

**BRAZOSPORT
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2013**

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

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

Annual Financial Report For the Year Ended August 31, 2013

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

*Annual Financial Report
For the Year Ended August 31, 2013*

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Brazosport Independent School District

Name of School District

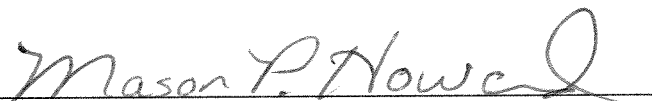
Brazoria

County

020-905

Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved _____ disapproved for the year ended August 31, 2013, at a meeting of the board of trustees of such school district on the 14th day of January, 2014.



Mason Howard

Signature of Board Secretary



Jim Koch

Signature of Board President

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

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FINANCIAL SECTION

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KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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

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

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brazosport Independent School District (the "District") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,
Partnering for CPA Practice Success

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 Independent School District, as of August 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Emphasis of Matter

As described in Note 2 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and recorded a prior period adjustment. Our opinion was not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 15-27 and 82 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required Texas Education Agency schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013, 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.

Kennemer, Masters & Hungford, LLC

Lake Jackson, Texas
December 18, 2013

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013

As management of the Brazosport Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent period by \$ 55,363,293 (*net position*). Of this amount, \$ 18,359,389 (*unrestricted net position*) may be used to meet the District's ongoing obligations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 60,335,170. Approximately 35 percent of this total amount, \$ 21,283,512, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 21,494,106, or 26 percent of the total general fund expenditures.

Overview of the Financial Statements

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 28 through 30 of this report.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole.

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

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District maintains thirty-one (31) governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other twenty-eight (28) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, food service special revenue fund, and debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 32 through 36 of this report.
- **Proprietary funds.** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded dental and workers' compensation insurance programs. The basic proprietary fund financial statements can be found on pages 37 through 39 of this report.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013

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

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43 through 79 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on page 82 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 84 through 88 and 90 through 94 of this report.

Government-wide Financial Analysis

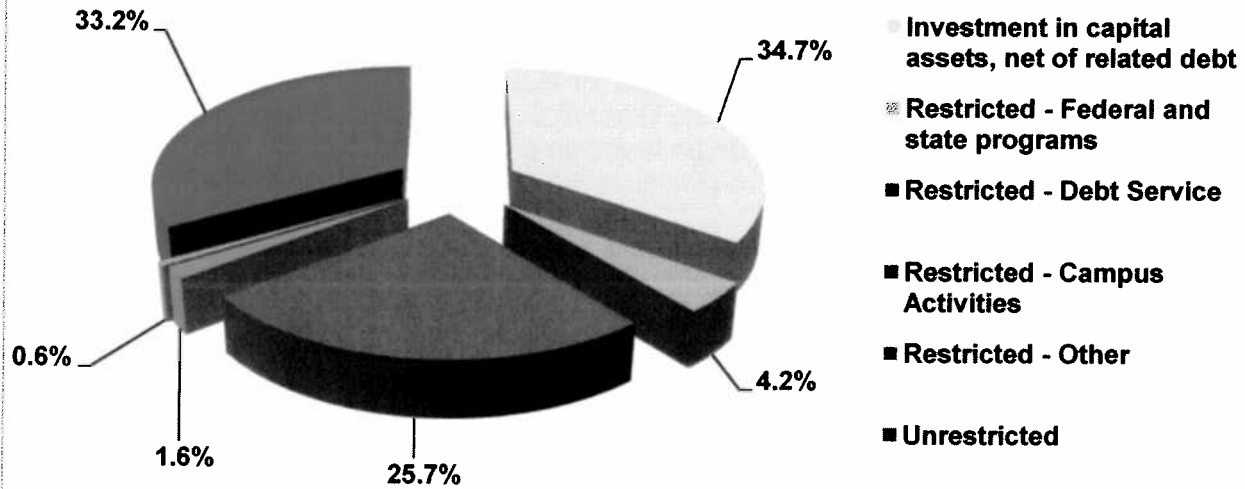
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 55,363,293 as of August 31, 2013. Net position of the District's governmental activities increased by \$ 3,913,080, from \$ 51,450,213 to \$ 55,363,293.

The District's Net Position

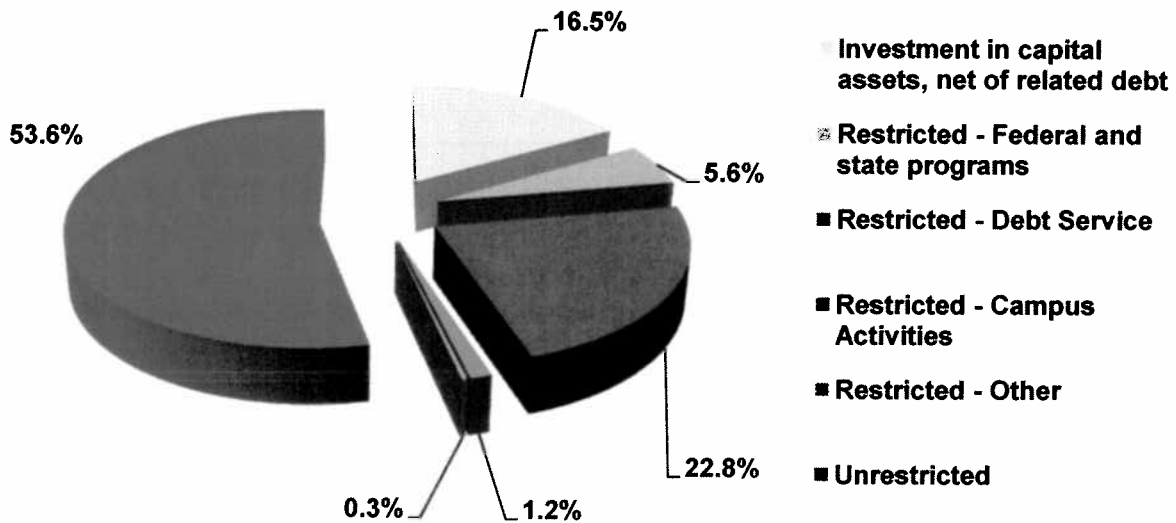
	2013	(Restated) 2012
Current and other assets	\$ 69,980,223	\$ 75,249,510
Capital assets	<u>148,948,072</u>	<u>147,315,292</u>
Total assets	<u>218,928,295</u>	<u>222,564,802</u>
Deferred outflows of resources:		
Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>
Long-term liabilities outstanding	156,329,905	165,919,169
Other liabilities	<u>7,235,097</u>	<u>5,195,420</u>
Total liabilities	<u>163,565,002</u>	<u>171,114,589</u>
Deferred inflows of resources:		
Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>
Net assets:		
Invested in capital assets, net of related debt	19,251,460	8,482,540
Restricted	17,752,444	15,392,936
Unrestricted	<u>18,359,389</u>	<u>27,574,737</u>
Total net position	<u>\$ 55,363,293</u>	<u>\$ 51,450,213</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013

2013 Net Position Percentages



2012 Net Position Percentages



Investment in capital assets (e.g., land and land improvements, buildings and improvements, furniture, equipment and vehicles, and construction in progress) less any related debt used to acquire those assets that is still outstanding is \$ 19,251,460. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position, \$ 17,752,444 approximately 32 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$ 18,359,389 may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term* commitments that are less than currently available resources.

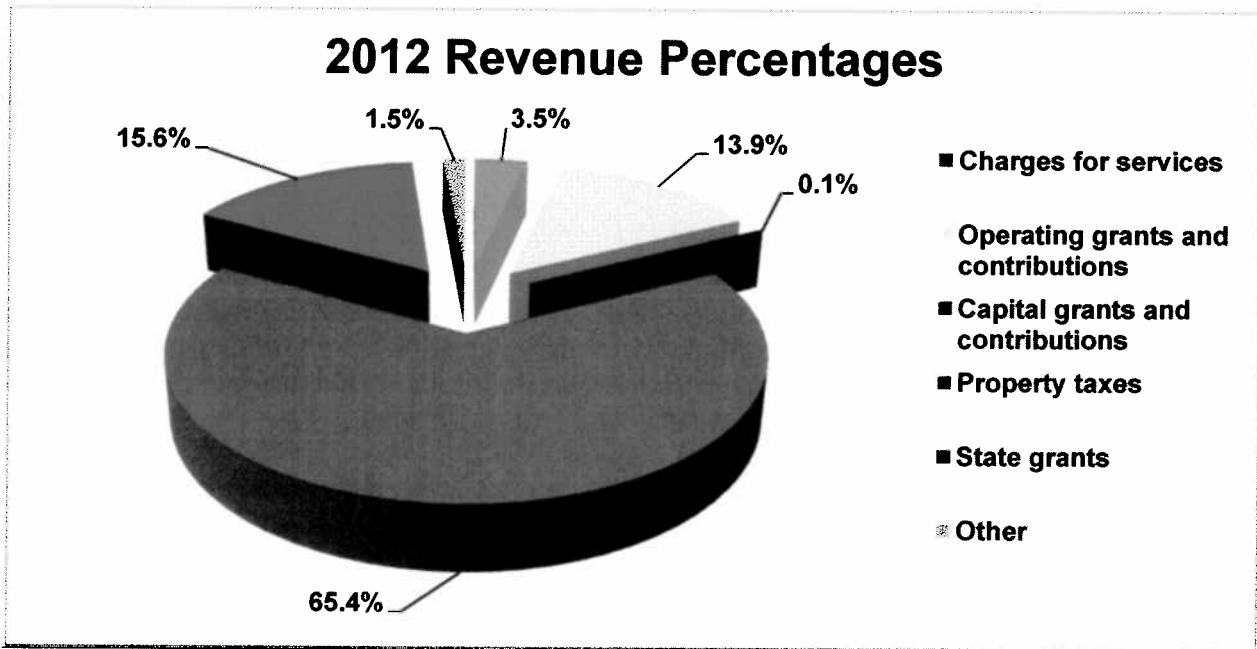
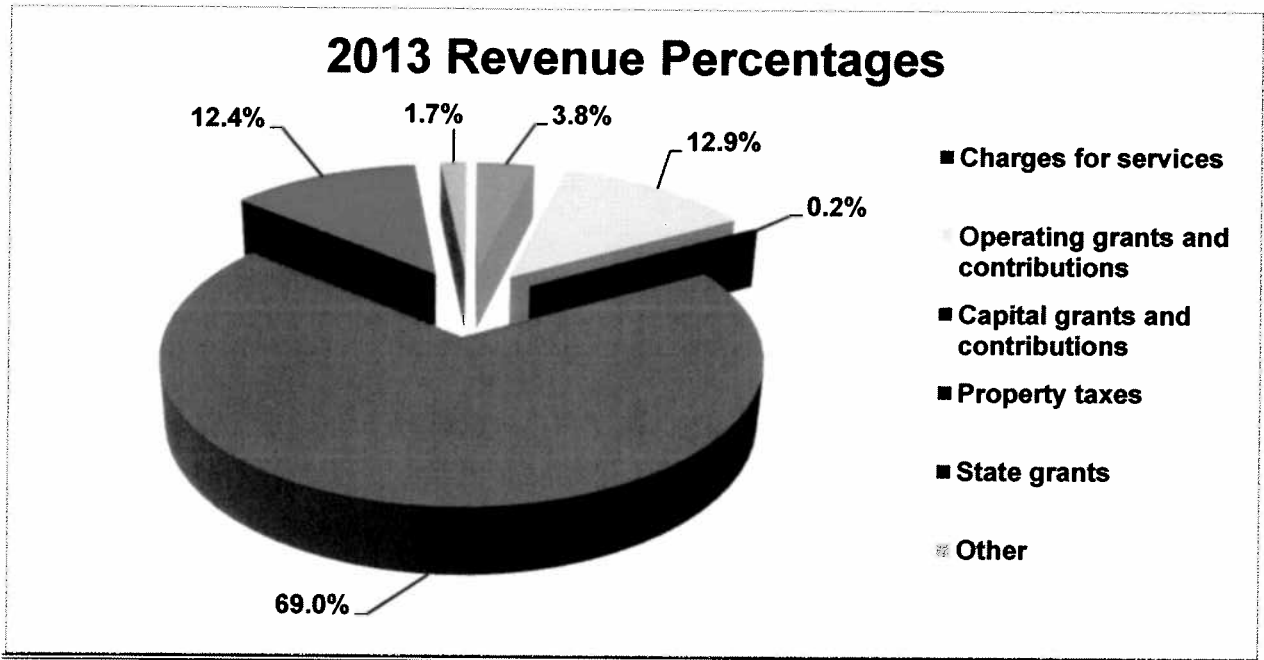
BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013

Governmental activities. The District's total net position increased \$ 3,913,080. The total cost of all *governmental activities* this year was \$ 112,715,529. The amount that our taxpayers paid for these activities through property taxes was \$ 80,533,859 or 71 percent.

