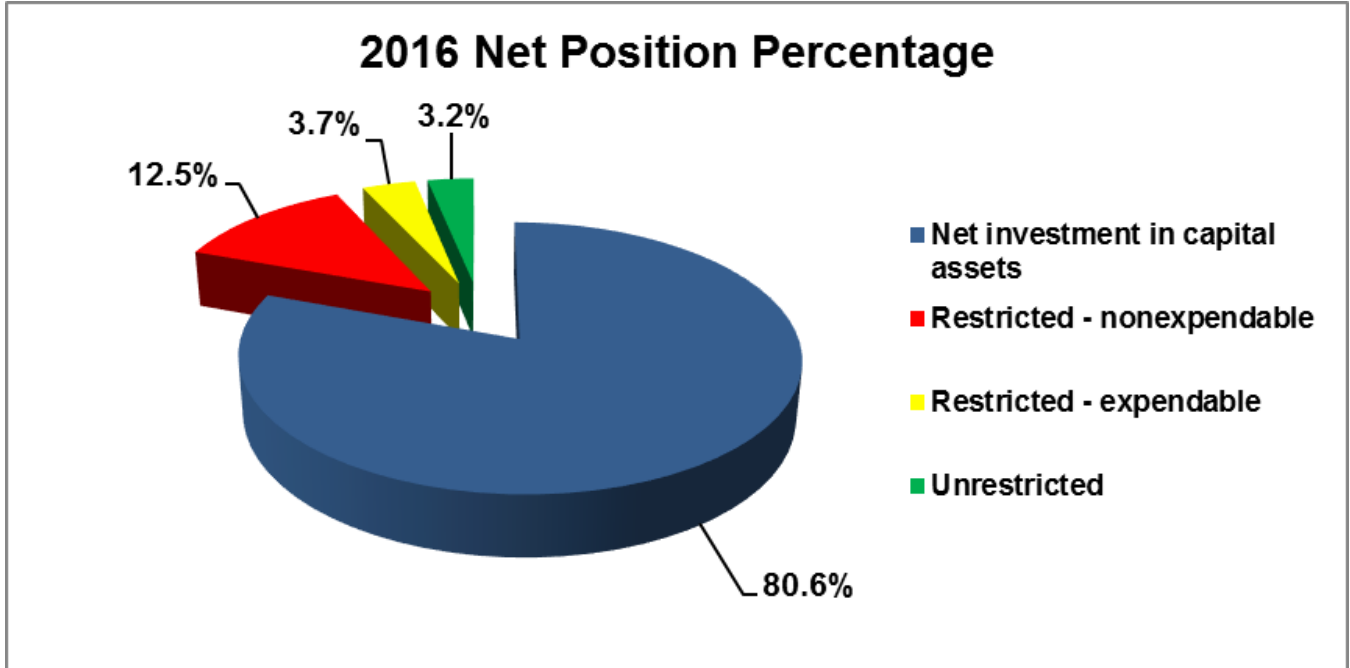
The Statement of Net Position - Continued

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--------------------------------------|------------------|------------------|-------------------|
| Deferred Outflows of Resources : | | | |
| Deferred outflows of resources | \$ <u>2,823</u> | \$ <u>819</u> | \$ <u>195</u> |
| Total deferred outflows of resources | <u>2,823</u> | <u>819</u> | <u>195</u> |
| Liabilities: | | | |
| Current liabilities | 8,943 | 6,320 | 6,464 |
| Noncurrent liabilities | <u>79,341</u> | <u>69,299</u> | <u>68,234</u> |
| Total liabilities | <u>88,284</u> | <u>75,619</u> | <u>74,698</u> |
| Deferred Inflows of Resources: | | | |
| Deferred inflows of resources | <u>385</u> | <u>887</u> | <u> </u> |
| Total deferred inflows of resources | <u>385</u> | <u>887</u> | <u>-0-</u> |
| Net Position Consists Of: | | | |
| Net investment in capital assets | 32,522 | 29,928 | 27,919 |
| Restricted – nonexpendable | 5,051 | 4,983 | 4,940 |
| Restricted – expendable | 1,493 | 2,453 | 2,272 |
| Unrestricted | <u>1,297</u> | <u>3,056</u> | <u>7,073</u> |
| Total net position | <u>\$ 40,363</u> | <u>\$ 40,420</u> | <u>\$ 42,204</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, 2016, 2015 AND 2014

The following chart reflects the percentage of net position at August 31, 2016 and 2015:



BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

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, 2016, 2015 and 2014
(in thousands of dollars)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|------------------|
| Operating Revenues: | | | |
| Net tuition and fees | \$ 9,490 | \$ 9,576 | \$ 9,679 |
| Auxiliary enterprises | 142 | 109 | 105 |
| Grants and contracts | 3,828 | 4,529 | 4,668 |
| Other | <u>998</u> | <u>1,063</u> | <u>1,029</u> |
| Total operating revenues | <u>14,458</u> | <u>15,277</u> | <u>15,481</u> |
| Operating Expenses: | | | |
| Instruction | 18,950 | 17,312 | 17,469 |
| Public service | 227 | 219 | 200 |
| Academic support | 2,134 | 1,989 | 1,937 |
| Student services | 3,579 | 2,922 | 2,700 |
| Institutional support | 6,379 | 6,125 | 5,519 |
| Operation and maintenance of plant | 4,217 | 3,766 | 3,672 |
| Scholarships and fellowships | 2,391 | 2,931 | 2,897 |
| Auxillary enterprises | 622 | 592 | 580 |
| Depreciation | <u>3,988</u> | <u>3,795</u> | <u>3,665</u> |
| Total operating expenses | <u>42,487</u> | <u>39,651</u> | <u>38,639</u> |
| Operating loss | <u>(28,029)</u> | <u>(24,374)</u> | <u>(23,158)</u> |
| Nonoperating Revenues and Expenses: | | | |
| State appropriations | 7,538 | 7,500 | 7,422 |
| Title IV federal grants | 3,059 | 3,502 | 3,676 |
| Taxes for maintenance and operations | 15,796 | 14,233 | 13,443 |
| Debt service ad valorem taxes | 4,769 | 4,745 | 4,757 |
| Investment income | 401 | 83 | 630 |
| Debt service expenses | <u>(3,602)</u> | <u>(2,920)</u> | <u>(3,013)</u> |
| Net nonoperating revenues and expenses | <u>27,961</u> | <u>27,143</u> | <u>26,915</u> |

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BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

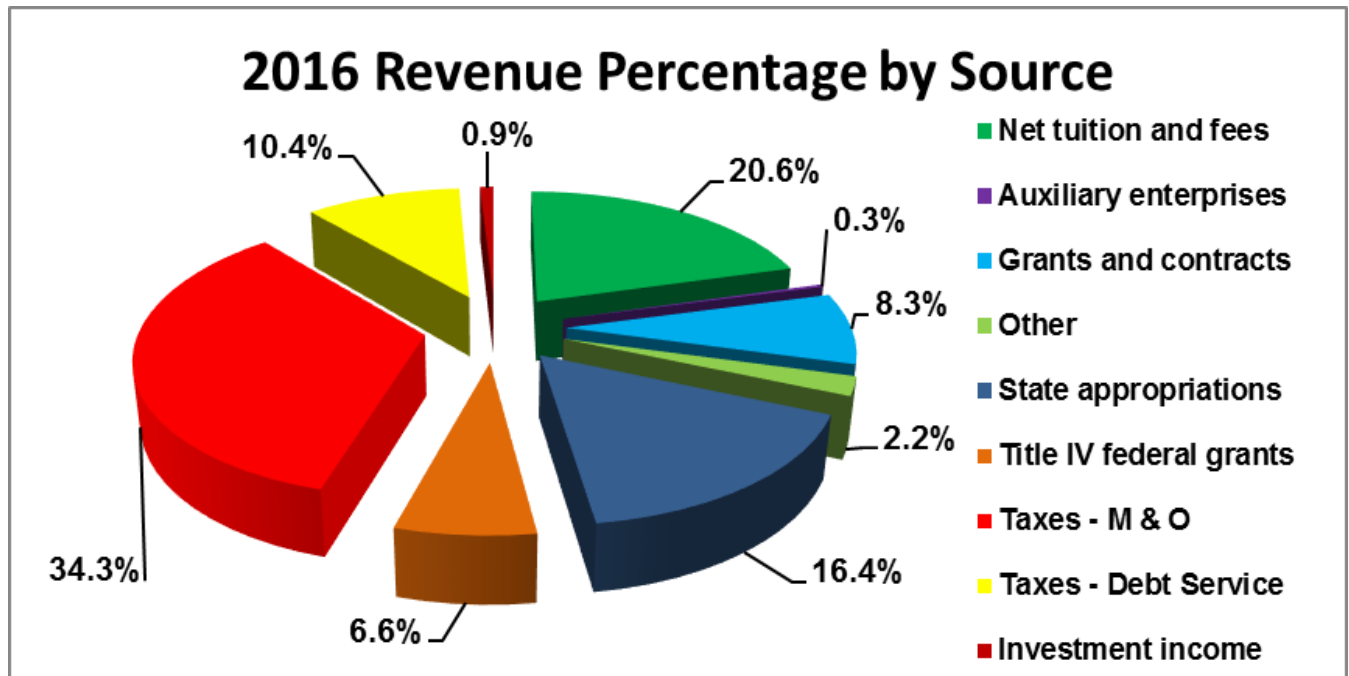
The Statement of Revenues, Expenses, and Changes in Net Position - Continued

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|
| Income before other revenues, expenses, gains or losses | \$(68) | \$ 2,769 | \$ 3,757 |
| Other Revenues, Expenses, Gains or Losses: | | | |
| Additions to permanent and term endowments | <u>11</u> | <u>5</u> | <u>127</u> |
| Increase (decrease) in net position | (57) | <u>2,774</u> | 3,884 |
| Net Position at beginning of year | <u>40,420</u> | 42,204 | <u>38,320</u> |
| Cumulative Effect of Change in Accounting Principal | | (4,558) | |
| Net position at beginning of year (restated) | | <u>37,646</u> | |
| Net position at end of year | <u>\$ 40,363</u> | <u>\$ 40,420</u> | <u>\$ 42,204</u> |

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, 2016 and 2015.

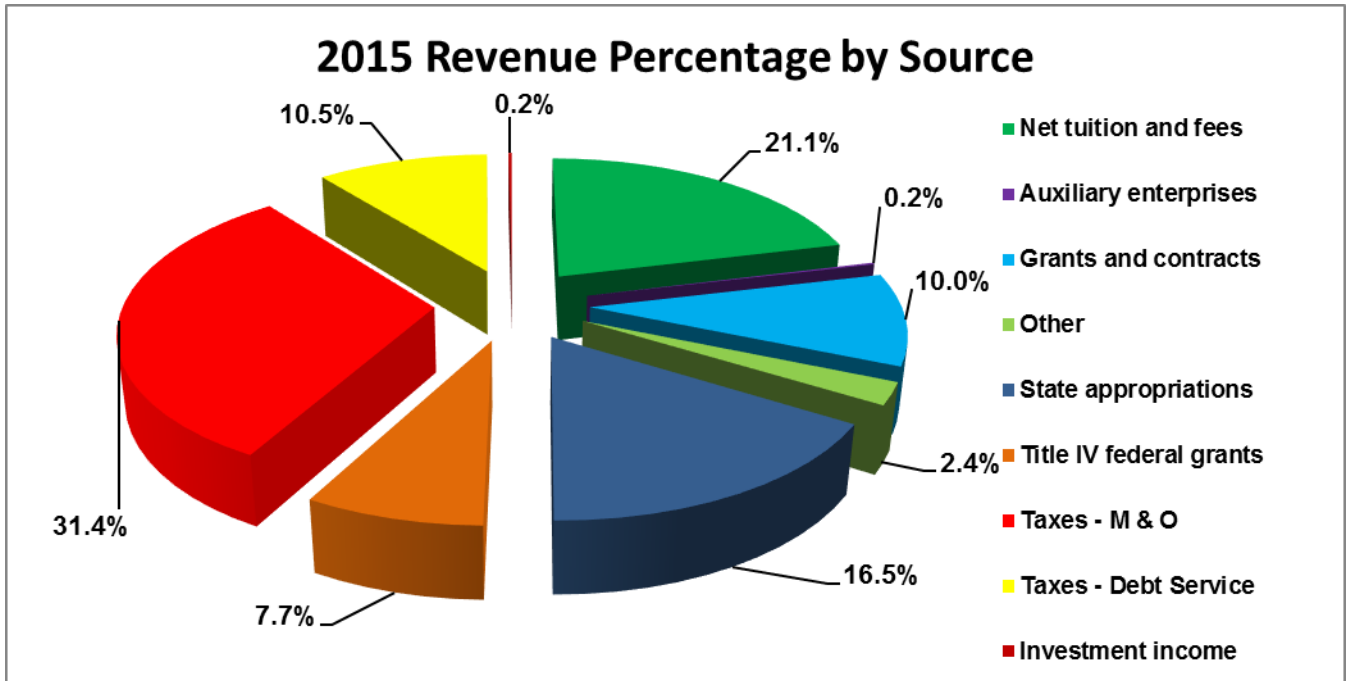
Revenues

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, 2016 and 2015.



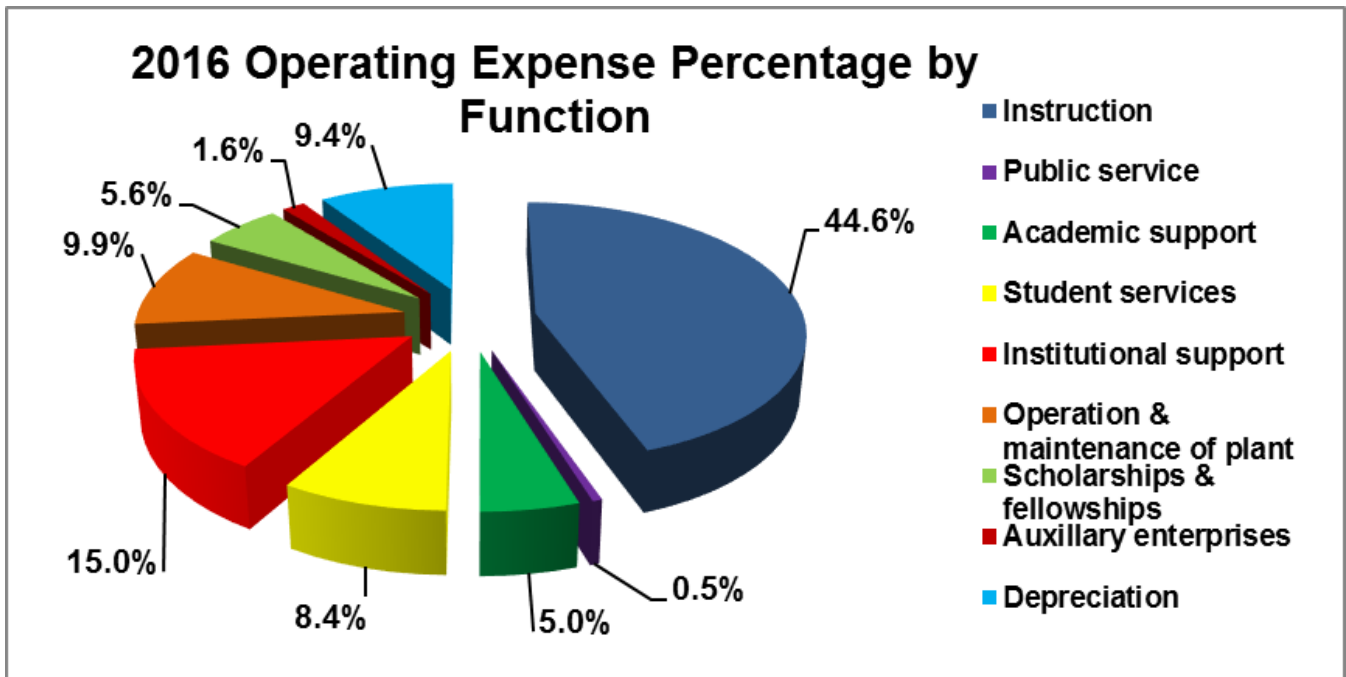
BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