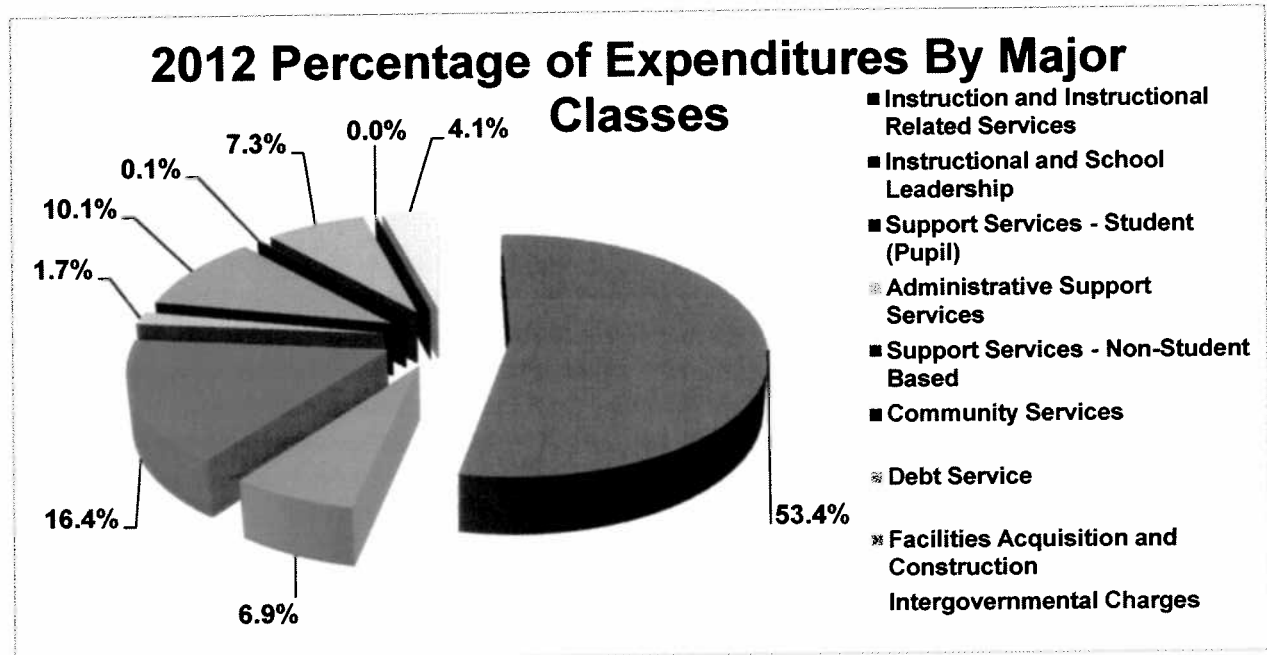
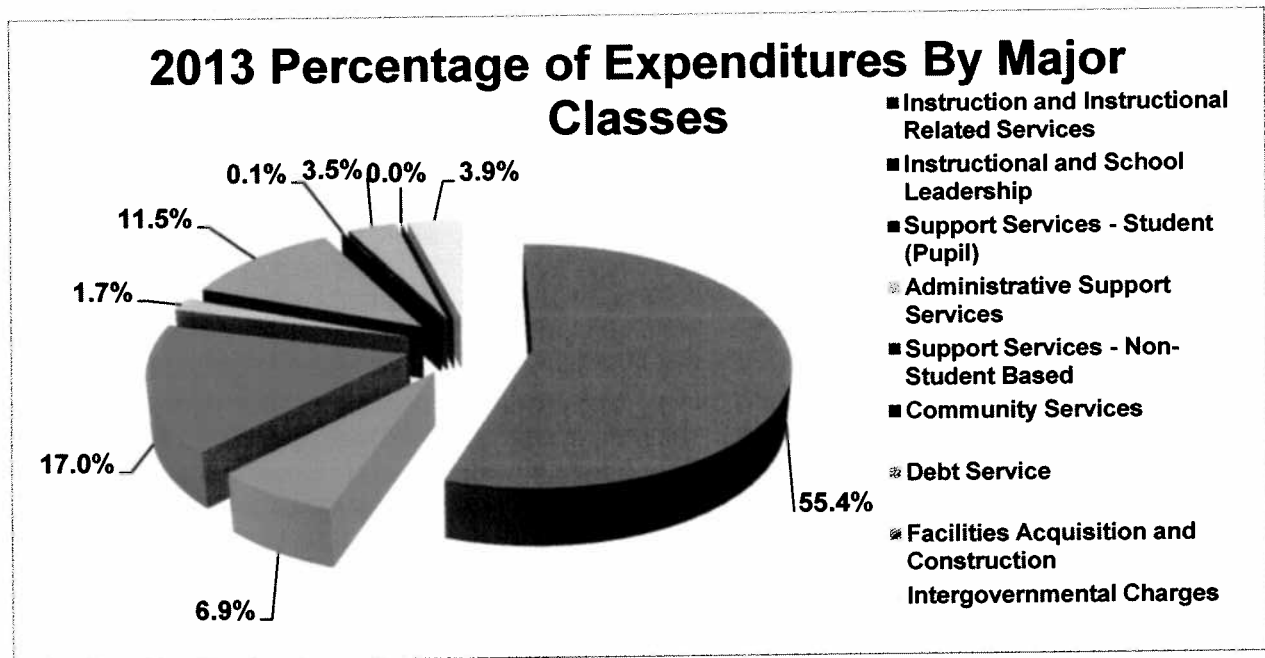
Changes in the District's Net Position

	<u>2013</u>	<u>Restated 2012</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 4,481,541	\$ 4,137,956
Operating grants & contributions	14,988,142	16,451,461
Capital grants & contributions	216,093	5,275
General Revenues:		
Property taxes	80,533,859	77,546,638
State grants	14,454,567	18,536,358
Other	<u>1,954,407</u>	<u>1,815,379</u>
Total revenues	<u>116,628,609</u>	<u>118,493,067</u>
Expenses:		
Instruction	58,978,377	53,829,523
Instructional resources & media services	1,615,737	1,789,301
Curriculum & staff development	1,874,299	1,589,709
Instructional leadership	1,724,997	1,610,030
School leadership	6,100,162	5,741,321
Guidance, counseling & evaluation services	3,390,074	3,208,336
Social work services	130,085	172,067
Health services	1,025,245	965,179
Student transportation	2,576,671	2,455,332
Food service	7,249,904	6,435,776
Extracurricular activities	4,751,047	4,317,136
General administration	1,919,049	1,835,312
Plant maintenance and operations	9,824,069	9,283,900
Security and monitoring services	448,804	435,950
Data processing services	2,781,728	1,116,998
Community services	60,610	53,944
Debt service-interest and fees long-term debt	3,902,364	7,823,554
Contracted instructional services between public schools	1,186,550	1,218,796
Payments related to shared services arrangements	2,596,435	2,627,839
Payments to juvenile justice alternative Education		8,600
Other governmental	<u>579,322</u>	<u>572,752</u>
Total expenses	<u>112,715,529</u>	<u>107,091,355</u>
Increase in net position	3,913,080	11,401,712
Beginning net position (restated)	<u>51,450,213</u>	<u>40,048,501</u>
Ending net position	<u>\$ 55,363,293</u>	<u>\$ 51,450,213</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013



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AUGUST 31, 2013

Financial Analysis of the District's Funds

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

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 60,335,170, a decrease of \$ 7,812,826. Approximately 35 percent of this total amount \$ 21,283,512 constitutes *unassigned fund balance*. The remainder of fund balance is *non-spendable, restricted, committed* or *assigned* to indicate that it is not available for new spending because it has already been classified 1) for inventory \$ 352,512, 2) for prepaid items \$ 1,174,955, 3) for federal and state grant restrictions \$ 2,197,417, 4) for capital acquisitions and contractual obligations \$ 14,333,069, 5) to pay debt service \$ 14,241,896, 6) other restricted \$ 1,001,809, 7) claims and judgments \$ 250,000, 8) capital expenditures for equipment \$ 500,000, and 9) other assigned \$ 5,000,000.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 21,494,106, while the total fund balance was \$ 29,458,523. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 26 percent of the total general fund expenditures, while total fund balance represents 35 percent of that same amount.

The fund balance of the District's general fund increased \$ 2,236,464 during the current fiscal year. Key factors related to this change are as follows:

- Numerous functional expenditures were less than amounts originally budgeted, primarily due to
 - Reduced payroll costs due to budgeting at midpoint and unfilled vacancies, along with turnover of employees resulting in a lower experienced workforce occurring throughout the year.
 - Debt service reserve that was budgeted as an expenditure.
 - Increased staff attendance, which lead to lower than budgeted substitute costs.
 - Greater than anticipated energy savings as a result of the District Energy Savings Project.
 - Lower property insurance costs.
 - Lower fuel and repair costs for transportation.

The debt service fund has a total restriction for debt service (fund balance) of \$ 13,211,896. The net increase in the restriction for debt service during the current year in the debt service fund was \$ 1,922,665. Following are factors contributing to this change:

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013

- Stronger than budgeted tax collections.
- The District currently has two QZAB bonds outstanding, which require annual payments totaling \$ 779,580 to be made into a sinking fund. Funding necessary to make the payments is received from property tax collections. Tax collections are recorded as revenues, which increase fund balance, however, payments into the sinking fund are not considered expenditures until the bonds mature.

The capital projects fund has a total restriction for capital acquisitions and contractual obligations (fund balance) of \$ 14,333,069. The net decrease in the restriction for capital acquisitions and contractual obligations in the capital projects fund was \$ 11,664,978. Following are factors contributing to this change:

- Planned purchases associated with the 2012 Bond program.

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

Unrestricted net position at August 31, 2013 amounted to \$ 1,765,563. The total increase in net position was \$ 550,324.

General Fund Budgetary Highlights

The District made the following amendments to budgeted revenue.

- \$ 205,000 increase in General Fund revenue to reflect the 2nd half of the Qualified School Construction Note federal reimbursement.

Following is a summary of amendments made to appropriations:

- \$ 1,950,000 increase for a one-time incentive compensation.
- \$ 217,500 increase in General Fund security expenditures to start up the BISD police force.
- \$ 205,000 increase in General Fund expenditures to reflect the 2nd half of the Qualified School Construction Note federal reimbursement.
- \$ 50,361 additional campus allotment innovative initiatives.

This positive variance in expenditures is the result of delays of certain planned expenditures along with lower than expected payroll and related costs and overestimates of TRS On-Behalf Payments.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013

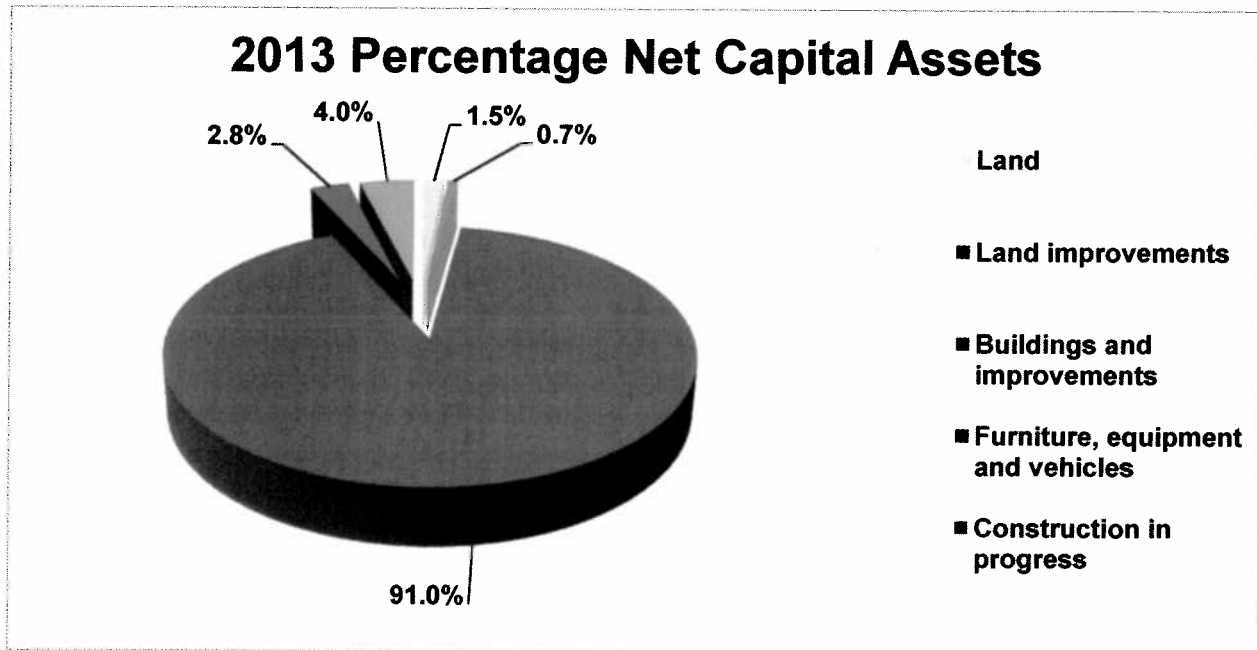
Capital Asset and Debt Administration

Capital assets. The District's investments in capital assets for its governmental activities as of August 31, 2013 amounts to \$ 148,948,072 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and building improvements, furniture, equipment and vehicles, and construction in progress.

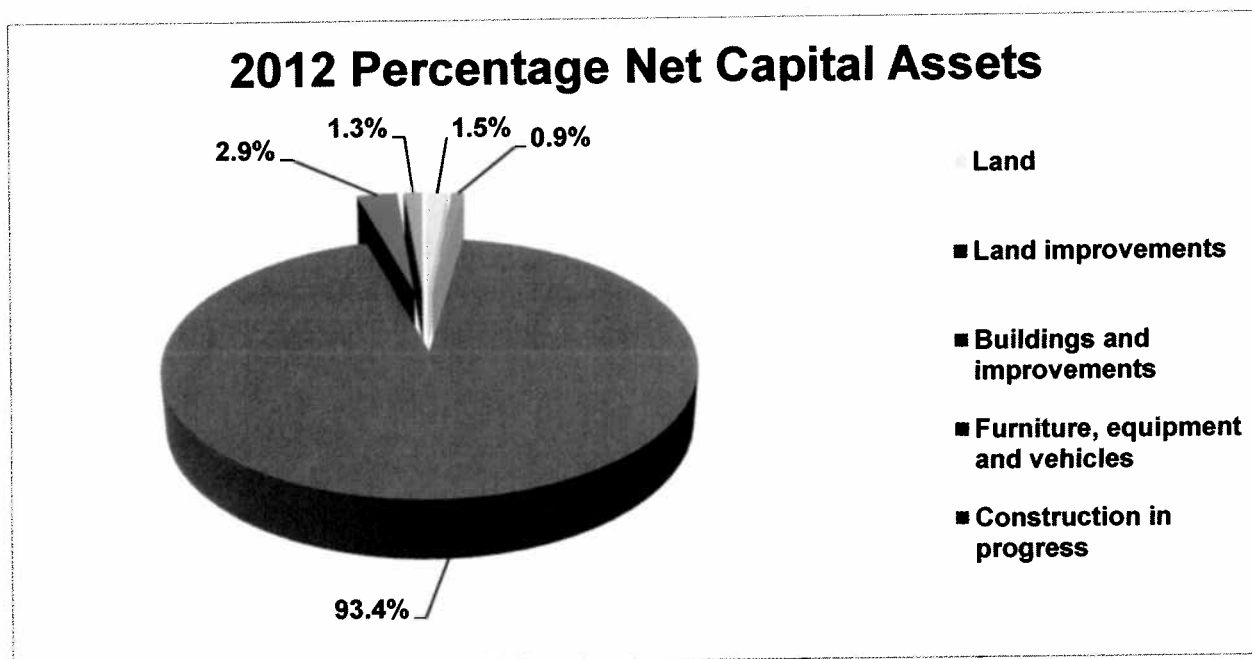
District's Capital Assets
(net of depreciation)

	<u>2013</u>	<u>2012</u>
Land	\$ 2,260,973	\$ 2,260,973
Land improvements	1,098,407	1,329,531
Buildings and improvements	135,519,906	137,485,114
Furniture, equipment and vehicles	4,161,397	4,308,647
Construction in progress	<u>5,907,389</u>	<u>1,931,027</u>
Total at historical cost	<u>\$ 148,948,072</u>	<u>\$ 147,315,292</u>

Additional information on the District's capital assets can be found in Note 6 on pages 65 through 66 of this report.



BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013

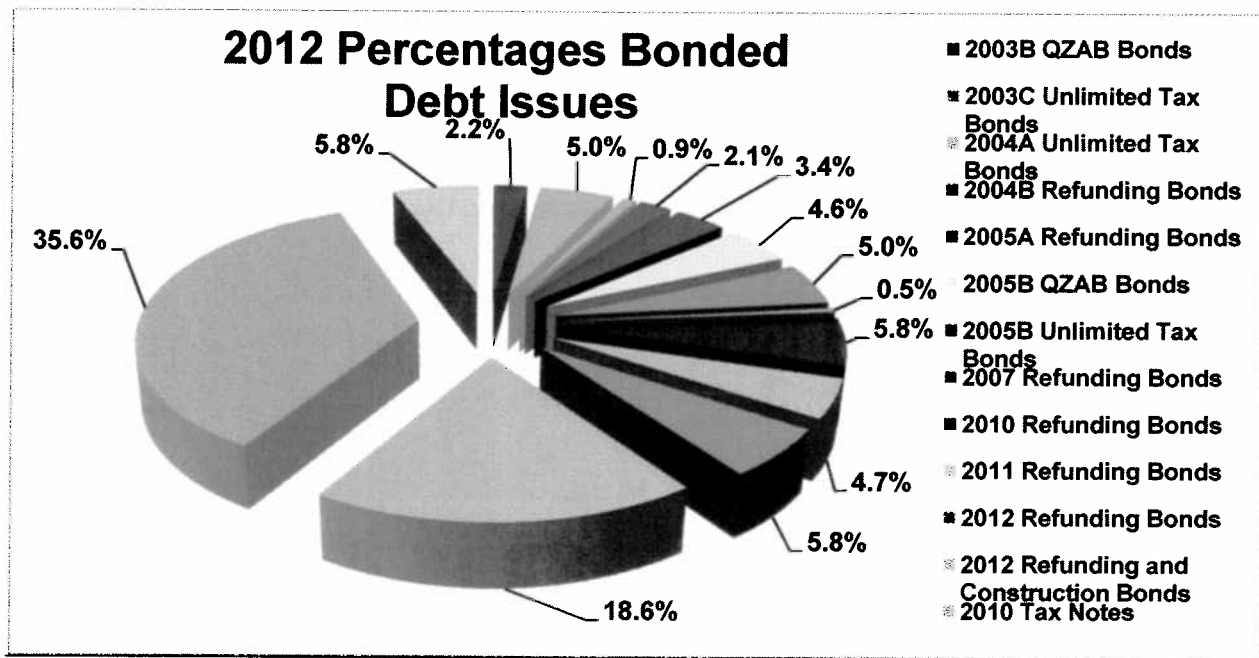
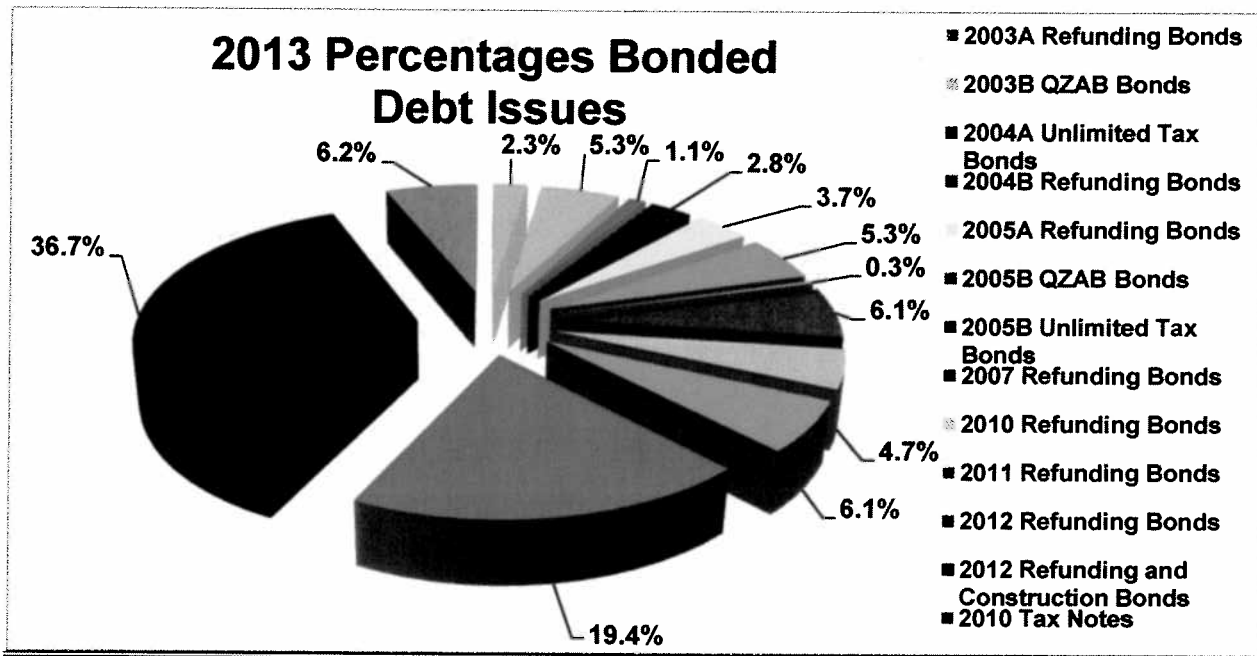


Long-term debt. At August 31, 2013, the District had total long-term debt outstanding of \$ 156,329,905, a decrease of \$ 9,589,264 from the previous year. Long-term debt is made of general obligation bonds of \$ 141,418,238, tax notes of \$ 9,330,000, capital leases of \$ 8,622, premium received on general obligation bonds of \$ 5,430,481, and accrued interest of \$ 142,564.