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



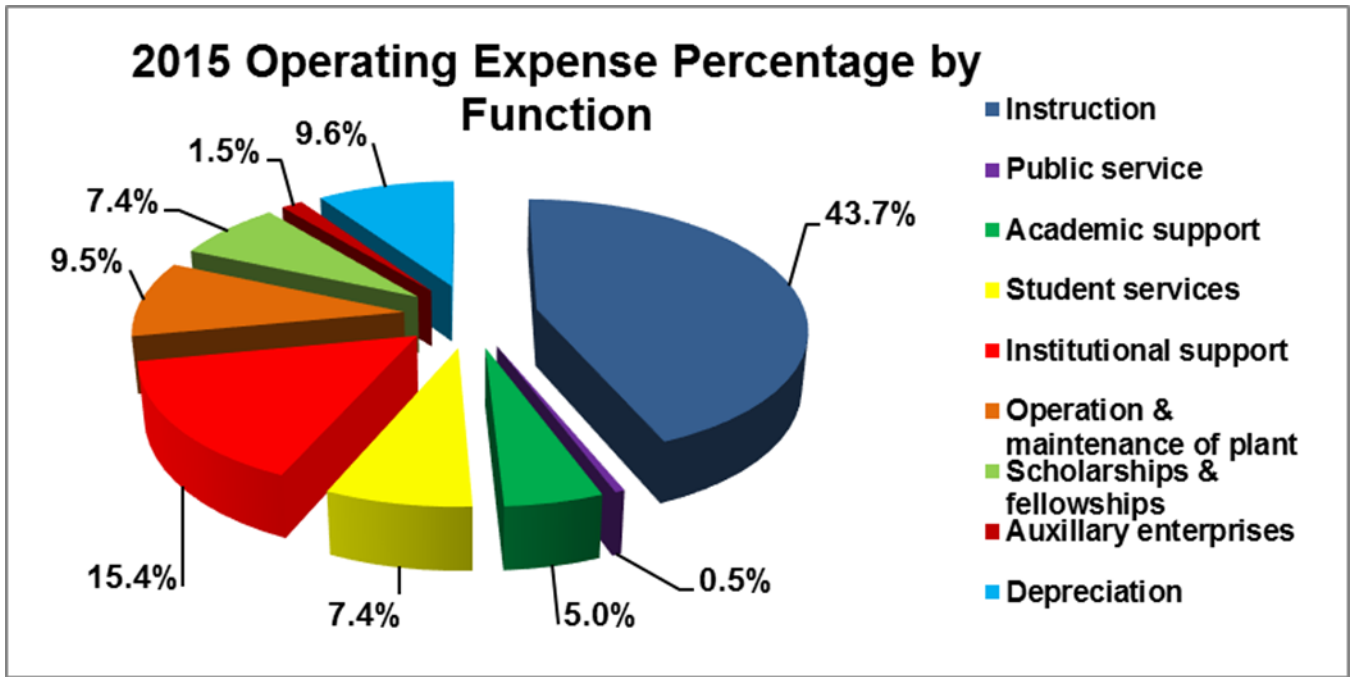
Expenses

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, 2016 and 2015.



BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

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

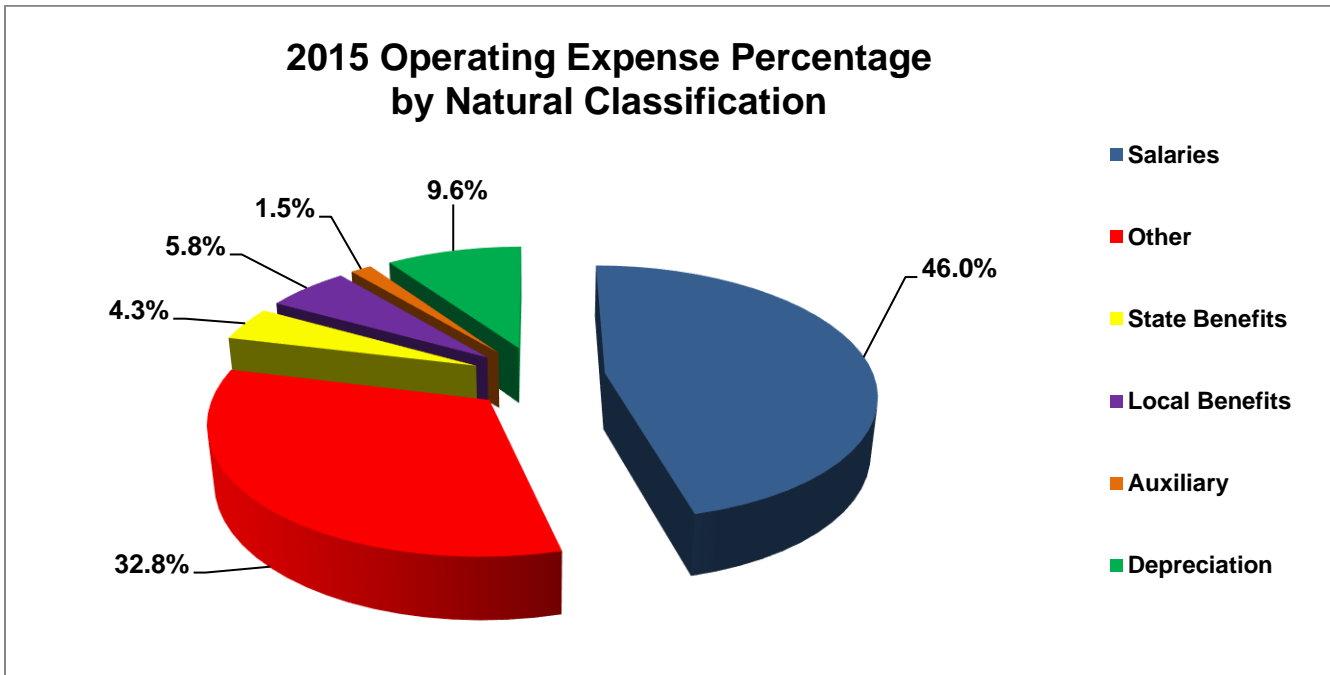
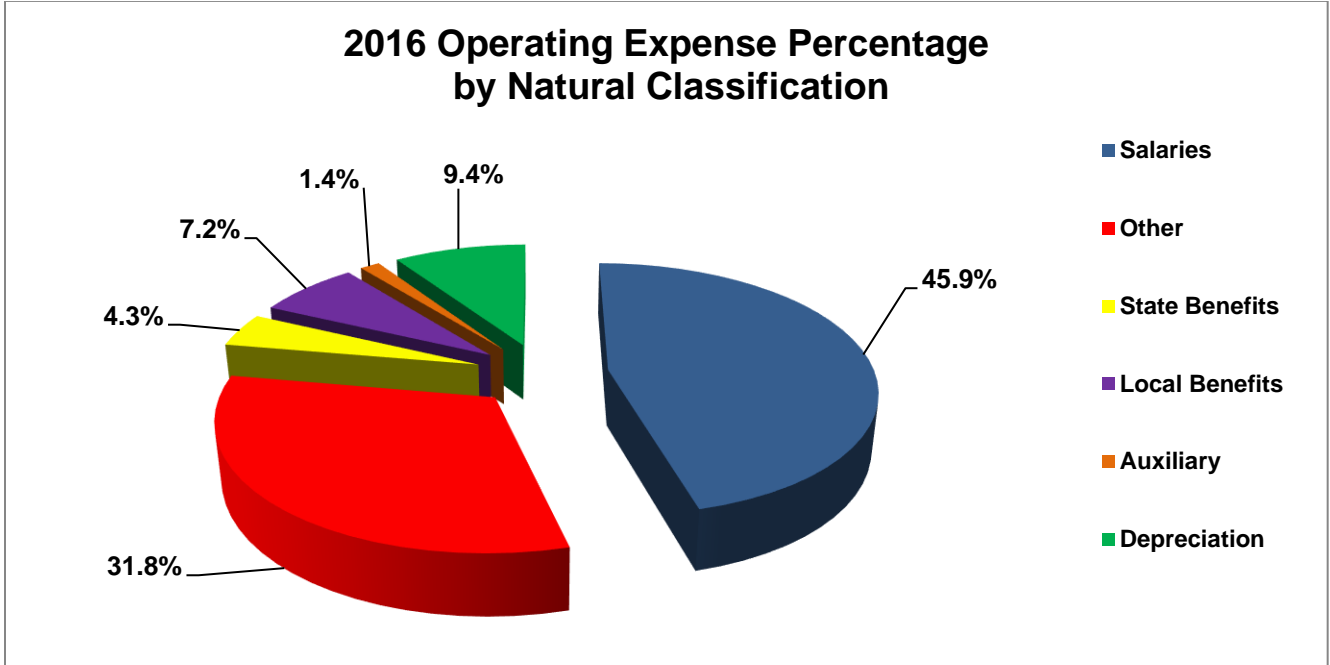


For the years ended August 31, 2016 and 2015, forty-four point six (44.6) percent and forty-three point seven (43.7) percent of operating expenses by function are attributable to instruction, respectively. The percentages for the remaining functional areas range from five tenths of a percent to fifteen point four (15.4) percent of total operating expenses.

For the years ended August 31, 2016 and 2015, forty-five point nine (45.9) percent and forty-six (46.0) percent of expenses are attributed to salaries and benefits, while other operating expenses represent thirty-one point eight (31.8) percent and thirty-two point eight (32.8) percent of total expenses, and depreciation represent the remaining nine point four (9.4) percent and nine point six (9.6) percent of expenses, respectively. Total Auxiliary expenses represented one point six (1.6) percent and one point five (1.5) percent of total expenses.

BRAZOSPORT COLLEGE DISTRICT
 MANAGEMENT DISCUSSION AND ANALYSIS
 YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

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



BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

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, 2016, 2015 and 2014
(in thousands of dollars)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------|-----------------|-----------------|
| Cash Provided (Used) By: | | | |
| Operating activities | \$(19,920) | \$(19,199) | \$(17,413) |
| Non-operating financing activities | 29,410 | 28,290 | 27,814 |
| Capital and related financing activities | (5,869) | (8,983) | (7,692) |
| Investing activities | <u>212</u> | <u>104</u> | <u>22</u> |
| Net increase in cash | 3,833 | 212 | 2,731 |
| Cash and cash equivalents, beginning of year | <u>6,796</u> | <u>6,584</u> | <u>3,853</u> |
| Cash and cash equivalents, end of year | <u>\$ 10,629</u> | <u>\$ 6,796</u> | <u>\$ 6,584</u> |

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, 2016, Brazosport College District had \$ 103,980,099 invested in capital assets, net of accumulated depreciation. Depreciation charges totaled \$ 3,987,732 for the current fiscal year. Details of these assets are shown below.

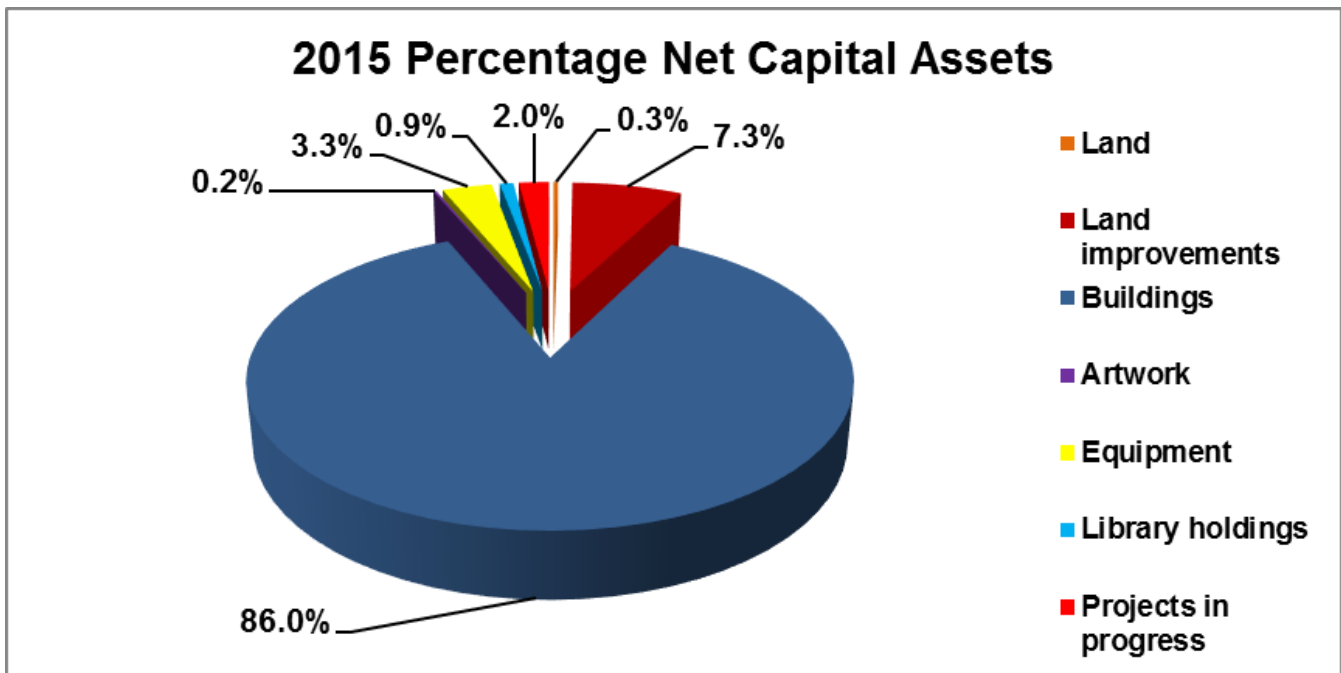
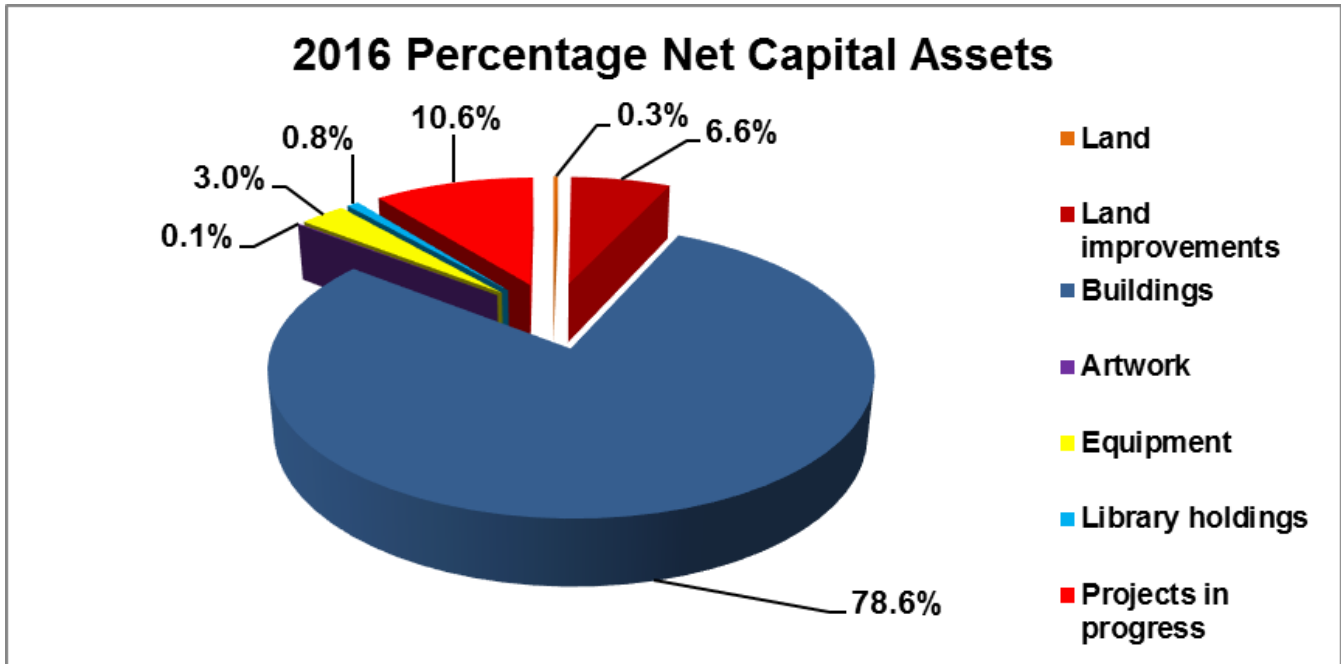
Schedule of Capital Assets, Net of Depreciation
As of August 31, 2016, 2015 and 2014
(in thousands of dollars)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|----------------------|-------------------|------------------|------------------|
| Land | \$ 296 | \$ 296 | \$ 296 |
| Land improvements | 6,834 | 7,203 | 7,421 |
| Buildings | 81,767 | 84,298 | 85,614 |
| Artwork | 147 | 147 | 147 |
| Equipment | 3,140 | 3,237 | 2,916 |
| Library holdings | 808 | 842 | 881 |
| Projects in progress | <u>10,988</u> | <u>1,997</u> | <u>1,336</u> |
| Total | <u>\$ 103,980</u> | <u>\$ 98,020</u> | <u>\$ 98,611</u> |

BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

Capital Asset and Debt Administration - Continued

The following is a graphic illustration of the make-up of net capital assets at August 31, 2016 and 2015:



BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

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, 2016, the District had \$ 72,468,652 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt Schedule – Net of Premiums
As of August 31, 2016, 2015 and 2014
(in thousands of dollars)

| | 2016 | 2015 | 2014 |
|--------------------------|-----------|-----------|-----------|
| Revenue bonds | \$ 4,460 | \$ 5,295 | \$ 6,090 |
| General obligation bonds | 58,270 | 61,535 | 63,555 |
| Capital lease | 9,739 | | |
| Total debt | \$ 72,469 | \$ 66,830 | \$ 69,645 |

On May 23, 2008, the District authorized and issued \$ 28,470,000 in Limited Tax 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 Limited Tax 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 Limited Tax 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.