District's Long-Term Debt:

	<u>2013</u>	<u>2012</u>
General obligations bonds	\$ 141,418,238	\$ 150,246,205
Tax notes	9,330,000	9,330,000
Capital leases	8,622	106,512
Components of Long-Term Debt:		
Premium general obligation bonds	5,430,481	6,079,423
Accrued interest payable	<u>142,564</u>	<u>157,029</u>
Total long-term debt	<u>\$ 156,329,905</u>	<u>\$ 165,919,169</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013



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

Additional information on the District's long-term debt can be found in Notes 7 and 8 on pages 67 through 72 of this report.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013

Economic Factors and Next Year's Budgets and Rates

- Certified tax values for fiscal year 2014 increased by approximately \$ 387,000,000, or 6.14% from fiscal year 2013.
- The District's 2013-2014 refined average daily attendance is expected to remain stable, and from attendance rates are also expected to remain stable at 95%.
- Based on legislative changes (83rd Session), offset partially decreases in enrollment, the District anticipates receiving roughly the same amount of state funding, however, the revised formulas allow the District to retain more tax revenue, which will increase tax revenues approximately \$ 3,400,000. In addition, tax revenues outside state funding formulas will also increase roughly \$ 485,000 offset, partially by additional required equalization payments of over \$ 100,000.
- No change in the maintenance and operations portion of the tax rate of \$ 1.04 per \$ 100 valuation.
- For 2013-2014, the District increased general fund expenditures by roughly \$ 2,900,000 compared to prior year through staffing formula changes, along with compensation increases averaging 4.2%

These indicators were taken into account when adopting the General Fund budget for 2013-2014. The District has appropriated revenues and expenditures in the 2013-2014 budget of \$ 90,834,301 and \$ 92,081,911, respectively. Total budgeted revenues increased 4.85% from the 2012-2013 budget primarily due to changes in state funding formulas and property tax values. Total expenditures increased by 3.3% due to staffing formula changes, compensation increases, adding of a police force, increases department and campus budgets, offset partially by increases in recapture payments.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Business and Governmental Affairs Officer, Brazosport Independent School District, P.O. Drawer Z, Freeport, Texas, 77541.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2013

Exhibit A-1
Page 1 of 2

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	ASSETS:	
1110	Cash and cash equivalents	\$ 54,150,999
1120	Current investments	10,733,571
1220	Property taxes receivables	1,643,099
1230	Allowance for uncollectible taxes	(853,322)
1240	Due from other governments	1,811,305
1260	Internal balances	910,396
1290	Other receivables (net)	56,708
1300	Inventories	352,512
1410	Prepaid items	1,174,955
	Capital Assets:	
1510	Land and improvements (net)	3,359,380
1520	Building and improvements (net)	135,519,906
1530	Furniture, equipment and vehicles (net)	4,161,397
1580	Construction in progress	<u>5,907,389</u>
1000	Total assets	<u>218,928,295</u>
	DEFERRED OUTFLOWS OF RESOURCES	
1700	Deferred outflows of resources	<u></u>
	Total deferred outflows of resources	<u>-0-</u>
	LIABILITIES:	
2110	Accounts payable	2,285,834
2150	Payroll deductions and withholdings	1,386
2160	Accrued wages payable	2,787,324
2165	Accrued liabilities	371,888
2180	Due to other governments	125,739
2300	Unearned revenue	1,662,926
	Noncurrent Liabilities:	
2501	Due within one year	10,339,816
2502	Due in more than one year	<u>145,990,089</u>
2000	Total liabilities	<u>163,565,002</u>
	DEFERRED INFLOWS OF RESOURCES	
2600	Deferred inflows of resources	<u></u>
	Total deferred inflows of resources	<u>-0-</u>

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - Continued
AUGUST 31, 2013

Exhibit A-1
Page 2 of 2

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	NET POSITION:	
3200	Invested in capital assets, net of related debt	\$ 19,251,460
	Restricted For:	
3820	Federal and state programs	2,329,873
3850	Debt service	14,210,168
3870	Campus activities	907,315
3890	Other	305,088
3900	Unrestricted	<u>18,359,389</u>
3000	Total net position	<u>\$ 55,363,293</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2013

Exhibit B-1
Page 1 of 1

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	5 Capital Grants and Contributions	
	GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 58,978,377	\$ 420,931	\$ 7,266,627	\$	\$(51,290,819)
12	Instructional resources and media services	1,615,737	7,381	52,966		(1,555,390)
13	Curriculum and staff development	1,874,299	4,512	1,103,450		(766,337)
21	Instructional leadership	1,724,997	7,046	303,678		(1,414,273)
23	School leadership	6,100,162	39,382	253,857		(5,806,923)
31	Guidance, counseling, and evaluation services	3,390,074	18,223	431,382		(2,940,469)
32	Social work services	130,085	1,003	66,930		(62,152)
33	Health services	1,025,245	7,854	43,364		(974,027)
34	Student transportation	2,576,671	18,633	67,283		(2,490,755)
35	Food service	7,249,904	2,183,871	4,596,508	216,093	(253,432)
36	Extracurricular activities	4,751,047	1,711,237	19,097		(3,020,713)
41	General administration	1,919,049	7,464	63,432		(1,848,153)
51	Plant maintenance and operations	9,824,069	46,540	214,520		(9,563,009)
52	Security and monitoring services	448,804	557	3,807		(444,440)
53	Data processing services	2,781,728	6,907	50,809		(2,724,012)
61	Community services	60,610		58,665		(1,945)
72	Interest on long-term debt	3,889,608		391,767		(3,497,841)
73	Bond issuance costs and fees	12,756				(12,756)
91	Contracted instructional services between public schools	1,186,550				(1,186,550)
93	Payments related to shared services arrangements	2,596,435				(2,596,435)
99	Other intergovernmental	579,322				(579,322)
TG	Total governmental activities	\$ 112,715,529	\$ 4,481,541	\$ 14,988,142	\$ 216,093	\$(93,029,753)
	General Revenues:					
	Taxes:					
MT	Property taxes, levied for general purposes					\$ 65,942,560
DT	Property taxes, levied for debt service					14,591,299
SF	State aid-formula grants					14,454,567
GC	Grants and contributions not restricted to specific programs					1,018,121
IE	Investment earnings					434,372
MI	Miscellaneous					466,129
	Gain on sale of assets					35,785
TG	Total general revenues, special items, and transfers					96,942,833
CN	Change in net position					3,913,080
NB	Net position – beginning (restated)					51,450,213
NE	Net position – ending					\$ 55,363,293

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

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
AUGUST 31, 2013

Exhibit C-1
Page 1 of 2

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	98 Other Governmental Funds	Total Governmental Funds
	ASSETS:					
1110	Cash and cash equivalents	\$ 31,689,340	\$ 13,179,676	\$ 4,951,634	\$ 2,192,944	\$ 52,013,594
1120	Investments			10,733,571		10,733,571
1220	Taxes receivable	1,393,237	249,862			1,643,099
1230	Allowance for uncollectible taxes	(738,328)	(114,994)			(853,322)
1240	Receivables from other governments	536,560			1,274,745	1,811,305
1260	Due from other funds	624,521	8,188		2,998,053	3,630,762
1290	Other receivables	11,523			45,139	56,662
1300	Inventories	220,056			132,456	352,512
1410	Prepaid items	964,361			210,594	1,174,955
1000	Total assets	<u>34,701,270</u>	<u>13,322,732</u>	<u>15,685,205</u>	<u>6,853,931</u>	<u>70,563,138</u>
	DEFERRED OUTFLOWS OF RESOURCES					
1700	Deferred outflows of resources					-0-
	Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
1000A	Total assets and deferred outflows of resources	<u>\$ 34,701,270</u>	<u>\$ 13,322,732</u>	<u>\$ 15,685,205</u>	<u>\$ 6,853,931</u>	<u>\$ 70,563,138</u>
	LIABILITIES AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	\$ 662,968	\$	\$ 1,252,136	\$ 370,730	\$ 2,285,834
2150	Payroll deductions and withholdings	1,386				1,386
2160	Accrued wages payable	2,526,013			261,311	2,787,324
2170	Due to other funds	55,422		100,000	2,564,944	2,720,366
2180	Due to other governments	125,739				125,739
2300	Unearned revenue	1,337,662			325,264	1,662,926
2000	Total liabilities	<u>4,709,190</u>	<u>-0-</u>	<u>1,352,136</u>	<u>3,522,249</u>	<u>9,583,575</u>

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
AUGUST 31, 2013

Exhibit C-1
Page 2 of 2

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	98 Other Governmental Funds	Total Governmental Funds
	DEFERRED INFLOWS OF RESOURCES					
1700	Deferred inflows of resources – property taxes	\$ 533,557	\$ 110,836	\$	\$	\$ 644,393
	Total deferred inflows of resources	533,557	110,836	-0-	-0-	644,393
	Fund Balances:					
	Non-Spendable:					
3410	Inventories	220,056			132,456	352,512
3430	Prepaid items	964,361			210,594	1,174,955
	Restricted:					
3450	Federal/State funded grant restrictions				2,197,417	2,197,417
3470	Capital acquisitions and contractual obligations			14,333,069		14,333,069
3480	Debt service	1,030,000	13,211,896			14,241,896
3490	Other				1,001,809	1,001,809
	Committed:					
3520	Claims and judgments	250,000				250,000
3530	Capital expenditures for equipment	500,000				500,000
	Assigned:					
3590	Other assigned fund balance	5,000,000				5,000,000
	Unassigned:					
3600	Unassigned fund balance	21,494,106			(210,594)	21,283,512
3000	Total fund balances	29,458,523	13,211,896	14,333,069	3,331,682	60,335,170
4000	Total liabilities, deferred inflows of resources and fund balances	\$ 34,701,270	\$ 13,322,732	\$ 15,685,205	\$ 6,853,931	\$ 70,563,138

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
AUGUST 31, 2013

Exhibit C-1R
Page 1 of 1

Total fund balances – governmental funds balance sheet (C-1)	\$ 60,335,170
Amounts reported for <i>governmental activities</i> in the statement of net position (A-1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 220,757,601 in assets less \$ 71,809,529 in accumulated depreciation.	148,948,072
Property taxes receivable unavailable to pay for current period expenditures are unearned in the funds. Unearned property tax revenues for the general fund and the debt service fund amounted to \$ 533,557 and \$ 110,836, respectively.	644,393
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 5,430,481 (premium on sale of bonds of \$ 8,576,931 less amortization of \$ 3,146,450).	(5,430,481)
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	1,765,563
Payables for bond principal are not reported in the funds.	(141,418,238)
Payable for tax note principal are not reported in the funds.	(9,330,000)
Payables for capital lease principal are not reported in the funds.	(8,622)
Payables for bond interest are not reported in the funds	(124,610)
Payable for tax note interest are not reported in the funds.	(17,954)
Net position of governmental activities – statement of net position (A-1)	\$ <u>55,363,293</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2013

Exhibit C-2
Page 1 of 1

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:						
5700	Local and intermediate sources	\$ 66,793,843	\$ 14,899,777	\$ 65,182	\$ 3,782,718	\$ 85,541,520
5800	State program revenues	17,470,666			1,169,460	18,640,126
5900	Federal program revenues	1,969,415			9,903,535	11,872,950
5020	Total revenues	<u>86,233,924</u>	<u>14,899,777</u>	<u>65,182</u>	<u>14,855,713</u>	<u>116,054,596</u>
EXPENDITURES:						
Current:						
0011	Instruction	47,627,862		3,035,087	5,233,474	55,896,423
0012	Instructional resources and media services	1,333,220			4,573	1,337,793
0013	Curriculum and staff development	773,968			1,085,635	1,859,603
0021	Instructional leadership	1,442,334			245,150	1,687,484
0023	School leadership	5,866,125				5,866,125
0031	Guidance, counseling, and evaluation services	3,043,295			301,475	3,344,770
0032	Social work services	65,920			64,104	130,024
0033	Health services	1,001,854				1,001,854
0034	Student transportation	1,926,382				1,926,382
0035	Food Service			119,129	7,029,154	7,148,283
0036	Extracurricular activities	2,521,564		308,247	1,145,235	3,975,046
0041	General administration	1,884,881				1,884,881
0051	Plant maintenance and operations	9,558,499		2,037,920		11,596,419
0052	Security and monitoring services	631,458		389,830		1,021,288
0053	Data processing services	1,392,443		5,754,300		7,146,743
0061	Community services	1,645			58,965	60,610
0071	Principal on long-term debt	97,890	8,985,000			9,082,890
0072	Interest on long-term debt	416,626	3,979,356			4,395,982
0073	Bond issuance costs and fees		12,756			12,756
0081	Capital outlay			165,544		165,544
0091	Contracted instructional services between public schools	1,186,550				1,186,550
0093	Payments related to shared services arrangements	2,596,435				2,596,435
0099	Other intergovernmental	579,322				579,322
6030	Total expenditures	<u>83,948,273</u>	<u>12,977,112</u>	<u>11,810,057</u>	<u>15,167,765</u>	<u>123,903,207</u>
1100	Excess (deficiency) of revenues over expenditures	<u>2,285,651</u>	<u>1,922,665</u>	<u>(11,744,875)</u>	<u>(312,052)</u>	<u>(7,848,611)</u>
OTHER FINANCING SOURCES (USES):						
7912	Sale of real and personal property	30,710			5,075	35,785
7915	Operating transfers in			79,897		79,897
8911	Operating transfers out	(79,897)				(79,897)
	Total other financing sources and (uses)	<u>(49,187)</u>	<u>-0-</u>	<u>79,897</u>	<u>5,075</u>	<u>35,785</u>
1200	Net change in fund balances	2,236,464	1,922,665	(11,664,978)	(306,977)	(7,812,826)
0100	Fund balances – beginning	<u>27,222,059</u>	<u>11,289,231</u>	<u>25,998,047</u>	<u>3,638,659</u>	<u>68,147,996</u>
3000	Fund balances – ending	<u>\$ 29,458,523</u>	<u>\$ 13,211,896</u>	<u>\$ 14,333,069</u>	<u>\$ 3,331,682</u>	<u>\$ 60,335,170</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT,
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2013

Exhibit C-2R
Page 1 of 1

Net change in fund balances – total governmental funds (from C-2)	\$(7,812,826)
Amounts reported for <i>governmental activities</i> in the statement of activities (B-1) are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$ 7,538,801 exceeded depreciation \$ 5,906,021 in the current period.	1,632,780
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Unearned property tax revenues for the general fund decreased by \$ 50,223 and the debt service fund increased by \$ 3,761.	(46,462)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. These amounts were for general obligation bonded debt \$ 8,985,000; and capital lease of \$ 97,890.	9,082,890
Premium on the issuance of bonds provides current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was \$ 648,942. (Premium on bonds issued of \$ -0- less current amortization of \$ 648,942).	648,942
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	14,465
Internal service funds are used by management to charge the costs of dental insurance and worker's compensation to individual funds. The net revenue of the internal service funds is reported in the governmental activities statement of activities (see D-2)	550,324
Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activity but is not reported in governmental funds.	(157,033)
Change in net position of governmental activities (see B-1)	<u>\$ 3,913,080</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2013

Exhibit D-1
Page 1 of 1

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Funds (See H-3)</u>
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	
	Current Assets:	
1110	Cash and cash equivalents	\$ 2,137,405
1290	Other receivables	<u>46</u>
	Total assets	<u>2,137,451</u>
	DEFERRED OUTFLOWS OF RESOURCES:	
1700	Deferred outflows of resources	<u></u>
	Total deferred outflows of resources	<u>-0-</u>
	Total assets and deferred outflows of resources	<u>\$ 2,137,451</u>
	LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION:	
	Liabilities:	
2165	Accrued expenses payable	\$ <u>371,888</u>
	Total liabilities	371,888
	DEFERRED INFLOWS OF RESOURCES:	
2600	Deferred inflows of resources	<u></u>
	Total deferred inflows of resources	<u>-0-</u>
	NET POSITION:	
3900	Unrestricted net position	<u>1,765,563</u>
	Total net position	<u>1,765,563</u>
	Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,137,451</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2013

Exhibit D-2
Page 1 of 1

	Governmental Activities Internal Service Funds (See H-4)
Operating Revenues:	
Charges for services	\$ 1,066,558
Total operating revenues	1,066,558
Operating Expenses:	
Insurance claims and expenses	517,882
Total operating expenses	517,882
Operating income	548,676
Nonoperating Revenues:	
Interest and investment revenue	1,648
Total nonoperating revenues	1,648
Changes in net position	550,324
Net position – beginning	1,215,239
Net position – ending	\$ 1,765,563

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2013

Exhibit D-3
Page 1 of 1

	Governmental Activities Internal Service Funds (See H-5)
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,066,512
Claims paid	(674,195)
Net cash provided by operating activities	<u>392,317</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net cash provided (used) by noncapital financing activities	<u>-0-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net cash provided (used) by capital and related financing activities	<u>-0-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment revenue	<u>1,648</u>
Net cash provided by investing activities	<u>1,648</u>
Net increase in cash and cash equivalents	393,965
Balances – beginning of year	<u>1,743,440</u>
Balances – end of year	<u>\$ 2,137,405</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 548,676
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Other receivables	(46)
Accrued expenses payable	(156,313)
Net cash provided by operating activities	<u>\$ 392,317</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2013

Exhibit E-1
Page 1 of 1

	Private- Purpose Trusts	Agency Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:		
Assets:		
Cash and cash equivalents	\$ 11,058	\$ 1,070,811
Receivables:		
Other receivables		2,450
Due from other funds	24,145	
Prepaid expenditures		1,605
Total receivables	24,145	4,055
Total assets	35,203	\$ 1,074,866
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows		
Total deferred outflows of resources	-0-	
Total assets and deferred outflows of resources	\$ 35,203	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:		
Liabilities:		
Accounts payable	\$	\$ 20,925
Amounts due to student and employee groups		119,400
Due to other funds		934,541
Total liabilities	-0-	\$ 1,074,866
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows		
Total deferred inflows of resources	-0-	
NET POSITION:		
Held in trust for other purposes	35,203	
Total net position	35,203	
Total liabilities, deferred inflows of resources, and net position	\$ 35,203	

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED AUGUST 31, 2013

Exhibit E-2
Page 1 of 1

	Private- Purpose Trusts
	<u> </u>
ADDITIONS:	
Contributions:	
Private donations	\$ <u> </u>
Investment Earning:	
Interest	<u> 12</u>
Total investment earnings	12
Less investment expense	<u> </u>
Net investment earnings	<u> 12</u>
Total additions	<u> 12</u>
DEDUCTIONS:	
Instruction	12,916
Curriculum and staff development	<u> 289</u>
Total deductions	<u> 13,205</u>
Change in net position	(13,193)
NET POSITION	
Net position – beginning of the year	<u> 48,396</u>
Net position – end of the year	<u>\$ 35,203</u>

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

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Board of the District is elected by the public; has the authority to make decisions, appoint administrators and managers; significantly influence operations; and has the primary accountability for fiscal matters. Therefore, the District is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 61, *"The Financial Reporting Entity: Omnibus – and amendment of GASB Statement No. 14 and No. 34"*. There are no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

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

The District reports the following major governmental funds:

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The *debt service* fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the related debt obligations have been met. Major revenue sources include local property taxes, and interest earnings. Expenditures include all costs associated with related debt service.

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

The District reports the following proprietary funds:

The *internal service funds* account for the District's self-funded dental insurance plan provided for the benefit of eligible employees and its self-funded worker's compensation program. The revenues of these funds are received from both the general and special revenue funds, and District employees and the expenses are comprised of claims paid on behalf of the District and its employees. The general fund is contingently liable for liabilities of these funds. Sub-fund accounting is employed to maintain the integrity of the self-insurance activities of the District. See Note 13 for additional discussion of the District's self-funded insurance plans.

The dental insurance plan is intended to be self-supporting and contributions for premiums are increased periodically to cover the cost of claims, insurance premiums and administrative fees. As of August 31, 2013, liabilities totaled \$ 30,945 and net position of the dental insurance plan was \$ 459,290.

The worker's compensation program provides for incurred but not reported costs for worker's compensation claims through the establishment of undiscounted liability accounts and net position. As of August 31, 2013, undiscounted liabilities totaled \$ 340,943 and net position of the worker's compensation program was \$ 1,306,273.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Additionally, the District reports the following fiduciary funds:

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

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

Cash and Investments

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

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

Interfund Receivables, Payables and Transfers

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The District had no advances between funds. See Note 5 for additional discussion of interfund receivables, payables and transfers.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

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

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

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

The assessed value (adjusted) of the property tax roll on January 1, 2012, upon which the levy for the 2012-13 fiscal year was based, was \$ 6,034,844,303. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2013, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 1.0400 and \$ 0.2195 per \$ 100 valuation, respectively, for a total of \$ 1.2595 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2012 were 99.16% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2013, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 654,909 and \$ 134,868 for the general and debt service funds, respectively.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Capital Assets and Depreciation

Capital assets, which include land and land improvements, buildings and improvements, and furniture, equipment and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	40-50
Furniture, equipment and vehicles	5-15

Deferred Outflows and Inflows of Resources

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

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

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are unearned and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures or expenses in the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Budgetary Data

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

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

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

The Official Budget was prepared for adoption for the general fund, food service (special revenue fund) and debt service fund prior to August 31, 2012. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within fund groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board of Trustees at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System. Should any change in the approved budget be required, budget amendment requests are presented to the Board of Trustees for consideration. Amendments are made before the fact and once approved are reflected in the official minutes. During the year the budget was properly amended in accordance with the above procedures. The Board of Trustees approved the final budget amendment on August 27, 2013.