On December 15, 2015, the District authorized and issued \$ 8,890,000 in Limited Tax Refunding Bonds, Series 2015 to advance refund \$ 8,945,000 in Limited Tax Bonds, Series 2008.

On May 10, 2016, the District authorized and issued \$ 21,955,000 in Limited Tax Refunding Bonds, Series 2016 to advance refund \$ 11,795,000 in Limited Tax Bonds, Series 2008, \$ 9,280,000 in Limited Tax Bonds, Series 2010, and \$ 1,935,000 in Limited Tax Bonds, Series 2011, which totaled \$ 23,010,000.

On April 22, 2016, the District entered into a capital lease for the purpose of constructing energy conservation measures, in the amount of \$ 9,738,652.

Brazosport College currently is rated as Aa2 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, 2016, 2015 AND 2014

Economic Factors That Will Affect the Future

For Fiscal Year 2016-2017, the District Board of Regents approved a slight increase in property tax in September, 2016 of \$ 0.014978 per \$ 100 of valuation. This sets the rate at \$ 0.228890 per \$ 100 of valuation for the 2016 assessment. The Board of Regents also approved a tax rate of \$ 0.056150 per \$ 100 valuation to pay the debt service on the General Obligation Bonds, which is less than the prior year's rate of \$ 0.063598. Therefore, the current tax rate for the District is \$ 0.285040 per \$ 100 of valuation, which is a slight increase over the prior year's rate of \$ 0.277510. The net increase of \$ 0.007530 applied to an increase in the tax base will generate a Fiscal Year budgeted increase of approximately \$ 2,291,000.

During the February 2016 Board meeting, the Board approved a Limited Tax Refunding Series 2016 Bonds. The bonds were priced on April 14, 2016. The refunding will result in total net savings of \$ 2,525,873 between the years 2016 to 2036.

During the April 2016 Board meeting, the Brazosport College Board of Regents approved an energy upgrade project at a cost of \$ 9,738,652 from Johnson Controls. The project will be paid for by energy savings and savings on deferred maintenance. The College entered into a 15 year lease with All American Investment Group, LLC. For the first 5 years, the lease payments are reduced to reflect only the estimated yearly energy savings.

During the August 2016 Board meeting, the Board approved Combined Fee Revenue Refunding Series 2016 Bonds. The bonds were priced on September 7, 2016. The refunding will result in total net savings of \$ 83,753 between the years 2017 to 2023. Additionally, the College will defer \$ 971,873 and \$ 975,680 respectfully in principal payments scheduled for calendar years 2017 and 2018.

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, 2016 AND 2015

EXHIBIT 1
Page 1 of 2

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|--------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 4,002,148 | \$ 5,007,138 |
| Accounts and notes receivable (net of allowance for doubtful accounts) | 689,904 | 877,250 |
| Inventories | 40,628 | 38,021 |
| Other assets | <u>823,688</u> | <u>848,969</u> |
| Total current assets | <u>5,556,368</u> | <u>6,771,378</u> |
| Noncurrent Assets: | | |
| Restricted Assets: | | |
| Cash and cash equivalents | 6,626,988 | 1,789,339 |
| Accounts receivable (net of allowance for doubtful accounts) | 769,522 | 445,726 |
| Investments | 5,561,945 | 5,519,176 |
| Other assets | 20,333 | 13,926 |
| Investments | 3,694,197 | 3,547,613 |
| Capital assets, (net of accumulated depreciation) | <u>103,980,099</u> | <u>98,020,214</u> |
| Total noncurrent assets | <u>120,653,084</u> | <u>109,335,994</u> |
| Total assets | <u>126,209,452</u> | <u>116,107,372</u> |
| DEFERRED OUTFLOWS OF RESOURCES – NET OF AMORTIZATION: | | |
| Deferred outflows of resources – bond refunding costs | 2,038,777 | 170,471 |
| Pension Deferred Outflows of Resources: | | |
| Differences between expected and actual experience | | 44,868 |
| Changes in assumptions | 11,767 | 188,581 |
| Differences between expected and actual investment Earnings | 333,869 | |
| Subsequent pension contributions from measurement date | <u>438,685</u> | <u>414,987</u> |
| Total deferred outflows of resources | <u>2,823,098</u> | <u>818,907</u> |

BRAZOSPORT COLLEGE DISTRICT
STATEMENTS OF NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

EXHIBIT 1
Page 2 of 2

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts and accrued liabilities | \$ 1,017,614 | \$ 1,185,847 |
| Funds held for others | 225,224 | 139,702 |
| Unearned revenue | 1,546,510 | 1,627,190 |
| Accrued compensated absences | 55,000 | 55,000 |
| Liabilities Payable from Restricted Assets: | | |
| Accounts and accrued liabilities | 2,548,412 | 202,379 |
| Unearned revenue | 212,484 | 130,747 |
| Bonds payable | <u>3,338,130</u> | <u>2,978,603</u> |
| Total current liabilities | <u>8,943,374</u> | <u>6,319,468</u> |
| Noncurrent liabilities: | | |
| Bonds payable | 64,382,431 | 65,029,749 |
| Obligations under capital lease | 9,738,652 | |
| Accrued compensated absences | 263,783 | 245,934 |
| Net pension obligation | <u>4,956,166</u> | <u>4,023,428</u> |
| Total noncurrent liabilities | <u>79,341,032</u> | <u>69,299,111</u> |
| Total liabilities | <u>88,284,406</u> | <u>75,618,579</u> |
| DEFERRED INFLOWS OF RESOURCES – NET OF AMORTIZATION: | | |
| Pension Deferred Inflows of Resources: | | |
| Differences between expected and actual experience | 145,602 | |
| Differences between projected and actual investment earnings | | 886,724 |
| Changes in proportion and employer contributions and proportionate share of contributions | <u>239,080</u> | <u>761</u> |
| Total deferred inflows of resources | <u>384,682</u> | <u>887,485</u> |
| NET POSITION | | |
| Net investment in capital assets | 32,521,741 | 29,928,378 |
| Restricted: | | |
| Nonexpendable: | | |
| Endowments | 5,051,205 | 4,982,537 |
| Expendable: | | |
| Endowments | 673,074 | 537,270 |
| Student aid | 175,928 | 203,367 |
| Instructional programs | 23,019 | 17,965 |
| Capital projects | | 1,361,324 |
| Debt service | 621,275 | 332,588 |
| Unrestricted | <u>1,297,220</u> | <u>3,056,786</u> |
| Total net position | <u>\$ 40,363,462</u> | <u>\$ 40,420,215</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, 2016 AND 2015

EXHIBIT 1A
Page 1 of 1

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 170,405 | \$ 143,096 |
| Accounts receivable | 6,000 | |
| Pledges receivable (net of allowance for doubtful accounts) | <u>43,649</u> | <u>9,413</u> |
| Total current assets | <u>220,054</u> | <u>152,509</u> |
| Noncurrent Assets: | | |
| Pledges receivable (net of allowance for doubtful accounts and discounts) | 791,358 | 178,109 |
| Investments | <u>3,797,645</u> | <u>3,605,425</u> |
| Total noncurrent assets | <u>4,589,003</u> | <u>3,783,534</u> |
| Total assets | <u>4,809,057</u> | <u>3,936,043</u> |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Accounts payable | 10,102 | 3,601 |
| Unearned revenue | <u>44,230</u> | <u>31,300</u> |
| Total current liabilities | 54,332 | 34,901 |
| Noncurrent liabilities: | | |
| Total noncurrent liabilities | <u> </u> | <u> </u> |
| Total liabilities | <u>54,332</u> | <u>34,901</u> |
| NET ASSETS | | |
| Restricted: | | |
| Permanently restricted | 1,822,769 | 1,754,015 |
| Temporarily restricted | 2,195,609 | 1,487,531 |
| Unrestricted | <u>736,347</u> | <u>659,596</u> |
| Total net assets | <u>\$ 4,754,725</u> | <u>\$ 3,901,142</u> |

The accompanying notes are an integral part of this statement.

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BRAZOSPORT COLLEGE DISTRICT**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015**EXHIBIT 2
Page 1 of 2

| REVENUES | 2016 | 2015 |
|--|-----------------------|-----------------------|
| Operating Revenues: | | |
| Tuition and fees (net of discounts of \$ 2,204,646 and \$ 2,060,405, respectively) | \$ 9,490,012 | \$ 9,576,104 |
| Federal grants and contracts | 1,089,206 | 1,215,710 |
| State grants and contracts | 1,719,392 | 1,154,194 |
| Local grants and contracts | 884,626 | 2,075,919 |
| Non-governmental grants and contracts | 134,612 | 82,746 |
| Sales and services of educational activities | 217,940 | 335,837 |
| Auxiliary enterprises | 142,153 | 108,799 |
| Other operating revenues | <u>779,687</u> | <u>727,532</u> |
| Total operating revenues | <u>14,457,628</u> | <u>15,276,841</u> |
| EXPENSES | | |
| Operating Expenses: | | |
| Instruction | 18,949,978 | 17,311,717 |
| Public services | 227,180 | 219,222 |
| Academic support | 2,133,969 | 1,989,265 |
| Student services | 3,578,908 | 2,921,773 |
| Institutional support | 6,378,542 | 6,125,101 |
| Operation and maintenance of plant | 4,217,478 | 3,765,688 |
| Scholarships and fellowships | 2,391,247 | 2,930,713 |
| Auxiliary enterprises | 621,969 | 592,425 |
| Depreciation | <u>3,987,732</u> | <u>3,795,075</u> |
| Total operating expense | <u>42,487,003</u> | <u>39,650,979</u> |
| Operating loss | <u>(28,029,375)</u> | <u>(24,374,138)</u> |
| NON-OPERATING REVENUES (EXPENSES) | | |
| State appropriations | 7,537,638 | 7,499,941 |
| Title IV federal programs | 3,059,281 | 3,502,363 |
| Taxes for maintenance and operations | 15,796,243 | 14,232,581 |
| Debt service ad valorem taxes | 4,768,689 | 4,744,631 |
| Investment income net of investment expenses | 401,566 | 83,545 |
| Interest on capital related debt | <u>(3,601,806)</u> | <u>(2,920,184)</u> |
| Net non-operating revenues | <u>27,961,611</u> | <u>27,142,877</u> |
| Income before other revenues, (expenses), gains, (losses) | <u>(67,764)</u> | <u>2,768,739</u> |
| Other Revenues, (Expenses), Gains, (Losses) | | |
| Additions to permanent and term endowments | <u>11,011</u> | <u>5,548</u> |
| Total other revenues, (expenses), gains, (losses) | <u>11,011</u> | <u>5,548</u> |
| Increase (decrease) in net position | <u>(56,753)</u> | <u>2,774,287</u> |

BRAZOSPORT COLLEGE DISTRICT

*STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015*

EXHIBIT 2
Page 2 of 2

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| NET POSITION | | |
| Net position – beginning of year | \$ <u>40,420,215</u> | \$ 42,204,385 |
| Cumulative effect of change in accounting principal | | (<u>4,558,457</u>) |
| Net position – beginning of year (restated) | | <u>37,645,928</u> |
| Net position – end of year | \$ <u>40,363,462</u> | \$ <u>40,420,215</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, 2016 AND 2015

EXHIBIT 2A
Page 1 of 1

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|---------------------|---------------------|
| REVENUE | | |
| Gifts (net of discounts) | \$ 1,317,446 | \$ 1,673,716 |
| Fundraising | 203,791 | 203,360 |
| Interest and dividend income | 102,767 | 119,215 |
| Gain on investments | 30,960 | 70,452 |
| Unrealized investment income (loss) | <u>69,530</u> | <u>(271,738)</u> |
| Total revenue | <u>1,724,494</u> | <u>1,795,005</u> |
| EXPENSES | | |
| Fundraising expenses | 181,393 | 158,820 |
| Investment expenses | 13,985 | 12,408 |
| Administrative | 7,200 | 7,200 |
| Student aid scholarships | 314,807 | 264,690 |
| Grants to Brazosport College District | <u>353,526</u> | <u>1,125,000</u> |
| Total operating expenses | <u>870,911</u> | <u>1,568,118</u> |
| Increase in net assets | 853,583 | 226,887 |
| NET ASSETS | | |
| Net assets - beginning of year | <u>3,901,142</u> | <u>3,674,255</u> |
| Net assets - end of year | <u>\$ 4,754,725</u> | <u>\$ 3,901,142</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, 2016 AND 2015

EXHIBIT 3
Page 1 of 2

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from students and other customers | \$ 9,043,634 | \$ 12,676,244 |
| Receipts of appropriations, grants and contracts | 4,582,044 | 4,441,880 |
| Collection of loans to students and employees | 76,630 | 85,865 |
| Receipts from student organizations | 130,219 | 54,125 |
| Other receipts | 779,687 | 727,532 |
| Payments to or on behalf of employees | (22,460,987) | (21,096,005) |
| Payments to suppliers of goods and services | (9,549,281) | (13,016,260) |
| Payments of scholarships | (2,391,247) | (2,930,713) |
| Loans to students and employees | (85,865) | (90,930) |
| Payment on behalf of student organizations | (44,697) | (50,793) |
| Net cash used by operating activities | <u>(19,919,863)</u> | <u>(19,199,055)</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| State appropriations | 5,715,322 | 5,777,901 |
| Ad valorem tax revenues | 20,624,129 | 19,003,972 |
| Title IV federal programs | 3,059,281 | 3,502,363 |
| Gifts and grants (other than capital) | <u>11,011</u> | <u>5,548</u> |
| Net cash provided by non-capital and related financing activities | <u>29,409,743</u> | <u>28,289,784</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Proceeds from issuance of bonds | 35,498,394 | |
| Proceeds from issuance of capital lease | 9,738,652 | |
| Payment to escrow agent | (35,482,871) | |
| Principal payments on bonded debt | (2,990,000) | (2,815,000) |
| Interest and fees paid on bonded debt | (2,686,013) | (2,963,531) |
| Purchases of capital assets | <u>(9,947,617)</u> | <u>(3,204,112)</u> |
| Net cash used by capital and related financing activities | <u>(5,869,455)</u> | <u>(8,982,643)</u> |
| Cash Flows from Investing Activities | | |
| Proceeds from sale and maturity of investments | 570,889 | 1,454,386 |
| Investment earnings | 401,587 | 322,172 |
| Purchases of investments | <u>(760,242)</u> | <u>(1,672,394)</u> |
| Net cash provided by investing activities | <u>212,234</u> | <u>104,164</u> |
| Increase in cash and cash equivalents | 3,832,659 | 212,250 |
| Cash and cash equivalents – September 1, | <u>6,796,477</u> | <u>6,584,227</u> |
| Cash and cash equivalents – August 31, | <u>\$ 10,629,136</u> | <u>\$ 6,796,477</u> |

BRAZOSPORT COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

EXHIBIT 3
Page 2 of 2

| | <u>2016</u> | <u>2015</u> |
|---|-------------------------|-------------------------|
| Noncash Transactions Affecting Financial Position: | | |
| Change in value of investments – from cost to fair value | \$ 134,019 | \$(238,585) |
| Donated investments at fair value | 2,939 | |
| Changes in pension deferred outflows of resources | 135,885 | 266,534 |
| Changes in net pension obligation | (932,738) | 916,931 |
| Changes in pension deferred inflows of resources | <u>502,803</u> | <u>(887,485)</u> |
| Net noncash transactions affecting financial position | <u>\$(157,092)</u> | <u>\$ 57,395</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities: | | |
| Operating loss | \$(28,029,375) | \$(24,374,138) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 3,987,732 | 3,795,075 |
| State on-behalf benefits | 1,822,316 | 1,722,040 |
| Change in Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources: | | |
| Assets: | | |
| Receivables, net | (195,668) | 284,398 |
| Inventories | (2,607) | 5,332 |
| Other assets | 18,874 | (116,416) |
| Deferred Outflows of Resources: | | |
| Pension Deferred Outflows of Resources – Net of Amortization: | | |
| Differences between expected and actual experience | 44,868 | (44,868) |
| Changes in assumptions | 176,814 | (188,581) |
| Differences between projected and actual investment earnings | (333,869) | |
| Pension contributions subsequent to measurement date | (23,698) | (33,085) |
| Liabilities: | | |
| Accounts payable | 2,080,387 | (106,151) |
| Unearned revenue | 1,057 | (136,586) |
| Funds held for others | 85,522 | 3,332 |
| Compensated absences | 17,849 | 20,039 |
| Net pension obligation | 932,738 | (916,931) |
| Deferred Inflows of Resources: | | |
| Pension Deferred Inflows of Resources – Net of Amortization: | | |
| Differences between expected and actual experience | 145,602 | |
| Differences between projected and actual investment earnings | (886,724) | 886,724 |
| Changes in proportion and employer contributions and proportionate share of contributions | <u>238,319</u> | <u>761</u> |
| Net cash used by operating activities | <u>\$(19,919,863)</u> | <u>\$(19,199,055)</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, 2016 AND 2015

EXHIBIT 3A
Page 1 of 1

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from contributions | \$ 663,961 | \$ 1,559,034 |
| Receipts from fundraising | 216,721 | 206,360 |
| Receipt of interest and dividend earnings | 102,767 | 119,215 |
| Proceeds from sale and maturity of investments | 357,932 | 458,793 |
| Payments to suppliers of goods and services | (196,077) | (177,953) |
| Purchases of investments | (449,662) | (713,206) |
| Payments of scholarships | (314,807) | (264,690) |
| Payments of scholarships and grants to Brazosport College | <u>(353,526)</u> | <u>(1,125,000)</u> |
| Net cash provided by operating activities | <u>27,309</u> | <u>62,553</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 in cash and cash equivalents | 27,309 | 62,553 |
| Cash and cash equivalents – September 1, | <u>143,096</u> | <u>80,543</u> |
| Cash and cash equivalents – August 31, | <u>\$ 170,405</u> | <u>\$ 143,096</u> |
| Noncash Transactions Affecting Financial Position: | | |
| Contributions of in-kind services | \$ 7,200 | \$ 7,200 |
| Donated investments | | 12,780 |
| Change in value of investments - from cost to fair value increase (decrease) | <u>69,530</u> | <u>(271,739)</u> |
| Net noncash transactions affecting financial position | <u>\$ 76,730</u> | <u>\$ (251,759)</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) | | |
| By Operating Activities: | | |
| Increase in net assets | \$ 853,583 | \$ 226,887 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) | | |
| By Operating Activities: | | |
| Change in Assets and Liabilities: | | |
| Accounts receivable | (6,000) | |
| Pledges receivable, net of allowance and discount | (647,485) | (118,582) |
| Investments | (192,220) | (50,127) |
| Accounts payable | 6,501 | 475 |
| Unearned revenue | <u>12,930</u> | <u>3,900</u> |
| Net cash provided by operating activities | <u>\$ 27,309</u> | <u>\$ 62,553</u> |

The accompanying notes are an integral part of this statement.

BRAZOSPORT COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEARS ENDED AUGUST 31, 2016 AND 2015

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BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 and 2015.

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 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, 2016 AND 2015

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 tax 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, 2016 AND 2015

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 \$ 1,867,113 and \$ 5,000,653 at August 31, 2016 and 2015, 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 investment 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, 2016 AND 2015

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 year ended August 31, 2016, the District capitalized \$ 86,720 in interest related to the construction of energy conservation measures funded by capital lease. No interest was capitalized during the year ended August 31, 2015.

2.J. Unearned Revenues

Tuition and fees of \$ 1,546,510 and \$ 1,627,190, and federal, state and local grants of \$ 212,484 and \$ 130,747, have been reported as unearned revenue at August 31, 2016 and 2015 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 39 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Regents 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, 2016 AND 2015

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, 2016 and 2015:

| <u>August 31, 2016</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted endowment funds | \$ | \$ | \$ 5,051,205 | \$ 5,051,205 |
| Board-designated endowment funds | _____ | 673,074 | _____ | 673,074 |
| Total endowed net position | \$ <u>-0-</u> | \$ <u>673,074</u> | \$ <u>5,051,205</u> | \$ <u>5,724,279</u> |

| <u>August 31, 2015</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted endowment funds | \$ | \$ | \$ 4,982,537 | \$ 4,982,537 |
| Board-designated endowment funds | _____ | 537,270 | _____ | 537,270 |
| Total endowed net position | \$ <u>-0-</u> | \$ <u>537,270</u> | \$ <u>4,982,537</u> | \$ <u>5,519,807</u> |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Changes in endowment net position for the years ended August 31, 2016 and 2015:

| <u>August 31, 2016</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------|
| Endowment net position, September 1, 2015 | \$ -0- | \$ 537,270 | \$ 4,982,537 | \$ 5,519,807 |
| Investment Return: | | | | |
| Investment income | | 132,761 | 32,738 | 165,499 |
| Realized gains | | 42,486 | 10,477 | 52,963 |
| Unrealized gains | | 99,610 | 24,564 | 124,174 |
| Investments fees | | (8,458) | (2,086) | (10,544) |
| Total investment return | -0- | 266,399 | 65,693 | 332,092 |
| Contributions | | | 11,011 | 11,011 |
| Scholarships provided | | (130,595) | (8,036) | (138,631) |
| Endowment net position, August 31, 2016 | \$ -0- | \$ 673,074 | \$ 5,051,205 | \$ 5,724,279 |
| | | | | |
| <u>August 31, 2015</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Endowment net position, September 1, 2014 | \$ -0- | \$ 656,908 | \$ 4,939,978 | \$ 5,596,886 |
| Investment Return: | | | | |
| Investment income | | 21,696 | 201,206 | 222,902 |
| Realized gains | | 6,955 | 64,502 | 71,457 |
| Unrealized gains | | (38,337) | (219,408) | (257,745) |
| Investments fees | | (1,002) | (9,289) | (10,291) |
| Total investment return | -0- | (10,688) | 37,011 | 26,323 |
| Contributions | | | 5,548 | 5,548 |
| Scholarships provided | | (108,950) | | (108,950) |
| Endowment net position, August 31, 2015 | \$ -0- | \$ 537,270 | \$ 4,982,537 | \$ 5,519,807 |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 and 2015.

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, annual distributions shall be 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, 2016 and 2015, no net appreciation was available to be spent.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The statement was implemented and had an impact on the District's financial statements. This statement is effective for periods beginning after June 15, 2014.

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 statement was implemented and had an impact on the District's financial statements. This statement is effective for periods beginning after June 15, 2014.

GASB No. 72, "Fair Value Measurement and Application" was issued February 2015. The statement was implemented and had an impact on the District's financial statements. This statement is effective for periods beginning after June 15, 2015.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.0. New Pronouncements (Continued)

GASB No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of Statements 67 and 68" was issued June 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2016.

GASB No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" was issued June 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2016.

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2017.

GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" was issued June 2015. The statement was implemented and had an impact on the District's financial statements. This statement is effective for periods beginning after June 15, 2015.

GASB No. 77 "Tax Abatement Disclosures" was issued in August 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2015.

GASB No. 78 "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" was issued in December 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2015.

GASB No. 79 "Certain External Investment Pools and Pool Participants" was issued in December 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2015.

GASB No. 80 "Blending Requirements for Certain Component Units and amendment of GASB No. 14" was issued in January 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2016.

GASB No. 81 "Irrevocable Split-Interest Agreements" was issued in March 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2016.

GASB No. 82 "Pension Issues – an amendment of GASB No. 67, No. 68, and No. 73" was issued in March 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2016.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

2.P. Pensions

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

3. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD RESTATEMENT

During the year ended August 31, 2015, the District implemented GASB Statement No. 68, “Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27”, and GASB Statement No. 71 “Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB No. 68”. GASB Statement No. 68 establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB Statement 71, amendment of GASB Statement No. 68, addresses the issue regarding application of the transition provisions. It requires a government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year.

If a government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government’s reporting period, it requires that the government recognize its contribution as a deferred outflow of resources. The following represents the retroactive restatement of net position as a result of implementation of GASB Statements No. 68 and 71 and prior period restatement as noted above:

| | 2014 |
|--|-----------------------------|
| <u>Business-Type Activities</u> | |
| Net position, August 31, previously reported | \$ 42,204,385 |
| Addition of Outflows of Resources – Subsequent Pension Contributions | 381,901 |
| Addition of net pension obligation | (<u>4,940,358</u>) |
| Net position, August 31, restated | \$ <u><u>37,645,928</u></u> |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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.

Cash and cash equivalents, short-term investments, and investments as reported on the statement of net position at August 31, 2016 and 2015 are as follows:

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|--|-----------------------------|----------------------|----------------------|
| <u>August 31, 2016</u> | | | |
| Cash and Cash Equivalents: | | | |
| Cash (cashier and petty cash accounts) | \$ 38,290 | \$ | \$ 38,290 |
| Financial Institution Deposits: | | | |
| Demand deposits | 2,579,133 | 6,144,600 | 8,723,733 |
| Pooled Deposits: | | | |
| TexPool, Lone Star, LOGIC & TexSTAR | <u>1,384,725</u> | <u>482,388</u> | <u>1,867,113</u> |
| Total cash and cash equivalents | <u>4,002,148</u> | <u>6,626,988</u> | <u>10,629,136</u> |
| Investments: | | | |
| Investments Held by Broker-Dealers: | | | |
| Certificates of deposit | | 99,000 | 99,000 |
| U.S. Agencies | 3,505,770 | | 3,505,770 |
| Mutual funds | 188,427 | 2,014,685 | 2,203,112 |
| Real estate securities | | 169,346 | 169,346 |
| Equities | <u> </u> | <u>3,278,914</u> | <u>3,278,914</u> |
| Total investments | <u>3,694,197</u> | <u>5,561,945</u> | <u>9,256,142</u> |
| | <u>\$ 7,696,345</u> | <u>\$ 12,188,933</u> | <u>\$ 19,885,278</u> |

(continued)

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

4. DEPOSITS AND INVESTMENTS (Continued)

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|--|---------------------|-------------------|---------------|
| <u>August 31, 2015</u> | | | |
| Cash and Cash Equivalents: | | | |
| Cash (cashier and petty cash accounts) | \$ 43,180 | \$ | \$ 43,180 |
| Financial Institution Deposits: | | | |
| Demand deposits | 1,749,649 | 2,995 | 1,752,644 |
| Pooled Deposits: | | | |
| TexPool, Lone Star, LOGIC & TexSTAR | 3,214,309 | 1,786,344 | 5,000,653 |
| Total cash and cash equivalents | 5,007,138 | 1,789,339 | 6,796,477 |
| Investments: | | | |
| Investments Held by Broker-Dealers: | | | |
| Certificates of deposit | | 99,000 | 99,000 |
| U.S. Agencies | 3,495,925 | | 3,495,925 |
| Mutual funds | 51,688 | 3,743,204 | 3,794,892 |
| Real estate securities | | 157,988 | 157,988 |
| Equities | | 1,518,984 | 1,518,984 |
| Total investments | 3,547,613 | 5,519,176 | 9,066,789 |
| | \$ 8,554,751 | \$ 7,308,515 | \$ 15,863,266 |

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, 2016 and 2015, the carrying amounts of the District's deposits of the primary government were \$ 8,822,733 and \$ 1,851,644 and total financial institution balances equaled \$ 9,140,395 and \$ 1,973,816, respectively. At August 31, 2016 and 2015, financial institutions balances of \$ 352,898 and \$ 367,551 were covered by federal depository insurance, \$ 659,452 and \$ 464,628 were covered by the Securities Investor Protection Corporation Insurance, \$ 8,128,045 and \$ 1,141,637 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.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

4. DEPOSITS AND INVESTMENTS (Continued)

4.A. Deposits (Continued)

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.
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.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

4. DEPOSITS AND INVESTMENTS (Continued)

4.B. Investments (Continued)

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
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 TexPool, Lone Star, TexSTAR, and LOGIC had a weighted average maturity of 42 days, 23 days, 39 days, and 39 days, respectively. Although TexPool, Lone Star, TexSTAR, and LOGIC portfolios had a weighted average maturity of 42 days, 23 days, 39 days, and 39 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
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 and 2015.

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|-----------------------------------|---------------------|---------------------|----------------------|
| <u>August 31, 2016</u> | | | |
| Local government investment pools | \$ 1,384,725 | \$ 482,388 | \$ 1,867,113 |
| Certificates of deposit | | 99,000 | 99,000 |
| U.S. Agencies | 3,505,770 | | 3,505,770 |
| Mutual funds | 188,427 | 2,014,685 | 2,203,112 |
| Real estate securities | | 169,346 | 169,346 |
| Equities | | <u>3,278,914</u> | <u>3,278,914</u> |
| | <u>\$ 5,078,922</u> | <u>\$ 6,044,333</u> | <u>\$ 11,123,255</u> |

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|-----------------------------------|---------------------|---------------------|----------------------|
| <u>August 31, 2015</u> | | | |
| Local government investment pools | \$ 3,214,309 | \$ 1,786,344 | \$ 5,000,653 |
| Certificates of deposit | | 99,000 | 99,000 |
| U.S. Agencies | 3,495,925 | | 3,495,925 |
| Mutual funds | 51,688 | 3,743,204 | 3,794,892 |
| Real estate securities | | 157,988 | 157,988 |
| Equities | | <u>1,518,984</u> | <u>1,518,984</u> |
| | <u>\$ 6,761,922</u> | <u>\$ 7,305,520</u> | <u>\$ 14,067,442</u> |

Unrestricted Funds

As of August 31, 2016 and 2015, 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, 2016</u> | | |
| Local government investment pools (LGIP) | \$ 1,384,725 | 38 |
| U.S. Agency | <u>3,505,770</u> | 431 |
| | 4,890,495 | 298 |
| Mutual funds | <u>188,427</u> | |
| | <u>\$ 5,078,922</u> | |
| <u>August 31, 2015</u> | | |
| Local government investment pools (LGIP) | \$ 3,214,309 | 44 |
| U.S. Agency | <u>3,495,925</u> | 796 |
| | 6,710,234 | 439 |
| Mutual funds | <u>51,688</u> | |
| | <u>\$ 6,761,922</u> | |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

4. DEPOSITS AND INVESTMENTS (Continued)

4.B. Investments (Continued)

Credit Risk – As of August 31, 2016 and 2015, the LGIPs (which represent approximately 25% and 44% of the unrestricted portfolio are rated AAAM by Standard and Poor’s. The money market cash accounts (which represent approximately 9% and 6% of the unrestricted portfolio are covered 100% by federal deposit insurance, SIPC and private insurance. The U.S. agencies (which represent approximately 63% and 49% of the unrestricted portfolio are rated AAA and Aaa by Standard and Poor’s, and Moody’s. The Mutual funds (which represent 3% and 1% 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, 2016 and 2015, 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, 2016</u> | | |
| Local government investment pools (LGIP) | \$ <u>482,388</u> | 42 |
| | \$ <u>482,388</u> | |
| <u>August 31, 2015</u> | | |
| Local government investment pools (LGIP) | \$ <u>1,786,344</u> | 41 |
| | \$ <u>1,786,344</u> | |

Credit Risk - As of August 31, 2016 and 2015, 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.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

4. DEPOSITS AND INVESTMENTS (Continued)

4.B. Investments (Continued)

Restricted (Endowment) Funds

As of August 31, 2016 and 2015, 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, 2016</u> | | |
| Certificates of deposit | \$ 99,000 | 28 |
| Mutual funds | 2,014,685 | |
| Real estate securities | 169,346 | |
| Equities | <u>3,278,914</u> | |
| | <u>\$ 5,561,945</u> | |
| <u>August 31, 2015</u> | | |
| Certificates of deposit | \$ 99,000 | 28 |
| Mutual funds | 3,743,204 | |
| Real estate securities | 157,988 | |
| Equities | <u>1,518,984</u> | |
| | <u>\$ 5,519,176</u> | |