Encumbrance Accounting

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

Outstanding encumbrances at August 31, 2013, which were subsequently provided for in the 2013-14 budgets, totaled \$ 21,066. This is reflected as unassigned fund balance in the general fund.

Fund Equity

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity (Continued)

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

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

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

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

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

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

As of August 31, 2013, non-spendable fund balances include \$ 220,056 for inventories and \$ 964,361 for prepaid items in the General Fund, \$ 132,456 for inventories in the Child Nutrition Program (special revenue fund) and \$ 210,594 for prepaid items in the Instructional Material Allotment Program (special revenue fund). Restricted fund balances include \$ 1,030,000 for debt service in the General Fund, \$ 13,211,896 for the debt service fund, \$ 14,333,069 for the capital projects fund, \$ 2,197,417 for the Child Nutrition Program (special revenue fund), and \$ 1,001,809 for Campus Activity, Lowe's Grant Program, PPCD Program, Dow Education Grant Program, and BISD Education Foundation (special revenue funds). Committed fund balances include \$ 250,000 for claims and judgments and \$ 500,000 for capital expenditures for equipment in General Fund. Assigned fund balances include \$ 5,000,000 for other purposes in the General Fund. Unassigned fund balance includes \$ 21,494,106 in the General Fund and \$(210,594) in the Instructional Material Allotment Program (special revenue fund).

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reporting amounts of assets and deferred outflows of resources, and, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

New Pronouncements

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

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

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

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

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements (Continued)

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

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", was issued March 2012. The statement was implemented and did have an impact on the District's financial statements (See Note 2 Changes in Accounting Principles). This statement is effective for periods beginning after December 15, 2012.

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

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25", was issued June 2012. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2013.

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

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

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", was issued April 2013. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2013.

NOTE 2. CHANGE IN ACCOUNTING PRINCIPLE

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 2. CHANGE IN ACCOUNTING PRINCIPLE (Continued)

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

	<u>2012</u>	<u>2011</u>
<u>Governmental Activities</u>		
Net position, August 31, previously reported	\$ 52,473,502	\$ 41,410,436
Elimination of net bond issuance costs	(1,023,289)	(1,361,935)
Net position, August 31, restated	<u>\$ 51,450,213</u>	<u>40,048,501</u>
Change in net position for the year ended August 31, 2012, previously reported	\$ 11,063,066	
Expenses:		
Debt Service – Interest and Fees on Long-Term Debt:		
Current year bond issuance costs	(362,773)	
Current year amortization of bond issuance costs	<u>701,419</u>	
Change in net position for the year ended August 31, 2012, restated	<u>\$ 11,401,712</u>	<u>11,401,712</u>
Net position, August 31, 2012, restated		<u>\$ 51,450,213</u>

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

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES

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

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2013****NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

	Governmental Funds	Proprietary (Internal Service) Funds	Fiduciary Funds	Total
Cash and Cash Equivalents:				
Cash (petty cash accounts)	\$ 8,761	\$	\$ 900	\$ 9,661
Financial Institution Deposits:				
Demand deposits	4,212,083	2,137,405	1,069,911	7,419,399
Repurchase agreement	8,393,481			8,393,481
Public Funds Investment Pool:				
Lone Star	39,399,269		11,058	39,410,327
	<u>\$52,013,594</u>	<u>\$ 2,137,405</u>	<u>\$ 1,081,869</u>	<u>\$55,232,868</u>

Deposits

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

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

At August 31, 2013, in addition to petty cash of \$ 9,661, the carrying amount of the District's cash, savings, and time deposits was \$ 7,419,399. The financial institutions balances were \$ 8,413,448 at August 31, 2013. Financial institution balances of \$ 250,000 were covered by federal depository insurance, \$ 17,218 was covered by the Securities Investor Protection Corporation Insurance, and \$ 8,146,230 were covered by collateral pledged in the District's name. The collateral was held in safekeeping departments of unrelated financial institutions, which act as the pledging bank's agent.

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

Depository:

- Name of bank: Texas Gulf Bank, Freeport, Texas.
- Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 21,112,718.
- Largest cash, savings and time deposit combined account balance amounted to \$ 17,899,581 and occurred on October 25, 2012.
- Total amount of FDIC coverage at the time of the largest combined balance was \$ 250,000.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments

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

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

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

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

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

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

These agreements are not considered deposits and are not insured by federal deposit insurance or any other insurance. These investments have a custodial risk as uninsured and unregistered, with securities held by the financial institution's trust department or agent in the District's name.

The District entered into these agreements for the purpose of repaying bonds. These agreements shall not be terminable upon demand. The District will participate in these agreements until completion of terms with interest rates guaranteed to provide sufficient funds to repay the 2003 and 2005 QZAB bonds. The District will repay these bonds with these investments.

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

The "AAAm" rating is the highest possible ranking and demonstrates extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. The "AAAF" credit quality rating indicates that the portfolio holdings provide extremely strong protection against losses from credit defaults. Standard and Poor's reviews investments of the Government Overnight Fund, the Corporate Overnight Fund, and the Corporate Overnight Plus Fund, periodically.

At August 31, 2013, the Government Overnight Fund had a weighted average maturity of 57 days, the Corporate Overnight Fund had a weighted average maturity of 50 days, and the Corporate Overnight Plus Fund had a weighted average maturity of 63 days. Although these three funds had weighted average maturities of 57, 50 and 63 days, respectively, the District considers holdings of these funds to have a one day weighted average maturity. This is due to the fact that the share position can normally be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

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

	<u>Cost</u>	<u>Market Value</u>	<u>Weighted Average Maturity (In Days)</u>
Local Government Investment Pool:			
Lone Star Investment Pool:			
Government Overnight Fund	\$ 16,656,755	\$ 16,656,755	57
Corporate Overnight Fund	5,187	5,187	50
Corporate Overnight Plus Fund	<u>22,748,385</u>	<u>22,748,385</u>	63
Total local government investment pool	39,410,327	39,410,327	60
Certificates of deposit	748,942	748,942	55
Commercial paper	<u>9,984,629</u>	<u>9,984,629</u>	164
	50,143,898	50,143,898	81
Repurchase agreement	<u>8,393,481</u>	<u>8,393,481</u>	
Total investments	\$ <u>58,537,379</u>	\$ <u>58,537,379</u>	

Credit Risk – As of August 31, 2013, 79% of the investment portfolio was invested in AAAM or AAAs rated funds in the LGIP (2(a)7 likepools), 1% invested in certificates of deposit, 100% covered by FDIC insurance, and 20% invested in commercial paper with Standard and Poor's rated A-1 or better.. The Repurchase Agreement is invested in direct obligations of the United States of America backed by the full faith and credit of the United States of America.

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

Fair Value Measures

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Fair Value Measures (Continued)

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Commercial paper	\$ <u>9,984,629</u>	\$ _____	\$ _____	\$ <u>9,984,629</u>
Total assets at fair value	\$ <u>9,984,629</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>9,984,629</u>

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The District made no direct investments in derivatives during the year ended August 31, 2013, and holds no direct investments in derivatives at August 31, 2013.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2013

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES, AND UNEARNED REVENUES**Receivables and Allowances**

Receivables as of August 31, 2013, for the government's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Other Funds	Total
Receivables:				
Property taxes	\$ 1,393,237	\$ 249,862	\$	\$ 1,643,099
Receivables from other governments	536,560		1,274,745	1,811,305
Other receivables	<u>11,523</u>		<u>45,139</u>	<u>56,662</u>
Gross receivables	1,941,320	249,862	1,319,884	3,511,066
Less: allowance for uncollectibles	<u>738,328</u>	<u>114,994</u>		<u>853,322</u>
Net receivables	\$ <u>1,202,992</u>	\$ <u>134,868</u>	\$ <u>1,319,884</u>	\$ <u>2,657,744</u>

Receivables/Payables from/to Other Governments

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

Amounts due from federal, state, and local governments as of August 31, 2013 are summarized below.

Fund	State Entitlements	Federal Grants	State Grants and Other	Total
Major Governmental Funds:				
General fund	\$ 504,528	\$	\$ 32,032	\$ 536,560
Other funds		<u>1,274,745</u>		<u>1,274,745</u>
Total	\$ <u>504,528</u>	\$ <u>1,274,745</u>	\$ <u>32,032</u>	\$ <u>1,811,305</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

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

Receivables/Payables from/to Other Governments (Continued)

Amounts due to federal, state, and local governments as of August 31, 2013 are summarized below.

<u>Fund</u>	<u>State Entitlements</u>
Major Governmental Funds:	
General Fund	\$ <u>125,739</u>
Totals	\$ <u>125,739</u>

For the year ended August 31, 2013, the District was determined to be subject to Chapter 10 under the Texas Education Code (TEC). During the year ended August 31, 2013, the District was required to pay \$ 1,079,058 to the state and at August 31, 2013, the District had paid the state \$ 973,254 and had an additional recapture adjustment of \$ 19,935. The under payment in the amount of \$ 125,739 is recorded as a payable to other governments. The amount incurred as Chapter 41 costs of \$ 1,186,550 (after settle-ups) is reported as expenditures under Function 91 - Contracted Instructional Services Between Public Schools. The District will continue to be classified as a Chapter 41 District for the 2013-2014 year.