Credit Risk - As of August 31, 2016 and 2015, the money market cash accounts (which represent approximately 3% and -0-% of the restricted (endowment) portfolio are covered 100% by SIPC. The certificates of deposit (which represent approximately 2% and 2% of the restricted (endowment) portfolio are covered 100% by federal deposit insurance. Mutual funds (which represent approximately 35% and 68% of the restricted (endowment) portfolio, real estate securities (which represent approximately 3% and 3% of the restricted (endowment) portfolio, and equities (which represent approximately 57% and 27% 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, 2016 and 2015, the District's restricted investments in mutual funds and equity securities were exposed to foreign currency risk as follows:

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

4.B. Investments (Continued)

| Country | Currency | Value August 31st | |
|---|----------------------|-------------------|--------------|
| | | 2016 | 2015 |
| Argentina | Argentinian Peso | \$ 2,197 | \$ 187 |
| Australia | Australian Dollar | 53,982 | 5,397 |
| Brazil | Real | 12,408 | 9,752 |
| Cambodia | Riel | 66 | |
| Canada | Canadian Dollar | | 12,219 |
| Cayman Island | Cayman Island Dollar | | 230 |
| Chile | Chilean Peso | 2,094 | 356 |
| China | Chinese Renminbi | 41,982 | 25,797 |
| Columbia | Columbian Peso | 944 | 414 |
| Czech Republic | Czech Koruna | 174 | 371 |
| Denmark | Danish Krone | 12,243 | 10,476 |
| Egypt | Egyptian Pound | 187 | |
| Hong Kong | Hong Kong Dollar | 34,114 | 22,066 |
| Hungary | Hungarian Forint | 2,452 | 146 |
| India | Indian Rupee | 31,332 | 14,070 |
| Indonesia | Rupiah | 4,802 | 4,801 |
| Israel | Shekels | 3,938 | 9,771 |
| Japan | Japanese Yen | 157,501 | 188,453 |
| Kazakhstan | Tenge | 57 | 64 |
| Malaysia | Ringgit | 2,892 | |
| Mexico | Mexican Peso | 20,643 | 4,329 |
| New Zealand | New Zealand Dollar | 7,517 | 431 |
| Norway | Norwegian Krone | 2,478 | 2,450 |
| Peru | Peruvian New Sol | 1,094 | 391 |
| Philippines | Philippine Peso | 2,843 | 2,493 |
| Poland | Zloty | 1,122 | 356 |
| Qatar | Qatar Rial | 914 | 375 |
| Romania | Leu | 78 | |
| Russia | Ruble | 7,725 | 4,331 |
| South Africa | Rand | 10,274 | 4,469 |
| South Korea | Won | 26,688 | 8,421 |
| Sweden | Krona | 17,520 | 9,184 |
| Switzerland | Franc | 56,606 | 39,561 |
| Taiwan | Taiwan Dollar | 17,895 | 11,461 |
| Thailand | Bhat | 3,697 | 2,288 |
| Turkey | Turkish Lira | 4,257 | 1,710 |
| Ukraine | Hryvna | 126 | 60 |
| United Arab Emirates | Dirhan | 1,366 | 315 |
| United Kingdom | Pound | 86,503 | 116,743 |
| Various | Euro | 150,561 | 115,579 |
| Total foreign investments | | 783,272 | 629,517 |
| United States | | 4,868,100 | 4,842,347 |
| Total mutual funds, real estate securities and equities | | \$ 5,651,372 | \$ 5,471,864 |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

4.B. Investments (Continued)

At August 31, 2016 and 2015, the District held 13.0% and 8.6%, and 7.0% and 4.5% 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

GASB No. 72, "Fair Value Measurement and Application" 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 GASB No. 72 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
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 and 2015:

Assets at fair value as of August 31, 2016

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------------|---------------------|----------------|----------------|---------------------|
| Local government investment pools | \$ 1,384,725 | \$ | \$ | \$ 1,384,725 |
| U.S. Agencies | 3,505,770 | | | 3,505,770 |
| Mutual funds | <u>188,427</u> | | | <u>188,427</u> |
| Total assets at fair value | <u>\$ 5,078,922</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 5,078,922</u> |

Assets at fair value as of August 31, 2015

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------------|---------------------|----------------|----------------|---------------------|
| Local government investment pools | \$ 3,214,309 | \$ | \$ | \$ 3,214,309 |
| U.S. Agencies | 3,495,925 | | | 3,495,925 |
| Mutual funds | <u>51,688</u> | | | <u>51,688</u> |
| Total assets at fair value | <u>\$ 6,761,922</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 6,761,922</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, 2016 and 2015:

Assets at fair value as of August 31, 2016

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------------|-------------------|----------------|----------------|-------------------|
| Local government investment pools | \$ <u>482,388</u> | \$ | \$ | \$ <u>482,388</u> |
| Total assets at fair value | <u>\$ 482,388</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 482,388</u> |

Assets at fair value as of August 31, 2015

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------------|---------------------|----------------|----------------|---------------------|
| Local government investment pools | \$ <u>1,786,344</u> | \$ | \$ | \$ <u>1,786,344</u> |
| Total assets at fair value | <u>\$ 1,786,344</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 1,786,344</u> |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 and 2015:

Assets at fair value as of August 31, 2016

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------|---------------------|----------------|----------------|---------------------|
| Mutual funds | \$ 2,014,685 | \$ | \$ | \$ 2,014,685 |
| Real estate securities | 169,346 | | | 169,346 |
| Equities | <u>3,278,914</u> | | | <u>3,278,914</u> |
| Total assets at fair value | <u>\$ 5,462,945</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 5,462,945</u> |

Assets at fair value as of August 31, 2015

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------|---------------------|----------------|----------------|---------------------|
| Mutual funds | \$ 3,743,204 | \$ | \$ | \$ 3,743,204 |
| Real estate securities | 157,988 | | | 157,988 |
| Equities | <u>1,518,984</u> | | | <u>1,518,984</u> |
| Total assets at fair value | <u>\$ 5,420,176</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 5,420,176</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, 2016 and 2015, and held no direct investments in derivatives at August 31, 2016 and 2015.

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, 2016 and 2015:

| <u>August 31, 2016</u> | <u>Balance</u> <u>September 1,</u> <u>2015</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>August 31,</u> <u>2016</u> |
|---------------------------------|--|------------------|------------------|--|
| Non-Depreciated Capital Assets: | | | | |
| Land | \$ 296,189 | \$ | \$ | \$ 296,189 |
| Art | 146,795 | | | 146,795 |
| Construction in progress | <u>1,997,053</u> | <u>9,024,993</u> | <u>34,458</u> | <u>10,987,588</u> |
| Total non-depreciated | <u>2,440,037</u> | <u>9,024,993</u> | <u>34,458</u> | <u>11,430,572</u> |

(continued)

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

6. CAPITAL ASSETS (Continued)

6.A. Changes in Capital Assets (Continued)

| <u>August 31, 2016</u> | <u>Balance September 1, 2015</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance August 31, 2016</u> |
|--|--|---------------------|------------------|--|
| Depreciated Capital Assets: | | | | |
| Land improvements | \$ 11,812,819 | \$ 30,616 | \$ | \$ 11,843,435 |
| Buildings | 110,692,985 | 52,438 | | 110,745,423 |
| Furniture, machinery, vehicles, and other equipment | 5,923,785 | 97,040 | | 6,020,825 |
| Library books | 2,592,877 | 124,052 | 36,313 | 2,680,616 |
| Telecommunication and peripheral equipment | <u>4,576,949</u> | <u>652,936</u> | | <u>5,229,885</u> |
| Total depreciated capital assets | <u>135,599,415</u> | <u>957,082</u> | <u>36,313</u> | <u>136,520,184</u> |
| Total assets | <u>138,039,452</u> | 9,982,075 | 70,771 | <u>147,950,756</u> |
| Construction in progress | | <u>34,458</u> | <u>34,458</u> | |
| Total additions/retirements | | <u>\$ 9,947,617</u> | <u>\$ 36,313</u> | |
| Accumulated Depreciated: | | | | |
| Land improvements | 4,609,378 | \$ 399,553 | \$ | 5,008,931 |
| Buildings | 26,394,851 | 2,583,886 | | 28,978,737 |
| Furniture, machinery, vehicles and other equipment | 3,908,204 | 238,917 | | 4,147,121 |
| Library books | 1,751,233 | 157,469 | 36,313 | 1,872,389 |
| Telecommunications and peripheral equipment | <u>3,355,572</u> | <u>607,907</u> | | <u>3,963,479</u> |
| Total accumulated depreciation | <u>40,019,238</u> | <u>\$ 3,987,732</u> | <u>\$ 36,313</u> | <u>43,970,657</u> |
| Net depreciated capital assets | <u>95,580,177</u> | | | <u>92,549,527</u> |
| Net capital assets | <u>\$ 98,020,214</u> | | | <u>\$ 103,980,099</u> |

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

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

6. CAPITAL ASSETS (Continued)

6.A. Changes in Capital Assets (Continued)

| <u>August 31, 2015</u> | <u>Balance September 1, 2014</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance August 31, 2015</u> |
|--|--|---------------------|-----------------------------|--|
| Non-Depreciated Capital Assets: | | | | |
| Land | \$ 296,189 | \$ | \$ | \$ 296,189 |
| Art | 146,795 | | | 146,795 |
| Construction in progress | <u>1,336,157</u> | <u>3,155,439</u> | <u>2,494,543</u> | <u>1,997,053</u> |
| Total non-depreciated | <u>1,779,141</u> | <u>3,155,439</u> | <u>2,494,543</u> | <u>2,440,037</u> |
| Depreciated Capital Assets: | | | | |
| Land improvements | \$ 11,633,976 | \$ 178,843 | \$ | \$ 11,812,819 |
| Buildings | 109,478,786 | 1,214,199 | | 110,692,985 |
| Furniture, machinery, vehicles, and other equipment | 5,422,312 | 501,473 | | 5,923,785 |
| Library books | 2,575,669 | 107,688 | 90,480 | 2,592,877 |
| Telecommunication and peripheral equipment | <u>4,035,935</u> | <u>541,014</u> | <u> </u> | <u>4,576,949</u> |
| Total depreciated capital assets | <u>133,146,678</u> | <u>2,543,217</u> | <u>90,480</u> | <u>135,599,415</u> |
| Total assets | <u>134,925,819</u> | 5,698,656 | 2,585,023 | <u>138,039,452</u> |
| Construction in progress | | <u>2,494,543</u> | <u>2,494,543</u> | |
| Total additions/retirements | | <u>\$ 3,204,113</u> | <u>\$ 90,480</u> | |
| Accumulated Depreciated: | | | | |
| Land improvements | 4,213,014 | \$ 396,364 | \$ | 4,609,378 |
| Buildings | 23,864,948 | 2,529,903 | | 26,394,851 |
| Furniture, machinery, vehicles and other equipment | 3,638,167 | 270,037 | | 3,908,204 |
| Library books | 1,678,204 | 163,509 | 90,480 | 1,751,233 |
| Telecommunications and peripheral equipment | <u>2,920,310</u> | <u>435,262</u> | <u> </u> | <u>3,355,572</u> |
| Total accumulated depreciation | <u>36,314,643</u> | <u>\$ 3,795,075</u> | <u>\$ 90,480</u> | <u>40,019,238</u> |
| Net depreciated capital assets | <u>96,832,035</u> | | | <u>95,580,177</u> |
| Net capital assets | <u>\$ 98,611,176</u> | | | <u>\$ 98,020,214</u> |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 and 2015 as follows:

| | <u>Project Authorization</u> | <u>Expended to Date</u> | <u>Commitment</u> | <u>Required Further Financing</u> |
|---------------------------|----------------------------------|-----------------------------|---------------------|---|
| <u>August 31, 2016</u> | | | | |
| Master Plan Projects: | | | | |
| Construction Contractor – | | | | |
| New buildings and | | | | |
| infrastructure | | | | |
| | \$ <u>9,738,652</u> | \$ <u>5,468,147</u> | \$ <u>4,270,505</u> | \$ _____ |
| Total | \$ <u>9,738,652</u> | \$ <u>5,468,147</u> | \$ <u>4,207,505</u> | \$ <u>-0-</u> |

| | <u>Project Authorization</u> | <u>Expended to Date</u> | <u>Commitment</u> | <u>Required Further Financing</u> |
|-------------------------|----------------------------------|-----------------------------|---------------------|---|
| <u>August 31, 2015</u> | | | | |
| Master Plan Projects: | | | | |
| Architecture | \$ 345,025 | \$ 317,423 | \$ 27,602 | \$ _____ |
| Construction contractor | 3,730,000 | 1,354,594 | 2,375,406 | _____ |
| Engineering | 5,000 | _____ | 5,000 | _____ |
| Improvements | <u>98,830</u> | <u>5,269</u> | <u>93,561</u> | _____ |
| Total | \$ <u>4,178,855</u> | \$ <u>1,677,286</u> | \$ <u>2,501,569</u> | \$ <u>-0-</u> |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

7. LONG-TERM LIABILITIES

The following is a summary of changes in long-term debt for the years ended August 31, 2016 and 2015:

| <u>August 31, 2016</u> | <u>Balance September 1, 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance August 31, 2016</u> | <u>Current Portion</u> |
|-------------------------------|--|----------------------|----------------------|--|----------------------------|
| Revenue bonds | \$ 5,295,000 | \$ | \$ 835,000 | \$ 4,460,000 | \$ 875,000 |
| Limited tax bonds | 61,535,000 | 30,845,000 | 34,110,000 | 58,270,000 | 2,155,000 |
| Capital lease | | 9,738,652 | | 9,738,652 | |
| Components of Long-Term Debt: | | | | | |
| Premium: | | | | | |
| Revenue bonds | 24,134 | | 3,470 | 20,664 | 3,469 |
| Limited tax bonds | 1,154,218 | 4,653,394 | 837,715 | 4,969,897 | 304,661 |
| Accrued interest | 126,977 | 224,391 | 126,977 | 224,391 | 224,391 |
| Net pension obligation | 4,023,428 | 3,822,926 | 2,890,188 | 4,956,166 | |
| Compensated absences | <u>300,934</u> | <u>76,563</u> | <u>58,714</u> | <u>318,783</u> | <u>55,000</u> |
| Total long-term liabilities | <u>\$ 72,459,691</u> | <u>\$ 49,360,926</u> | <u>\$ 38,862,064</u> | <u>\$ 82,958,553</u> | <u>\$ 3,617,521</u> |

| <u>August 31, 2015</u> | <u>Balance September 1, 2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance August 31, 2015</u> | <u>Current Portion</u> |
|-------------------------------|--|---------------------|---------------------|--|----------------------------|
| Revenue bonds | \$ 6,090,000 | \$ | \$ 795,000 | \$ 5,295,000 | \$ 835,000 |
| Limited tax bonds | 63,555,000 | | 2,020,000 | 61,535,000 | 2,080,000 |
| Components of Long-Term Debt: | | | | | |
| Premium: | | | | | |
| Revenue bonds | 27,603 | | 3,469 | 24,134 | 3,469 |
| Limited tax bonds | 1,214,352 | | 60,134 | 1,154,218 | 60,134 |
| Accrued interest | 131,229 | 126,977 | 131,229 | 126,977 | 126,977 |
| Net pension obligation | 4,940,359 | 2,761,435 | 3,678,366 | 4,023,428 | |
| Compensated absences | <u>280,895</u> | <u>73,200</u> | <u>53,161</u> | <u>300,934</u> | <u>55,000</u> |
| Total long-term liabilities | <u>\$ 76,239,438</u> | <u>\$ 2,961,612</u> | <u>\$ 6,741,359</u> | <u>\$ 72,459,691</u> | <u>\$ 3,160,580</u> |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
 YEARS ENDED AUGUST 31, 2016 AND 2015

7. LONG-TERM LIABILITIES (Continued)

The annual debt service requirements to maturity for bonded debt as of August 31, 2016 are as follows:

| For the Year Ended August 31, | Combined Fee Revenue Refunding Bonds Series 2006 | | Limited Tax Bonds Series 2008 | |
|----------------------------------|--|-------------------|----------------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| | 2017 | \$ 875,000 | \$ 178,400 | \$ 910,000 |
| 2018 | 905,000 | 143,400 | 950,000 | 19,000 |
| 2019 | 950,000 | 107,200 | | |
| 2020 | 980,000 | 39,200 | | |
| 2021 | 370,000 | 30,000 | | |
| 2022-2026 | <u>380,000</u> | <u>15,200</u> | | |
| Total | <u>\$ 4,460,000</u> | <u>\$ 513,400</u> | <u>\$ 1,860,000</u> | <u>\$ 75,200</u> |

| For the Year Ended August 31, | Limited Tax Bonds Series 2010 | | Limited Tax Bonds Series 2011 | |
|----------------------------------|----------------------------------|---------------------|----------------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| | 2017 | \$ 900,000 | \$ 622,294 | \$ 345,000 |
| 2018 | 925,000 | 594,918 | 360,000 | 352,481 |
| 2019 | 955,000 | 566,719 | 375,000 | 337,781 |
| 2020 | 985,000 | 537,618 | 390,000 | 322,482 |
| 2021 | 1,015,000 | 507,619 | 405,000 | 306,581 |
| 2022-2026 | 990,000 | 2,410,569 | 425,000 | 1,396,781 |
| 2027-2031 | 6,225,000 | 1,639,150 | 2,955,000 | 1,091,322 |
| 2032-2036 | <u>4,735,000</u> | <u>538,891</u> | <u>3,655,000</u> | <u>401,519</u> |
| Total | <u>\$ 16,730,000</u> | <u>\$ 7,417,778</u> | <u>\$ 8,910,000</u> | <u>\$ 4,575,528</u> |

| For the Year Ended August 31, | Limited Tax Bonds Series 2015 | | Limited Tax Bonds Series 2016 | |
|----------------------------------|----------------------------------|---------------------|----------------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| | 2017 | \$ | \$ 374,637 | \$ |
| 2018 | | 374,638 | | 941,256 |
| 2019 | | 374,637 | 940,000 | 931,856 |
| 2020 | | 374,638 | 960,000 | 912,857 |
| 2021 | | 374,637 | 980,000 | 888,556 |
| 2022-2026 | | 1,873,188 | 12,430,000 | 2,885,281 |
| 2027-2031 | 5,190,000 | 1,522,988 | 3,180,000 | 777,531 |
| 2032-2036 | <u>3,625,000</u> | <u>155,656</u> | <u>3,465,000</u> | <u>271,903</u> |
| Total | <u>\$ 8,815,000</u> | <u>\$ 5,425,019</u> | <u>\$ 21,955,000</u> | <u>\$ 8,550,496</u> |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

7. LONG-TERM LIABILITIES (Continued)

| For the Year Ended August 31, | Total Limited Tax Bonds | | Total Bonds | |
|----------------------------------|----------------------------|----------------------|----------------------|----------------------|
| | Principal | Interest | Principal | Interest |
| 2017 | \$ 2,155,000 | \$ 2,360,968 | \$ 3,030,000 | \$ 2,539,368 |
| 2018 | 2,235,000 | 2,282,293 | 3,140,000 | 2,425,693 |
| 2019 | 2,270,000 | 2,210,993 | 3,220,000 | 2,318,193 |
| 2020 | 2,335,000 | 2,147,595 | 3,315,000 | 2,216,795 |
| 2021 | 2,400,000 | 2,077,393 | 2,770,000 | 2,107,393 |
| 2022-2026 | 13,845,000 | 8,565,820 | 14,225,000 | 8,581,020 |
| 2027-2031 | 17,550,000 | 5,030,991 | 17,550,000 | 5,030,991 |
| 2032-2036 | <u>15,480,000</u> | <u>1,367,969</u> | <u>15,480,000</u> | <u>1,367,969</u> |
| Total | <u>\$ 58,270,000</u> | <u>\$ 26,044,022</u> | <u>\$ 62,730,000</u> | <u>\$ 26,587,422</u> |

8. BONDS PAYABLE

General information related to bonds payable is summarized below:

8.A. 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, 2016 and 2015 was \$ 4,460,000 and \$ 5,295,000.

8.B. 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.
- Limited Tax 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, 2016 and 2015 was \$ 1,860,000 and \$ 23,475,000.

8.C. 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.
- Limited Tax 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, 2016 and 2015 was \$ 16,730,000 and \$ 26,880,000.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

8. BONDS PAYABLE (Continued)

8.D. Limited Tax Bonds, Series 2011

- To construct the Master Plan, which adds several buildings, and renovates, and improves the campus.
- Issue date was November 8, 2011.
- Original amount of issue: amount authorized \$ 11,820,000.
- Limited Tax 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, 2016 and 2015 was \$ 8,910,000 and \$ 11,180,000.

8.E. Limited Tax Refunding Bonds, Series 2015

- To advance refund \$ 8,945,000 in Limited Tax Bonds, Series 2008.
- Issue date was December 15, 2015.
- Original amount of issue: amount authorized \$ 8,890,000.
- Limited Tax Refunding Bond Issue was approved by the Board of Regents of the Brazosport College District. Property taxes will pay the debt.
- Balance as of August 31, 2016 and 2015 was \$ 8,815,000 and \$ -0-.

8.F. Limited Tax Refunding Bonds, Series 2016

- To advance refund \$ 11,795,000 in Limited Tax Bonds, Series 2008, \$ 9,280 in Limited Tax Bonds, Series 2010, and \$ 1,935,000 in Limited Tax Bonds, Series 2011.
- Issue date was May 10, 2016.
- Original amount of issue: amount authorized \$ 21,955,000.
- Limited Tax Refunding Bond Issue was approved by the Board of Regents of the Brazosport College District. Property taxes will pay the debt.
- Balance as of August 31, 2016 and 2015 was \$ 21,955,000 and \$ -0-.

Bonds (principal and interest) payable are due in annual installments varying from \$ 2,610,653 to \$ 5,569,369 with interest rates from 2.00% to 5.50% with the final installment due in 2036.

9. ADVANCE REFUNDING AND DEFEASED DEBT, AND REFUNDING COSTS

9A. Advance Refunding and Defeased Debt

On November 29, 2006, the District issued \$ 6,885,000 in Combined Fee Revenue Refunding Bonds – Series 2006 for the refunding of previously issued outstanding bonds, as follows: \$ 4,190,000 Combined Fee Revenue Bonds, Series 2001 and \$ 2,320,000 Combined Fee Revenue Bonds, Series 2002. The District placed the proceeds (\$ 6,832,346) of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 231,800. The economic gain resulting from the transaction was \$ 205,753. The outstanding balance of these defeased bonds at August 31, 2016 and 2015 was \$ 4,460,000 and \$ 5,295,000, and the balance held in escrow was \$ 4,419,264 and \$ 5,235,428, respectively.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

9. ADVANCE REFUNDING AND DEFEASED DEBT, AND REFUNDING COSTS
(Continued)

9A. Advance Refunding and Defeased Debt (Continued)

On December 15, 2015, the District issued \$ 8,890,000 in Limited Tax Revenue Refunding Bonds – Series 2015 for the refunding of \$ 8,945,000 in Limited Tax Bonds, Series 2008. The District placed the proceeds (\$ 9,982,082) of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 1,849,569. The economic gain resulting from the transaction was \$ 1,392,407. The outstanding balance of these defeased bonds at August 31, 2016 was \$ 8,945,000 and the balance held in escrow was \$ 9,557,257.

On May 10, 2016, the District issued \$ 21,955,000 in Limited Tax Revenue Refunding Bonds – Series 2016 for the refunding of previously issued outstanding bonds, as follows: \$ 11,795,000 in Limited Tax Bonds, Series 2008; \$ 9,280,000 in Limited Tax Bonds, Series 2010; and \$ 1,935,000 in Limited Tax Bonds, Series 2011. The District placed the proceeds (\$ 25,500,789) of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 2,525,873. The economic gain resulting from the transaction was \$ 2,013,892. The outstanding balance of these defeased bonds at August 31, 2016 was \$ 23,010,000 and the balance held in escrow was \$ 24,670,959.

9B. Refunding Costs

The cost of refunding is the difference in the amount placed in escrow for the refunding of debt less the debt being refunded (debt principal, related net premium, and related accrued interest). This amount is reported a deferred outflow of resources and amortized over the life of the new or old bonds, whichever is shorter.

The Combined Fee Revenue Refunding Bonds – Series 2006 resulted in a \$ 383,644 refunding cost. At August 31, 2016 and 2015, the net refunding cost was \$ 145,965 and \$ 170,471, respectively. These refunding costs will be fully amortized on August 15, 2022.

The Limited Tax Refunding Bonds – Series 2015 resulted in a \$ 706,636 refunding cost. At August 31, 2016, the net refunding cost was \$ 466,138. These refunding costs will be fully amortized on February 15, 2018.

The Limited Tax Refunding Bonds – Series 2016 resulted in a \$ 1,986,472 refunding cost. At August 31, 2016, the net refunding cost was \$ 1,426,674. These refunding costs will be fully amortized on February 15, 2020.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

10. CAPITAL LEASE COMMITMENTS

On April 22, 2016, the District entered into a capital lease for the purpose of constructing energy conservation measures such as lighting retrofits / upgrades; controls upgrades; central plant upgrades, L-Wing piping & Dow heat recovery; AHU replacement; solar window film; and power factor correction at various campus locations. This capital lease was for \$ 9,738,652 with an interest rate of 2.485% and calls for semi-annual payments that range from \$ 166,617.50 to \$ 539,685.00 beginning on April 22, 2017 and ending on October 22, 2031.

These funds were placed in an escrow account and have been utilized for the construction costs associated with the projects identified as part of this capital lease. At August 31, 2016, the balance in this escrow account was \$ 6,268,951. Construction costs on these projects at August 31, 2016 was \$ 9,825,372 (includes \$ 86,720 in construction period interest) and is reported as construction in progress.

The following represents the minimum lease payments required under the lease at August 31, 2016:

| For the Year Ended August 31, | 2016 |
|------------------------------------|--------------|
| 2017 | \$ 166,927 |
| 2018 | 333,544 |
| 2019 | 332,916 |
| 2020 | 337,404 |
| 2021 | 341,873 |
| 2022-2026 | 5,027,932 |
| 2027-2031 | 5,396,850 |
| 2032 | 539,685 |
| | 12,477,131 |
| Less; Amount representing Interest | 2,738,479 |
| Total | \$ 9,738,652 |

11. SHORT-TERM DEBT AND OPERATING LEASE COMMITMENTS

11.A. Short-Term Debt

The District had and incurred no short-term debt at and for the years ended August 31, 2016 and 2015.

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 \$ 56,716 and \$ 46,547 as rent expense for the years ended August 31, 2016 and 2015.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

12. EMPLOYEE RETIREMENT PLANS

12.A. Defined Benefit Pension Plan - Teacher Retirement System

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

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

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

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

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

12. EMPLOYEE RETIREMENT PLANS (Continued)

12.A. Defined Benefit Pension Plan - Teacher Retirement System (Continued)

Contributions – Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

Contribution Rates

| | 2015 | 2016 |
|---|------|---------|
| Member | 6.7% | 7.2% |
| Non-Employer Contributing Entity (State) | 6.8% | 6.8% |
| Employers | 6.8% | 6.8% |
| Employer # 1788 – 2015 Employer Contributions | \$ | 415,162 |
| Employer # 1788 – 2015 Member Contributions | \$ | 361,179 |
| Employer # 1788 – 2015 NECE On-behalf Contributions | \$ | 334,757 |

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

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

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

12. EMPLOYEE RETIREMENT PLANS (Continued)

12.A. Defined Benefit Pension Plan - Teacher Retirement System (Continued)

Contributions (Continued)

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

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

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

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

| | |
|--|-----------------------------|
| Valuation Date | August 31, 2015 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Asset Valuation Method | Market Value |
| Discount Rate | 8.00% |
| Long-term expected Investment | |
| Rate of Return | 8.00% |
| Inflation | 2.5% |
| Salary Increases including inflation | 3.5% to 9.5% |
| Payroll Growth Rate | 2.50% |
| Benefit changes during the year | None |
| Ad-hoc post-employment benefit changes | None |

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

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

12. EMPLOYEE RETIREMENT PLANS (Continued)

12.A. Defined Benefit Pension Plan - Teacher Retirement System (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 8.00%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

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

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

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

12. EMPLOYEE RETIREMENT PLANS (Continued)

12.A. Defined Benefit Pension Plan - Teacher Retirement System (Continued)

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

| | 1% Decrease in Discount Rate (7.0%) | Discount Rate (8.0%) | 1% Increase in Discount Rate (9.0%) |
|--|---|-------------------------|---|
| District's proportionate share of the Net pension liability | \$ <u>7,765,378</u> | \$ <u>4,956,166</u> | \$ <u>2,616,267</u> |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At August 31, 2016, the District reported a liability of \$ 4,956,166 for its proportionate share of TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|--|---------------------|
| District's Proportionate share of the collective net pension liability | \$ 4,956,166 |
| State's proportionate share that is associated with the District | <u>2,663,809</u> |
| Total | <u>\$ 7,619,975</u> |

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

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0140208% which was a decrease of 0.0010418% from its proportion measured as of August 31, 2014.

Changes since the prior Actual Valuation – the following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

12. EMPLOYEE RETIREMENT PLANS (Continued)

12.A. Defined Benefit Pension Plan - Teacher Retirement System (Continued)

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

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

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

12. EMPLOYEE RETIREMENT PLANS (Continued)

12.A. Defined Benefit Pension Plan - Teacher Retirement System (Continued)

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

For the year ended August 31, 2016, the District recognized pension expense of \$ 732,910 and revenue of \$ 334,757 for support provided by the State.

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual economic experience | \$ | \$ 145,602 |
| Changes in actuarial assumptions | 11,767 | |
| Difference between projected and actual investment earnings | 333,869 | |
| Changes in proportion and difference between the employer's contributions and the proportionate share of contributions | | 239,080 |
| Contribution paid to TRS subsequent to the measurement date | <u>438,685</u> | |
| Total | <u>\$ 784,321</u> | <u>\$ 384,682</u> |

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

| <u>Year Ended August 31,</u> | <u>Pension Expense Amount</u> |
|------------------------------|---------------------------------------|
| 2016 | \$ (50,439) |
| 2017 | (50,439) |
| 2018 | (50,439) |
| 2019 | 256,993 |
| 2020 | (52,094) |
| Thereafter | (92,628) |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

12. EMPLOYEE RETIREMENT PLANS (Continued)

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 3.30% for fiscal year 2014-2015 and 3.30% for fiscal year 2015-2016 with a 0.76% supplement for 2014-2015 and a 0.76% supplement for 2015-2016 for those participating on August 31, 1995 or before which is paid by the District. Member contribution rate is 6.65% for fiscal years 2014-2015 and 2015-2016. These rates are set by state statutes. The contribution requirement of the fiscal years ended August 31, 2016 and 2015 for the District was \$ 734,727 and \$ 716,540, which consisted of \$ 170,501 and \$ 164,903 from the state, \$ 213,403 and \$ 201,908 from the District, and \$ 350,823 and \$ 344,361 from the employees, and, \$ 370 and \$ 370 from grantors, respectively. The District's total payroll for the years ended August 31, 2016 and 2015 was \$ 19,632,008 and \$ 18,377,055 of which \$ 5,275,531 and \$ 4,908,849 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 2014-2015, and 2015-2016. The District's contribution rate was 1.5% for the same period. The contribution requirement of the fiscal years ended August 31, 2016 and 2015 was \$ 31,376 and \$ 26,315 from the District and \$ 125,499 and \$ 105,254 from the employees, respectively. The District's total payroll for the years ended August 31, 2016 and 2015 was \$ 19,632,008 and \$ 18,377,055 of which \$ 2,091,658 and \$ 1,754,211 was covered payroll for this plan, respectively.

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, 2016 and 2015, the District has 59 and 52 employees participating in the program, 59 and 52 employees were vested as of August 31, 2016 and 2015. A total of \$ 450,850 and \$ 296,523 in contributions were deferred by employees during the fiscal year ended August 31, 2016 and 2015 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.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 and 2015 the accrued liability for unpaid leave totaled \$ 318,783 and \$ 300,934, 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, 2016 and 2015.

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, 2016 and 2015.

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, 2016 and 2015.