Deferred Inflows of Resources and Unearned Revenues

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

As of August 31, 2013, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	<u>Deferred Inflows of Resources (Unavailable)</u>	<u>Unearned Revenue</u>
Delinquent property taxes receivable (general fund)	\$ 533,557	\$
Delinquent property taxes receivable (debt service fund)	110,836	
Federal food commodities		120,568
State entitlements		1,307,871
State grants		204,696
Advance Funding:		
Other	<u> </u>	<u>29,791</u>
Totals:	\$ <u>644,393</u>	\$ <u>1,662,926</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2013****NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS****Interfund Receivables and Payables**

Interfund balances at August 31, 2013 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Funds	\$ 521,268	\$ 47,062
Debt Service Fund		8,188
Capital Projects	100,000	
Fiduciary Funds	<u>3,253</u>	<u>172</u>
Total general fund	<u>624,521</u>	<u>55,422</u>
Special Revenue Funds:		
General Fund:		
ESEA, Title I, Part A - Improving Basic Programs	954	340,139
IDEA - Part B, Formula		334,045
IDEA - Part B, Preschool		19,159
Child Nutrition Program	815,909	493,860
Vocational Education Basic Grant		6,083
ESEA, Title II, Part A - Teacher and Principal Training and Recruiting		114,236
Title III, Part A - English Language Acquisition and Language Enhancement		61,811
Smaller Learning Communities	165	
Texas Successful Schools Program	1,000	1,000
Advanced Placement Incentives	495	495
Instruction Material Allotment Program		40,798
Lowe's Grant Program	2,157	
PPCD Program	69,692	
Professional Development Grant Program	14,944	
Brazosport College PASS Grant Program		6,994
Dow Education Grant Program	15,163	18
Houston A+ Challenge Grant Program	1,398	
Houston Saengerbund Grant Program	4,000	
African American Advisory	503	503
BISD Education Foundation	9,123	568
Healthier U.S. Schools Challenge Program	10,000	
Campus Activity Funds	<u>2,052,550</u>	<u>1,145,235</u>
	<u>2,998,053</u>	<u>2,564,944</u>

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

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

Interfund Receivables and Payables (Continued)

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
Special Revenue Funds:		
Debt Service Fund:		
General Fund	\$ 8,188	\$
Capital Projects Fund:		
General Fund		100,000
Fiduciary Funds:		
Trust Fund:		
General Fund	172	
Special Revenue Fund	23,973	
Agency Funds:		
General Fund		3,253
Special Revenue Fund		931,288
	<u>24,145</u>	<u>934,541</u>
Total	\$ <u>3,654,907</u>	\$ <u>3,654,907</u>

Interfund Transfers

Interfund transfers for the year ended August 31, 2013 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Capital Projects funds	\$	\$ 79,897
Capital Projects:		
General Fund:	<u>79,897</u>	
	\$ <u>79,897</u>	\$ <u>79,897</u>

This transfer was made to cover planned expenditures in the capital projects fund.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 6. CAPITAL ASSETS

Changes in Capital Assets and Accumulated Depreciation

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

	<u>September 1, 2012</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>August 31, 2013</u>
Non-Depreciated Capital Assets:				
Land	\$ 2,260,973	\$	\$	\$ 2,260,973
Construction in progress	<u>1,931,027</u>	<u>6,072,933</u>	<u>2,096,571</u>	<u>5,907,389</u>
Total non-depreciated	<u>4,192,000</u>	<u>6,072,933</u>	<u>2,096,571</u>	<u>8,168,362</u>
Depreciated Capital Assets:				
Land improvements	5,932,869	5,900		5,938,769
Buildings and improvements	188,409,846	2,759,668	45,279	191,124,235
Furniture, equipment & vehicles	<u>15,267,187</u>	<u>796,871</u>	<u>537,823</u>	<u>15,526,235</u>
Total depreciated	<u>209,609,902</u>	<u>3,562,439</u>	<u>583,102</u>	<u>212,589,239</u>
Total additions/retirements		<u>\$ 9,635,372</u>	<u>\$ 2,679,673</u>	
	<u>September 1, 2012</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>August 31, 2013</u>
Accumulated Depreciated:				
Land improvements	\$ 4,603,338	\$ 237,024	\$	\$ 4,840,362
Buildings and improvements	50,924,732	4,724,876	45,279	55,604,329
Furniture, equipment & vehicles	<u>10,958,540</u>	<u>944,121</u>	<u>537,823</u>	<u>11,364,838</u>
Total accumulated depreciation	<u>66,486,610</u>	<u>\$ 5,906,021</u>	<u>\$ 583,102</u>	<u>71,809,529</u>
Net depreciated capital assets	<u>143,123,292</u>			<u>140,779,710</u>
Net capital assets	<u>\$ 147,315,292</u>			<u>\$ 148,948,072</u>

See Note 1 for additional information regarding capital assets.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 6. CAPITAL ASSETS (Continued)

Depreciation Expense

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

<u>Data Control</u> <u>Codes</u>	<u>Function</u>	<u>Amount</u>
0011	Instruction	\$ 3,060,250
0012	Instructional resources and media services	277,496
0013	Curriculum and staff development	14,422
0021	Instructional leadership	37,085
0023	School leadership	231,649
0031	Guidance, counseling, and evaluation services	44,199
0033	Health services	22,914
0034	Student transportation	669,294
0035	Food service	407,341
0036	Extracurricular activities	775,880
0041	General administration	33,716
0051	Plant maintenance and operations	317,573
0053	Data processing services	14,202
Total depreciation expense		<u>\$ 5,906,021</u>

Governmental Fund Construction Commitments

At August 31, 2013, the District had the following construction commitments:

<u>Project</u>	<u>Project</u> <u>Authorization</u>	<u>Expended</u> <u>To Date</u>	<u>Commitment</u>
AP Beutel Roof Replacement	\$ 237,814	\$ 162,211	\$ 75,603
Brazosport Maintenance Complex Roof	25,182	20,768	4,414
Admin Bldg Roof Replacement	221,492	188,903	32,589
Transportation Bldg Roof Replacement	53,947	46,013	7,934
Keyless Building Entry	243,030	179,000	64,030
Bogan Stand Alone Intercom System	565,775	541,029	24,746
Security Cameras	435,740	389,830	45,910
Wired Network Infrastructure Upgrade	2,335,154	2,150,818	184,336
Wireless Infrastructure Upgrade	1,235,561	919,279	316,282
IP Telephone System Upgrade	907,791	840,673	67,118
Partial Fiber/Wireless Build Out	290,417	290,293	124
Server Virtualization	185,727	178,573	7,154
	<u>\$ 6,737,630</u>	<u>\$ 5,907,390</u>	<u>\$ 830,240</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 7. LONG-TERM DEBT

Loans

Short-term debts are accounted for through the appropriate fund, and consist of notes made in accordance with the provisions of the Texas Education Code. The District did not borrow any funds through loan transactions during the year ended August 31, 2013.

General Obligation Bonds

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

The following is a summary of the District's general obligation bonded debt as of August 31, 2013:

<u>Date of Issue</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>% Rates</u>	<u>Outstanding Balance</u>
2003	\$ 23,985,000	2022	3.75-5.50	\$ 3,450,000
2003	8,000,000	2018	0.00	8,000,000
2004	35,000,000	2024	2.00-5.25	1,675,000
2004	8,265,000	2016	2.00-5.00	4,200,000
2005	14,530,000	2016	2.50-5.00	5,575,000
2005	8,000,000	2021	0.00	8,000,000
2005	13,000,000	2025	3.75-4.50	425,000
2007	8,010,000	2022	4.00	7,075,000
2007	1,682,270	2018	4.00	2,124,846
2010	6,985,000	2019	2.00-5.00	6,785,000
2010	711,990	2014	1.35-1.70	371,840
2011	7,365,000	2023	2.00-4.00	6,980,000
2011	2,036,256	2021	3.00	2,171,552
2012	30,385,000	2023	2.00-4.00	29,195,000
2012	<u>56,870,000</u>	2025	2.00-3.00	<u>55,390,000</u>
Total	\$ <u>224,825,516</u>			\$ <u>141,418,238</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 7. LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

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

<u>Year Ended</u> <u>August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirement</u>
2014	\$ 9,540,000	\$ 4,068,389	\$ 13,608,389
2015	10,715,000	3,664,094	14,379,094
2016	11,195,000	3,301,581	14,496,581
2017	11,595,000	2,953,006	14,548,006
2018	20,010,000	2,592,406	22,602,406
2019-2023	67,260,000	9,210,706	76,470,706
2024-2025	<u>12,080,000</u>	<u>845,591</u>	<u>12,925,591</u>
Totals	\$ <u>142,395,000</u>	\$ <u>26,635,773</u>	\$ <u>169,030,773</u>

Difference in bond payable and future principal payments is due to \$ 976,762 of accretion, which will occur in future years prior to payment.

On January 12, 2012, the District issued \$ 30,385,000 of Unlimited Tax Refunding Bonds, Series 2012, for the advance partial refunding of previously issued outstanding bonds (Series 2002 and 2003C). The District placed the proceeds of the refunding issues in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issues being refunded. The difference between the cash flow required to service the new debt and complete the refunding at the date of the refunding was \$ 5,337,175. The economic gain resulting from the transaction was \$ 4,806,618. The funds of the escrow account were used to purchase federal securities which will mature at such times and yield interest sufficient to pay the principal and interest on the Refunded Bonds when due. By this action, the District has affected the defeasance of the Refunded Bonds. Accordingly, the Refunded Bonds are considered to be extinguished and do not appear as a liability in the governmental activities statement of net assets. At August 31, 2013, the escrow balance and the related bonds payable were \$ -0-.

On August 23, 2012, the District issued \$ 56,870,000 of Tax School Building (\$ 26,050,000) and Tax Refunding Bonds (\$ 30,820,000), Series 2012A, for the advance partial refunding of previously issued outstanding bonds (Series 2003A, 2004 and 2005B). The District placed the proceeds of the refunding issues in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issues being refunded. The difference between the cash flow required to service the new debt and complete the refunding at the date of the refunding was \$ 5,250,698. The economic gain resulting from the transaction was \$ 4,678,114. The funds of the escrow account were used to purchase federal securities which will mature at such times and yield interest sufficient to pay the principal and interest on the Refunded Bonds when due. By this action, the District has affected the defeasance of the Refunded Bonds. Accordingly, the Refunded Bonds are considered to be extinguished and do not appear as a liability in the governmental activities statement of net assets. At August 31, 2013, the escrow balance and the related bonds payable were \$ -0-.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 7. LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

During the year ended August 31, 2011, the District issued \$ 9,401,256 of Unlimited Tax Refunding Bonds, Series 2011, for the advance partial refunding of previously issued outstanding bonds (Series 2003A). The District placed the proceeds of the refunding issues in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issues being refunded. The difference between the cash flow required to service the new debt and complete the refunding at the date of the refunding was \$ 968,128. The economic gain resulting from the transaction was \$ 807,714. The funds of the escrow account were used to purchase federal securities which will mature at such times and yield interest sufficient to pay the principal and interest on the Refunded Bonds when due. By this action, the District has affected the defeasance of the Refunded Bonds. Accordingly, the Refunded Bonds are considered to be extinguished and do not appear as a liability in the governmental activities statement of net assets. At August 31, 2013, the escrow balance and the related bonds payable were \$ -0-.

During the year ended August 31, 2010, the District issued \$ 7,465,000 of Unlimited Tax Refunding Bonds, Series 2010, for the advance partial refunding of previously issued outstanding bonds (Series 2002, 2003A and 2003C). The District placed the proceeds of the refunding issues in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issues being refunded. The difference between the cash flow required to service the new debt and complete the refunding at the date of the refunding was \$ 354,145. The economic gain resulting from the transaction was \$ 316,920. The funds of the escrow account were used to purchase federal securities which will mature at such times and yield interest sufficient to pay the principal and interest on the Refunded Bonds when due. By this action, the District has affected the defeasance of the Refunded Bonds. Accordingly, the Refunded Bonds are considered to be extinguished and do not appear as a liability in the governmental activities statement of net assets. At August 31, 2013, the escrow balance and the related bonds payable were \$ -0-.

The District entered into two repurchase agreements for 2003B Unlimited Tax School Building QZAB Bonds and the 2005 Unlimited Tax School Building QZAB Bonds. The 2003B Unlimited Tax School Building QZAB Bonds repurchase agreement calls for annual payments of \$ 377,642 and will yield an interest rate of 4.21% with maturity date of August 15, 2018. The 2005 Unlimited Tax School Building QZAB Bonds repurchase agreement calls for annual payments of \$ 401,939 and will yield an interest rate of 2.83% with maturity date of June 30, 2021. The total requirement deposited for the year ended August 31, 2012 was \$ 779,580. The sinking fund balance as of August 31, 2013 was \$ 8,393,481 (\$ 3,587,100 Series 2005 and \$ 4,806,381 Series 2003).