16. DISSAGREGATION OF ACCOUNTS AND NOTES RECEIVABLE; ACCOUNTS AND ACCRUED LIABILITIES; UNCOLLECTIBLE ACCOUNTS; UNEARNED REVENUES; DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

16.A. Accounts and Notes Receivables

Receivables at August 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---------------------------------|-----------|-----------|
| Current Receivables: | | |
| Student notes receivable | \$ 44,189 | \$ 34,954 |
| Taxes receivable | 189,252 | 233,151 |
| Accounts receivable | 1,086,807 | 1,209,207 |
| Interest receivable | 10,963 | 10,963 |
| Subtotal | 1,331,211 | 1,488,275 |
| Allowance for doubtful accounts | 641,307 | 611,025 |
| Net current receivables | 689,904 | 877,250 |

(continued)

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

16. DISSAGREGATION OF ACCOUNTS AND NOTES RECEIVABLE; ACCOUNTS AND ACCRUED LIABILITIES; UNCOLLECTIBLE ACCOUNTS; UNEARNED REVENUES; DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (Continued)

16.A. Accounts and Notes Receivables (Continued)

| | 2016 | 2015 |
|---------------------------------|--------------|--------------|
| Restricted Assets: | | |
| Taxes receivable | \$ 53,121 | \$ 72,525 |
| Federal grants receivable | 346,313 | 245,569 |
| State grants receivable | 401,522 | 160,417 |
| Interest receivable | | 21 |
| Subtotal | 800,956 | 478,532 |
| Allowance for doubtful accounts | 31,434 | 32,806 |
| Total restricted receivables | 769,522 | 445,726 |
| Total receivables | \$ 1,459,426 | \$ 1,322,976 |

16.B. Accounts and Accrued Liabilities

Payables at August 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|--------------|--------------|
| Current Liabilities: | | |
| Vendors payable | \$ 738,973 | \$ 1,062,396 |
| Salaries and benefits payable | 181,964 | 114,167 |
| Accrued interest payable | 96,677 | 9,284 |
| Total current liabilities | 1,017,614 | 1,185,847 |
| Liabilities Payable from Restricted Assets: | | |
| Vendors payable | 2,377,292 | 84,319 |
| Salaries and benefits payable | 41,300 | |
| Accrued interest | 127,714 | 117,693 |
| Due to other governments | 2,106 | 367 |
| Total from restricted assets | 2,548,412 | 202,379 |
| Total payables | \$ 3,566,026 | \$ 1,388,226 |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

16. DISSAGREGATION OF ACCOUNTS AND NOTES RECEIVABLE; ACCOUNTS AND ACCRUED LIABILITIES; UNCOLLECTIBLE ACCOUNTS; UNEARNED REVENUES; DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (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, 2016 and 2015 was \$ 148,573 and \$ 152,679, 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, 2016 and 2015 was \$ 524,168 and \$ 491,152, 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, 2016 and 2015; 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, 2016 and 2015, no allowance was established. During the years ended August 31, 2016 and 2015, 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, 2016 and 2015. Of these amounts only the tuition and fees, and clarion tickets were collected prior to August 31, 2016 and 2015. These amounts are as follows:

| | 2016 | 2015 |
|---|--------------|--------------|
| Current Liabilities: | | |
| Tuition and fees | \$ 1,546,510 | \$ 1,627,190 |
| Liabilities Payable from Restricted Assets: | | |
| State and local grants | 212,484 | 130,747 |
| Totals | \$ 1,758,994 | \$ 1,757,937 |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

16. DISSAGREGATION OF ACCOUNTS AND NOTES RECEIVABLE; ACCOUNTS AND ACCRUED LIABILITIES; UNCOLLECTIBLE ACCOUNTS; UNEARNED REVENUES; DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (Continued)

16.E. Deferred Inflows and Outflows of Resources (Net of Amortization)

Business-Type Activities

Business-Type activities defer the recognition of pension expense for contributions made from the measurement date (August 31, 2015) to the current year-end of August 31, 2016 and report these as deferred outflows of resources. Business-Type activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources.

As of August 31, 2016, the various components of deferred inflows and outflows of resources reported in the business-type activities were as follows:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| <u>August 31, 2016</u> | | |
| TRS Pension Deferred Outflows and Inflows: | | |
| Differences between expected and actual experience | \$ 333,869 | \$ 145,602 |
| Differences between projected and actual investment earnings | 11,767 | |
| Changes in assumptions | | |
| Changes in proportion and employer contributions and proportionate share of contributions | | 239,080 |
| Pension contributions subsequent to the measurement date | 438,685 | |
| Bond refunding costs | <u>2,038,777</u> | |
| Totals | <u>\$ 2,823,098</u> | <u>\$ 384,682</u> |
| <u>August 31, 2015</u> | | |
| TRS Pension Deferred Outflows and Inflows: | | |
| Differences between expected and actual experience | \$ 44,868 | \$ 886,724 |
| Differences between projected and actual investment earnings | 188,581 | |
| Changes in assumptions | | |
| Changes in proportion and employer contributions and proportionate share of contributions | | 761 |
| Pension contributions subsequent to the measurement date | 414,987 | |
| Bond refunding costs | <u>170,471</u> | |
| Totals | <u>\$ 818,907</u> | <u>\$ 887,485</u> |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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 agreement was for seven years from May 1, 2007 to April 30, 2014. Effective November 1, 2012, the District renewed the agreement through October 31, 2017. Upon completion of the renewal term, the lease shall automatically self-renew for three years under the same provisions. The District received \$ 142,153 and \$ 108,799 in lease income for the years ended August 31, 2016 and 2015, respectively.
2. On May 23, 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. The most recent amendment, which was on September 1, 2012, makes the agreement effective until August 31, 2019. The District received \$ 49,048 and \$ 48,813 of lease income on this contract for the years ended August 31, 2016 and 2015, respectively.

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, 2016 and 2015 for which monies have not been received totaled zero.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016 was \$ 576.54 for "Employee Only" coverage, \$ 906.78 for "Employee and Spouse" coverage, \$ 797.66 for "Employee and Children" coverage, and \$ 1,127.90 for "Employee and Family" coverage. The cost of providing those benefits for 83 retirees was \$ 311,857 and for 260 active employees was \$ 986,248. For the year ended August 31, 2016 the state contribution was limited to \$ 1,298,105.

Monthly contributions for the year ended August 31, 2015 was \$ 537.66 for "Employee Only" coverage, \$ 845.54 for "Employee and Spouse" coverage, \$ 743.80 for "Employee and Children" coverage, and \$ 1,051.68 for "Employee and Family" coverage. The cost of providing those benefits for 85 retirees was \$ 285,706 and for 259 active employees was \$ 933,728. For the year ended August 31, 2015 the state contribution was limited to \$ 1,219,434.

20. ON-BEHALF PAYMENTS

The State of Texas provided on-behalf payments for the following benefits for the years ended August 31, 2016 and 2015:

| | 2016 | 2015 |
|--|--------------|--------------|
| Teacher Retirement System | \$ 353,710 | \$ 332,705 |
| Optional Retirement Program (ORP) | 170,501 | 169,901 |
| Postretirement health care and life insurance benefits | 1,298,105 | 1,219,434 |
| Total | \$ 1,822,316 | \$ 1,722,040 |

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.

| | 2015 | 2014 |
|--|------------------|------------------|
| Assessed Valuation of the District: | \$10,095,286,805 | \$ 8,796,768,900 |
| Less: Abatements | 549,383,080 | 539,668,225 |
| Less: Exemptions | 2,117,325,905 | 1,598,759,851 |
| Net assessed valuation of the district | \$ 7,428,577,820 | \$ 6,658,340,824 |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

21. PROPERTY TAXES (Continued)

| | 2016 | | |
|--|-----------------------|--------------------|--------------------|
| | Current Operations | Debt Service | Total |
| Authorized Tax Rate per \$ 100 valuation (Maximum per enabling legislation) | \$ <u>0.350000</u> | \$ <u>0.063598</u> | \$ <u>0.413598</u> |
| Assessed Tax Rate per \$ 100 valuation | \$ <u>0.213912</u> | \$ <u>0.063598</u> | \$ <u>0.277510</u> |
| | 2015 | | |
| | Current Operations | Debt Service | Total |
| Authorized Tax Rate per \$ 100 valuation (Maximum per enabling legislation) | \$ <u>0.350000</u> | \$ <u>0.069578</u> | \$ <u>0.419578</u> |
| Assessed Tax Rate per \$ 100 valuation | \$ <u>0.211300</u> | \$ <u>0.069578</u> | \$ <u>0.280878</u> |

Taxes levied for the years ended August 31, 2016 and 2015 were \$ 19,928,999 and \$ 19,105,502 (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, 2016 and 2015:

August 31, 2016

| Taxes Collected | Current Operations | Debt Service | Total |
|-----------------------------------|-----------------------|-----------------------------|----------------------|
| Current taxes collected | \$ 15,797,819 | \$ 4,696,836 | \$ 20,494,655 |
| Delinquent taxes collected | 66,707 | 44,264 | 110,971 |
| Penalties and interest collected | <u>88,390</u> | <u>27,589</u> | <u>115,979</u> |
| Total collections | 15,952,916 | 4,768,689 | 20,721,605 |
| Tax appraisal and collection fees | <u>(156,673)</u> | <u> </u> | <u>(156,673)</u> |
| Net collections | <u>\$ 15,796,243</u> | <u>\$ 4,768,689</u> | <u>\$ 20,564,932</u> |

August 31, 2015

| Taxes Collected | Current Operations | Debt Service | Total |
|-----------------------------------|-----------------------|-----------------------------|----------------------|
| Current taxes collected | \$ 14,277,565 | \$ 4,701,394 | \$ 18,978,959 |
| Delinquent taxes collected | 41,248 | 23,567 | 64,815 |
| Penalties and interest collected | <u>59,900</u> | <u>19,670</u> | <u>79,570</u> |
| Total collections | 14,378,713 | 4,744,631 | 19,123,344 |
| Tax appraisal and collection fees | <u>(146,132)</u> | <u> </u> | <u>(146,132)</u> |
| Net collections | <u>\$ 14,232,581</u> | <u>\$ 4,744,631</u> | <u>\$ 18,977,212</u> |

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

21. PROPERTY TAXES (Continued)

Tax collections for the years ended August 31, 2016 and 2015 were 103.19% and 99.33% 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, 2016 and 2015.

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 21, 2016, the date which the financial statements were available to be issued.

On September 15, 2016, the District issued \$ 4,545,000 in Combined Fee Revenue Refunding Bonds - Series 2016. These bonds are intended to refund the Combined Fee Revenue Refunding Bonds – Series 2006, which were callable on October 18, 2016. Further, this refunding will result in total cash savings of \$ 83,753 and an economic gain of \$ 221,594.

BRAZOSPORT COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

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.

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, 2016, 2015 and 2014 were \$ 362,448, \$ 348,028, and \$ 278,365, respectively, which equaled the required contributions for each year.

REQUIRED SUPPLEMENTARY INFORMATION

BRAZOSPORT COLLEGE DISTRICT

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND RELATED RATIOS – COST SHARING EMPLOYER PLAN
FOR THE LAST TEN YEARS (1)
AUGUST 31, 2016 WITH MEASUREMENT DATE OF AUGUST 31, 2015**

EXHIBIT 4
Page 1 of 1

| | <u>2015</u> | <u>2016</u> |
|--|----------------------|----------------------|
| District's proportion of the net pension liability (assets) | 0.015062600% | 0.0140208% |
| District's proportionate share of the net pension liability (asset) | \$ 4,023,428 | \$ 4,956,166 |
| State's proportionate share of the net pension liability (asset) associated with the District | <u>2,429,809</u> | <u>2,663,809</u> |
| Total | <u>\$ 6,453,237</u> | <u>\$ 7,619,975</u> |
| District's covered-employee payroll | <u>\$ 10,001,986</u> | <u>\$ 11,668,335</u> |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 40.23% | 42.48% |
| Plan fiduciary net position as a percentage of total pension liability | 83.25% | 78.43% |

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

BRAZOSPORT COLLEGE DISTRICT

SCHEDULE OF REQUIRED CONTRIBUTIONS -

COST SHARING EMPLOYER PLAN

FOR THE LAST TEN YEARS (1)

AUGUST 31, 2016 WITH MEASUREMENT DATE OF AUGUST 31, 2015

EXHIBIT 5

Page 1 of 1

| | <u>2015</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Contractually required contributions | \$ 381,878 | \$ 415,162 |
| Contributions in relation to the contractually required contribution | <u>381,878</u> | <u>415,162</u> |
| Contribution deficiency (excess) | <u>\$ -0-</u> | <u>\$ -0-</u> |
| District's covered-employee payroll | <u>\$ 10,001,986</u> | <u>\$ 11,668,335</u> |
| Contributions as a percentage of covered-employee payroll | 3.82% | 3.56% |

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

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SUPPLEMENTAL SCHEDULES

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2016
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)

SCHEDULE A
Page 1 of 2

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total Educational Activities</u> | <u>Auxiliary Enterprises</u> | <u>Total Year Ended August 31, 2016</u> | <u>Total Year Ended August 31, 2015</u> |
|---|----------------------|-------------------|---|----------------------------------|---|---|
| Tuition: | | | | | | |
| State Funded Courses: | | | | | | |
| In-district resident tuition | \$ 2,932,854 | \$ | \$ 2,932,854 | \$ | \$ 2,932,854 | \$ 2,875,300 |
| Out-of-district resident tuition | 2,930,368 | | 2,930,368 | | 2,930,368 | 2,714,807 |
| TPEG (set aside)* | | 299,930 | 299,930 | | 299,930 | 285,165 |
| Non-resident tuition | 127,998 | | 127,998 | | 127,998 | 76,139 |
| Non-state funded continuing education | <u>2,838,874</u> | | <u>2,838,874</u> | | <u>2,838,874</u> | <u>3,474,235</u> |
| Total tuition | <u>8,830,094</u> | <u>299,930</u> | <u>9,130,024</u> | <u>-0-</u> | <u>9,130,024</u> | <u>9,425,646</u> |
| Fees: | | | | | | |
| General fee | 604,567 | | 604,567 | 61,893 | 666,460 | 495,599 |
| Student service fee | | | -0- | 265,864 | 265,864 | 268,232 |
| Out of district | | | -0- | | -0- | -0- |
| Laboratory fee | 481,017 | | 481,017 | | 481,017 | 483,274 |
| Building use fee | <u>1,151,293</u> | | <u>1,151,293</u> | | <u>1,151,293</u> | <u>963,758</u> |
| Total fees | <u>2,236,877</u> | <u>-0-</u> | <u>2,236,877</u> | <u>327,757</u> | <u>2,564,634</u> | <u>2,210,863</u> |
| Scholarship Allowances and Discounts: | | | | | | |
| Scholarship allowances | (514,955) | | (514,955) | | (514,955) | (273,137) |
| Remissions and exemptions | (212,775) | | (212,775) | | (212,775) | (179,627) |
| TPEG allowances | (262,795) | | (262,795) | | (262,795) | (283,236) |
| Federal grants to students | (1,138,404) | | (1,138,404) | | (1,138,404) | (1,219,243) |
| State grants to students | (72,217) | | (72,217) | | (72,217) | (105,162) |
| Other | <u>(3,500)</u> | | <u>(3,500)</u> | | <u>(3,500)</u> | <u>-0-</u> |
| Total scholarship allowances and discounts | <u>(2,204,646)</u> | <u>-0-</u> | <u>(2,204,646)</u> | <u>-0-</u> | <u>(2,204,646)</u> | <u>(2,060,405)</u> |
| Net tuition and fees | <u>8,862,325</u> | <u>299,930</u> | <u>9,162,255</u> | <u>327,757</u> | <u>9,490,012</u> | <u>9,576,104</u> |

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2016
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)

| | Unrestricted | Restricted | Total Educational Activities | Auxiliary Enterprises | Total Year Ended August 31, 2016 | Total Year Ended August 31, 2015 |
|--|----------------------|---------------------|------------------------------------|--------------------------|---|---|
| ADDITIONAL OPERATING REVENUES: | | | | | | |
| Federal grants and contracts | \$ | \$ 1,089,206 | \$ 1,089,206 | \$ | \$ 1,089,206 | \$ 1,215,710 |
| State grants and contracts | | 1,719,392 | 1,719,392 | | 1,719,392 | 1,154,194 |
| Local grants and contracts | 452,721 | 431,905 | 884,626 | | 884,626 | 2,075,919 |
| Nongovernmental grants and contracts | 124,461 | 10,151 | 134,612 | | 134,612 | 82,746 |
| Sales and services of educational activities | 156,473 | 5,025 | 161,498 | 56,442 | 217,940 | 335,837 |
| Other operating revenues | <u>779,687</u> | | <u>779,687</u> | | <u>779,687</u> | <u>727,532</u> |
| Total other operating revenues | <u>1,513,342</u> | <u>3,255,679</u> | <u>4,769,021</u> | <u>56,442</u> | <u>4,825,463</u> | <u>5,591,938</u> |
| AUXILIARY ENTERPRISES: | | | | | | |
| Bookstore | | | -0- | 142,153 | 142,153 | 108,799 |
| Total auxiliary enterprises | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>142,153</u> | <u>142,153</u> | <u>108,799</u> |
| Total operating revenues | <u>\$ 10,375,667</u> | <u>\$ 3,555,609</u> | <u>\$ 13,931,276</u> | <u>\$ 526,352</u> | <u>\$ 14,457,628</u> (Exhibit 2) | <u>\$ 15,276,841</u> (Exhibit 2) |

* In accordance with Education Code 56.033, \$ 262,795 and \$ 283,236 for years ended August 31, 2016 and 2015, 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 YEAR ENDED AUGUST 31, 2016
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)**

**SCHEDULE B
Page 1 of 1**

| | Operating Expenses | | | | | |
|--|-----------------------|---------------------|---------------------|----------------------|-------------------------------------|-------------------------------------|
| | Salaries and Wages | Benefits | | Other Expenses | August 31, 2016 | August 31, 2015 |
| | | State | Local | | | |
| Unrestricted Educational Activities: | | | | | | |
| Instruction | \$ 10,947,333 | \$ | \$ 1,422,937 | \$ 3,348,023 | \$ 15,718,293 | \$ 14,825,997 |
| Public services | 74,566 | | 14,274 | 1,375 | 90,215 | 85,386 |
| Academic support | 1,068,093 | | 144,002 | 823,759 | 2,035,854 | 1,884,233 |
| Student services | 1,976,466 | | 282,443 | 978,123 | 3,237,032 | 2,592,625 |
| Institutional support | 4,087,451 | | 586,225 | 1,051,098 | 5,724,774 | 5,526,531 |
| Operation and maintenance of plant | 482,271 | | 506,039 | 3,229,168 | 4,217,478 | 3,765,688 |
| Scholarship and fellowships | | | | (98,218) | (98,218) | 209,936 |
| Total unrestricted educational activities | 18,636,180 | -0- | 2,955,920 | 9,333,328 | 30,925,428 | 28,890,396 |
| Restricted Educational Activities: | | | | | | |
| Instruction | 623,675 | 903,965 | 77,744 | 1,626,301 | 3,231,685 | 2,485,720 |
| Public services | 87,584 | | 12,577 | 36,804 | 136,965 | 133,836 |
| Academic support | | 84,023 | | 14,092 | 98,115 | 105,032 |
| Student services | 144,947 | 180,560 | 583 | 15,786 | 341,876 | 329,148 |
| Institutional support | | 653,768 | | | 653,768 | 598,570 |
| Scholarship and fellowships | | | 393 | 2,489,072 | 2,489,465 | 2,720,777 |
| Total restricted educational activities | 856,206 | 1,822,316 | 91,297 | 4,182,055 | 6,951,874 | 6,373,083 |
| Total educational activities | 19,492,386 | 1,822,316 | 3,047,217 | 13,515,383 | 37,877,302 | 35,263,479 |
| Auxiliary enterprises | 139,622 | | 28,700 | 453,647 | 621,969 | 592,425 |
| Depreciation Expense: | | | | | | |
| Buildings and other real estate | | | | 3,224,616 | 3,224,616 | 2,926,267 |
| Equipment and furniture | | | | 605,647 | 605,647 | 705,299 |
| Library books | | | | 157,469 | 157,469 | 163,509 |
| Total operating expenses | \$ 19,632,008 | \$ 1,822,316 | \$ 3,075,917 | \$ 17,956,762 | \$ 42,487,003 (Exhibit 2) | \$ 39,650,979 (Exhibit 2) |

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

FOR THE YEAR ENDED AUGUST 31, 2016

(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)

SCHEDULE C

Page 1 of 1

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Auxiliary Enterprises</u> | <u>August 31, 2016</u> | <u>Restated August 31, 2015</u> |
|---|----------------------|---------------------|----------------------------------|-------------------------------------|---|
| NON-OPERATING REVENUES: | | | | | |
| State appropriations: | | | | | |
| Education and general state support | \$ 5,715,322 | \$ | \$ | \$ 5,715,322 | \$ 5,777,901 |
| State group insurance | | 1,298,105 | | 1,298,105 | 1,219,434 |
| State retirement matching | | 524,211 | | 524,211 | 502,606 |
| | <u>5,715,322</u> | <u>1,822,316</u> | <u>-0-</u> | <u>7,537,638</u> | <u>7,499,941</u> |
| Total state appropriations | | | | | |
| Title IV federal programs | 3,059,281 | | | 3,059,281 | 3,502,363 |
| Maintenance ad valorem taxes | 15,796,243 | | | 15,796,243 | 14,232,581 |
| Debt service ad valorem taxes | | 4,768,689 | | 4,768,689 | 4,744,631 |
| Investment income (net of fees) | 49,600 | 164,969 | 15 | 214,584 | 250,673 |
| Increase (decrease) in value of investments | 9,845 | 124,174 | | 134,019 | (238,585) |
| Gain (loss) on sale of investments | | 52,963 | | 52,963 | 71,457 |
| | <u>24,630,291</u> | <u>6,933,111</u> | <u>15</u> | <u>31,563,417</u> | <u>30,063,061</u> |
| Total non-operating revenue | | | | | |
| NON-OPERATING EXPENSES: | | | | | |
| Interest on capital related debt | <u>231,573</u> | <u>3,370,233</u> | | <u>3,601,806</u> | <u>2,920,184</u> |
| Total non-operating expenses | <u>231,573</u> | <u>3,370,233</u> | <u>-0-</u> | <u>3,601,806</u> | <u>2,920,184</u> |
| Net non-operating revenues | <u>\$ 24,398,718</u> | <u>\$ 3,562,878</u> | <u>\$ 15</u> | <u>\$ 27,961,611</u> (Exhibit 2) | <u>\$ 27,142,877</u> (Exhibit 2) |

BRAZOSPORT COLLEGE DISTRICT

SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY

FOR THE YEAR ENDED AUGUST 31, 2016

(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)

SCHEDULE D

Page 1 of 1

| | Detail by Source | | | | Total |
|---|-------------------------|-----------------------|------------------|----------------------------------|-------------------------------------|
| | Unrestricted | Restricted | | Net Investment in Capital Assets | |
| | | Expendable | Non-Expendable | | |
| Current: | | | | | |
| Unrestricted | \$ 233,615 | \$ | \$ | \$ | \$ 233,615 |
| Board designated | 40,001 | | | | 40,001 |
| Restricted | | 198,947 | | | 198,947 |
| Auxiliary enterprises | 979,414 | | | | 979,414 |
| Loan | 44,190 | | | | 44,190 |
| Endowment: | | | | | |
| Endowment: | | | | | |
| True | | 673,074 | 5,051,205 | | 5,724,279 |
| Plant: | | | | | |
| Debt service | | 621,275 | | | 621,275 |
| Investment in plant | | | | 32,521,741 | 32,521,741 |
| Total net position, August 31, 2016 | 1,297,220 | 1,493,296 | 5,051,205 | 32,521,741 | 40,363,462 (Exhibit 1) |
| Total net position, August 31, 2015 | <u>3,056,786</u> | <u>2,452,514</u> | <u>4,982,537</u> | <u>29,928,378</u> | <u>40,420,215</u> (Exhibit 1) |
| Net increase (decrease) in net position | <u>\$ (1,759,566)</u> | <u>\$ (959,218)</u> | <u>\$ 68,668</u> | <u>\$ 2,593,363</u> | <u>\$ (56,753)</u> (Exhibit 2) |

Available for
Current Operations

| | <u>Yes</u> | | <u>No</u> | |
|----|----------------------|----|-------------------|--|
| \$ | 233,615 | \$ | | |
| | 40,001 | | | |
| | 198,947 | | | |
| | 979,414 | | | |
| | | | 44,190 | |
| | 673,074 | | 5,051,205 | |
| | | | 621,275 | |
| | | | <u>32,521,741</u> | |
| | 2,125,051 | | 38,238,411 | |
| | <u>3,780,434</u> | | <u>36,639,781</u> | |
| \$ | <u>(1,655,383)</u> | \$ | <u>1,598,630</u> | |

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FEDERAL AND STATE AWARD SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

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Lake Jackson, Texas 77566
979-297-4075

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

Houston Office:
10850 Richmond Ave., Ste 135
Houston, Texas 77042
281-974-3416

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, each major fund, and the discretely presented component unit of Brazosport College District (the "District"), as of and for the years ended August 31, 2016 and 2015, 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 21, 2016.

Internal Control over Financial Reporting

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

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

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

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*.

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 & Hunzford, LLC

Lake Jackson, Texas
November 21, 2016

Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

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281-974-3416

Independent Auditor's Report

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

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

Report on Compliance for Each Major Federal Program

We have audited the Brazosport College District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal and state programs for the year ended August 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the District's compliance.

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Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,
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Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2016.

Report on Internal Control over Compliance

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

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

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

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

Kerremers, Masters & Hunzford, LLC

Certified Public Accountants
Lake Jackson, Texas 77566
November 21, 2016

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 #84.268 Federal Family Education Loan Program (FFELP)
 - CFDA #84.033 Federal Work Study Program (FWS)
 - CFDA #84.063 Pell Grant Program
 - State:
 - Texas Workforce Commission – Skills Assessment Programs
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000.
9. Low Risk Auditee: Yes.

II. Findings related to the financial statements.

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, 2016

None.

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016

None.

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

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 | P007A158372 | \$ 116,051 |
| Student Loan Program – FFELP | 84.268 | P268K162911 | 399,893 |
| Federal Work Study Program (FWS) | 84.033 | P033A158372 | 128,249 |
| Pell Grant Program | 84.063 | P063P152911 | <u>2,415,088</u> |
| Subtotal Title IV Cluster Programs | | | <u>3,059,281</u> |
| Passed Through From: | | | |
| Texas Workforce Commission via Houston Galveston Area Council: | | | |
| Adult Basic Education Programs: | | | |
| Temporary Assistance for Needy Families (TANF) | | 210-16 | 38,856 |
| ABE-COOP ESL | 84.002 | 210-14 | 38,776 |
| ABE-COOP ESL | 84.002 | 210-16 | 279,215 |
| ABE-DISTANCE LEARNING | 84.002 | 210-16 | 14,865 |
| ABE-CAREER PATHWAYS | 84.002 | 210-16 | 14,051 |
| English Literacy & Civics Awareness (EI Civics) | 84.002 | 210-14 | 17,046 |
| English Literacy & Civics Awareness (EI Civics) | 84.002 | 210-16 | <u>73,781</u> |
| Subtotal Adult Basic Education | | | <u>476,590</u> |
| Texas Higher Education Coordinating Board: | | | |
| Vocational Education - Basic Grants | 84.048 | 164219 | 47,796 |
| Vocational Education - Professional Development Grants | 84.048 | 164219 | 3,900 |
| Vocational Education - Special Populations Grants | 84.048 | 164219 | <u>36,050</u> |
| Subtotal Vocational Education | | | <u>87,746</u> |
| Wharton County Junior College: | | | |
| Title V Cooperative Grant – Developing a Virtual Campus Through Technology-Assisted Distance Education Programs and Services | 84.031 | P031S100074-15 | <u>29,421</u> |
| Total U.S. Department of Education | | | <u>\$ 3,653,038</u> |

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

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 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> |
| <u>U.S. Department of Labor:</u> | | | |
| Passed Through From San Jacinto College: | | | |
| Job Training – Healthcare | 17.275 | DOL531713001 | \$ <u>213,895</u> |
| Total U.S. Department of Labor | | | \$ <u>213,895</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 | SBAHQ-15-B-0020/4- 603001-EZ-0045 | \$ 19,977 |
| Brazos SBDC Programs (Note 3) | 59.037 | SBAHQ-16-B-005/6- 603001-EZ-0015 | <u>117,018</u> |
| Total U.S. Small Business Administration | | | \$ <u>136,995</u> |
| <u>U.S. Department of Health and Human Services:</u> | | | |
| Passed Through From Texas Workforce Commission: | | | |
| Temporary Assistance for Needy Families (TANF) – Sufficiency | 93.558 | 2814SDF002 | \$ 17,989 |
| Temporary Assistance for Needy Families (TANF) – Self Sufficiency | 93.558 | 2816SMP002 | <u>95,727</u> |
| Total U.S. Department of Health and Human Services | | | \$ <u>113,716</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | \$ <u>4,147,644</u> |

NOTE 1 - FEDERAL ASSISTANCE RECONCILIATION

| | |
|---|---------------------|
| Federal Revenues – per Exhibit 2: | |
| Federal grants and contracts (operating revenues) | \$ 1,089,206 |
| Title IV federal grants (non-operating revenues) | 3,059,281 |
| Less Reconciling Items: | |
| Refuge Revenue Sharing Act of 1978 (Non-Single Audit Federal Revenue) | <u>843</u> |
| Total pass-through and expenditures per federal schedule | <u>\$ 4,147,644</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, 2016 and 2015. 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, 2016 and 2015 were as follows:

| | Federal CFDA Number | Pass -Through Grantor's Number | Program Matching Required | Direct Matching Expenditures | | |
|----------------------------------|---------------------------|--------------------------------------|---------------------------------|------------------------------|------------------|-------------------|
| | | | | Years Ended August 31, | | |
| | | | | 2016 | 2015 | Total |
| SBDC Program (10-01-14/09-30-15) | 59.037 | SBAHQ-15-B0020/4- 603001-EZ-0045 | \$ 86,123 | \$ 7,459 | \$ 78,664 | \$ 86,123 |
| SBDC Program (10-01-15/09-30-16) | 59.037 | SBAHQ-16-B-005/6- 603001-EZ-0015 | 89,591 | <u>82,746</u> | | <u>82,746</u> |
| | | | | <u>\$ 90,205</u> | <u>\$ 78,664</u> | <u>\$ 168,869</u> |

NOTE 4 - INDIRECT COST

The District did not receive reimbursement for indirect costs during the year ended August 31, 2016. Indirect costs are allowed as part of the Small Business Development program matching expenditures, however, none are reimbursed.

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BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT F
Page 1 of 2

| <u>Grantor Agency/Program Title</u> | <u>Grant Contract Number</u> | <u>Expenditures</u> |
|---|----------------------------------|----------------------------|
| Texas Higher Education Coordination Board: | | |
| Direct: | | |
| Nursing Shortage Program | 007287 | \$ 4,000 |
| State WS Mentorship Program | 007287 | 10,002 |
| Work Study Program | 007287 | 12,914 |
| Texas Education Opportunity Grant Program | 007287 | 238,973 |
| Texas Grant Program | 007287 | <u>6,075</u> |
| Total Texas Higher Education Coordinating Board | | 271,964 |
| Passed Through College of the Mainland: | | |
| Accelerate Texas Grant | 718-1513413 | <u>49,333</u> |
| Total Texas Higher Education Coordinating Board | | <u>\$ 321,297</u> |
| Texas Workforce Commission: | | |
| Direct: | | |
| Skills Development Fund Programs-Dow | 2815SDF006 | \$ 885,990 |
| Skills Development Fund Programs-SI/Dow | 2815SDF002 | 156,371 |
| Skills Development Fund Programs-BASF | 2815SDF006 | <u>125,558</u> |
| | | 1,167,919 |
| Passed Through Houston Galveston Area Council: | | |
| Adult Basic Education | 210-16 | <u>86,000</u> |
| Total Texas Workforce Commission | | <u>\$ 1,253,919</u> |
| Texas Commission on the Arts: | | |
| Direct: | | |
| Texas State of the Arts Grant | 16-38046 | <u>\$ 4,500</u> |
| Total Texas Commission on the Arts | | <u>\$ 4,500</u> |
| Texas Comptroller's Office: | | |
| Direct: | | |
| Texas Jet Grant – Millwright Equipment | 5535-17 | \$ 99,044 |
| Passed Through Texas A & M University: | | |
| Nuclear Institute Equipment Trainer | N/A | <u>40,632</u> |
| Total Texas Comptroller's Office | | <u>\$ 139,676</u> |
| TOTAL STATE FINANCIAL ASSISTANCE | | <u>\$ 1,719,392</u> |

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

NOTE 1 - STATE ASSISTANCE RECONCILIATION

| | |
|---------------------------------|---------------------|
| State Revenues - per Exhibit 2: | |
| State grants and contracts | \$ 1,719,392 |
| Reconciling Items: | |
| None | <u>-0-</u> |
| Expenditures per state schedule | <u>\$ 1,719,392</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.

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