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2013****NOTE 7. LONG-TERM DEBT (Continued)****General Obligation Bonds (Continued)**

Presented below is a summary of the sinking fund requirements:

<u>Year Ended August 31</u>	<u>Series 2005</u>	<u>Series 2003</u>	<u>Total Requirements</u>
2014	\$ 401,938	\$ 377,641	\$ 779,579
2015	401,939	377,642	779,581
2016	401,939	377,641	779,580
2017	401,939	377,642	779,581
2018	401,939	377,641	779,580
2019-2021	<u>1,205,817</u>		<u>1,205,817</u>
Total minimum requirements	<u>\$ 3,215,511</u>	<u>\$ 1,888,207</u>	<u>\$ 5,103,718</u>

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

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

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2013.

Maintenance Tax Note

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

The following is a summary of the District's maintenance tax school construction note debt as of August 31, 2013:

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 7. LONG-TERM DEBT (Continued)

Maintenance Tax Note (Continued)

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

<u>Year Ended August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2014	\$	\$ 409,584	\$ 409,584
2015		409,584	409,584
2016		409,583	409,583
2017		409,584	409,584
2018		409,583	409,583
2019-2023	4,635,000	1,526,481	6,161,481
2024-2028	2,575,000	802,262	3,377,262
2029	<u>2,120,000</u>	<u>110,240</u>	<u>2,230,240</u>
	<u>\$ 9,330,000</u>	<u>\$ 4,486,901</u>	<u>\$ 13,816,901</u>

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

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

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

<u>Year Ended August 31</u>	<u>Original Federal Subsidy</u>	<u>Reduced Federal Subsidy</u>	<u>Annual Sinking Fund Requirement</u>
2014	\$ 409,584	\$ 379,582	\$ 515,000
2015	409,584	380,094	515,000
2016	409,583	380,094	515,000
2017	409,584	380,094	515,000
2018	409,583	380,094	515,000
2019-2023	1,700,294	1,416,575	2,575,000
2024-2028	927,794	744,501	2,620,000
2029	<u>220,480</u>	<u>102,303</u>	<u>530,000</u>
Totals	<u>\$ 4,896,486</u>	<u>\$ 4,163,337</u>	<u>\$ 8,300,000</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 7. LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended August 31, 2013, was as follows:

	Balance 09-01-12	Additions	Reductions	Balance 08-31-13	Due Within One Year
Long-Term Debt:					
General obligation bonds	\$ 150,246,205	\$ 157,033	\$ 8,985,000	\$ 141,418,238	\$ 8,540,000
Tax Notes	9,330,000			9,330,000	
Capital leases	106,512		97,890	8,622	8,622
Components of Long-Term Debt:					
Premium (discount) on general obligation bond	6,079,423		648,942	5,430,481	648,630
Accrued interest	157,029	142,564	157,029	142,564	142,564
Totals	\$ 165,919,169	\$ 299,597	\$ 9,888,861	\$ 156,329,905	\$ 10,339,816

NOTE 8. LEASES

Capital Leases

The District leases various office machines under capital leases. During the year ended August 31, 2009, the District had \$ 83,252 of net additions of new office equipment through capital leases. The effective interest rate of the capital lease is 11.25%, expiring in 2014. The leased assets and related obligations are accounted for in the government activities column of the government-wide financial statements as capital assets and noncurrent liabilities. Current requirements for principal and interest expenditures accounted for in the General Fund, were \$ 97,890 and \$ 7,042, respectively.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments, as of August 31, 2013:

Year Ended August 31	Amount
2014	\$ 8,745
	8,745
Less amount representing interest	123
Net present value of minimum lease payments	\$ 8,622

Operating Leases

As of August 31, 2013, the District is not involved in any non-cancelable lease agreements. All leases are on a "month-to-month" basis. The total rental expenditures for the year ended August 31, 2013 was \$ 81,984.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

NOTE 9. PENSION PLAN OBLIGATIONS

Plan Description - The District contributes to the Teacher Retirement System of Texas (TRS), a cost sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, www.trs.state.tx.us under the TRS Publications heading.

Funding Policy - Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides a state contribution rate of 6.40% for fiscal year 2013 and 6.00% for fiscal year 2012 and 6.644% for fiscal year 2011. State law further provides a member contribution rate of 6.4% for fiscal years 2013, 2012 and 2011. In certain instances, the reporting District is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the fiscal year 2011 and for the period of January through August 2010, and 6.58% for fiscal year 2009. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2013, 2012 and 2011 were \$ 4,046,752, \$ 4,067,987 and \$ 4,493,683, respectively. The District paid additional state contributions for the years ended August 31, 2013, 2012 and 2011 in the amount of \$ 410,994, \$ 413,157 and \$ 456,293, respectively, on the portion of the employees' salaries that exceeded the statutory minimum. Medicare part D contributions for the years ended August 31, 2013, 2012 and 2011 were \$ 154,078, \$ 162,929 and \$ 161,729, respectively. The District's total payroll for the years ended August 31, 2013, 2012 and 2011 were \$ 63,230,536, \$ 63,562,283 and \$ 70,213,898, respectively, of which \$ 57,932,001, \$ 57,932,001 and \$ 61,578,959 was covered payroll for this plan, respectively.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2013

NOTE 10. GENERAL FUND FEDERAL SOURCE REVENUES

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

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Total</u>
Direct Costs:		
School Health and Related Services (SHARS)	---	\$ 941,837
Build America Bonds	---	391,767
ROTC Program	12.000	68,329
Medicaid Administrative Claiming Program (MAC)	93.778	17,468
Indirect Costs:		
School Breakfast Program	10.553	101,874
National School Lunch Program	10.555	389,323
ESEA, Title I, Part A - Improving Basic Programs	84.010	24,221
IDEA Part B - Formula	84.027	28,113
IDEA Part B - Preschool	84.173	1,079
ESEA, Title II, Part A – Teacher and Principal Training and Recruiting	84.367A	<u>5,404</u>
		<u>\$ 1,969,415</u>

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

NOTE 11. LOCAL AND INTERMEDIATE REVENUES

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

<u>Fund</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 65,756,162	\$ 14,524,841	\$	\$	\$ 80,281,003
Food sales				2,112,595	2,112,595
Investment income	53,000	312,239	65,182	2,303	432,724
Penalties, interest and other tax related income	236,621	62,697			299,318
Co-curricular income	298,193				298,193
Other tuition and fees from patrons	1,234			62,934	64,168
Enterprise activities	14,349			1,411,039	1,425,388
Grants and contributions				90,361	90,361
Other	<u>434,284</u>			<u>103,486</u>	<u>537,770</u>
Total	<u>\$ 66,793,843</u>	<u>\$ 14,899,777</u>	<u>\$ 65,182</u>	<u>\$ 3,782,718</u>	<u>\$ 85,541,520</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2013****NOTE 12. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2013, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 13. SELF-INSURANCE**Dental Plan**

Beginning September 1, 2001, the District established its self-funding Dental (Health) Plan program. The accrued liability for the Dental Plan self-insurance program is projected to be \$ 30,945 as of August 31, 2013.

The dental plan is funded through the employee flex spending program. During the year ended August 31, 2013, the Plan received \$ 583,042 in employee contributions, of which \$ 16,262 were forfeitures.

The accrued liability for the Dental Plan self-insurance of \$ 30,945 includes estimated incurred but not reported claims. This liability reported in the fund at August 31, 2013, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

Changes in the dental plan claims liability amounts in fiscal 2011-2012 and 2012-2013 are presented below:

	Beginning of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2011-2012 Dental Plan	\$ 50,003	\$ 529,252	\$ 533,719	\$ 45,536
2012-2013 Dental Plan	\$ 45,536	\$ 443,730	\$ 458,321	\$ 30,945

Workers' Compensation

Beginning September 1, 2001, the District established its self-funding Workers' Compensation program. The District met its statutory worker's compensation obligations by participating as a self-funded member of the TASB Risk Management Fund. The accrued liability for the Workers' Compensation self-insurance program is projected to be \$ 340,943 as of August 31, 2013.

The District has maintained a self-insured retention of \$ 325,000 per occurrence during the year ended August 31, 2013. The District currently purchases specific excess coverage of \$ 325,000 per occurrence from Midwest Employers Casualty Company and \$ 1,000,000 in the aggregate. Claims administration is also provided by Texas Association of School Boards.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2013

NOTE 13. SELF-INSURANCE (Continued)

The accrued liability for Workers' Compensation self insurance of \$ 340,943 includes estimated incurred but not reported claims. This liability reported in the fund at August 31, 2013, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

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

<u>Fiscal Year</u>	<u>Claims</u>
2004-05	179
2005-06	200
2006-07	185
2007-08	173
2008-09	148
2009-10	112
2010-11	84
2011-12	76
2012-13	73
9 Yr. Average	137

Changes in the workers' compensation claims liability amounts in fiscal 2011-2012 and 2012-2013 are presented below:

	<u>Beginning of Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2011-2012 Workers' Compensation	\$ 578,113	\$ 188,195	\$ 283,643	\$ 482,665
2012-2013 Workers' Compensation	\$ 482,665	\$ 74,152	\$ 215,874	\$ 340,943

NOTE 14. UNEMPLOYMENT COMPENSATION POOL

During the year ended August 31, 2013, Brazosport Independent School District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

NOTE 14. UNEMPLOYMENT COMPENSATION POOL (Continued)

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustee in February of the following year. The Fund's audited financial statements as of August 31, 2012 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

NOTE 15. LITIGATION AND CONTINGENCIES

The District participates in numerous state and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2013 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 16. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS

The District participates in a Shared Services Arrangement ("SSA") for teaching and services for the Juvenile Justice Alternative Education Program with seven other school districts. The District does not account for revenues or expenditures of this program and does not disclose them in these financial statements. Brazoria County is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement. The District does not have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Brazosport Independent School District. The District reimburses Brazoria County for expenditures attributable to their participation. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the expenditures attributable to the District's participation.

Expenditures:

6200	Professional and Contracted Services	\$	-0-
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The District participates in a Shared Services Arrangement for the hearing impaired through the Brazoria-Fort Bend Cooperative with eleven other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Fort Bend Independent School District, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Brazosport Independent School District. The fiscal manager is responsible for all financial activities of the shared services arrangement. The amount of state revenues and expenditures attributable to the District's participation is not available

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

NOTE 16. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS (Continued)

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

Expenditures:

6400	Other Operating Costs	\$	99,398
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The District participates in a Shared Services Arrangement with Deer Park Independent School District for the supply of electricity and ancillary services to all facilities of the District. Deer Park Independent School District is the fiscal agent. All services are provided by the fiscal agent for the supply of electricity, the negotiation to purchase electricity, ancillary services, or other energy related products and services, and to encourage efficiency of operation and conservation on behalf of the buyer. The District does not account for revenues of expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Deer Park ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Brazosport Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The District included the following expenditures in these financial statements.

Expenditures:

6400	Other Operating Costs	\$	2,497,037
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NOTE 17. INTERLOCAL AGREEMENT

During the year ended August 31, 2013, the District entered into an interlocal agreement with Sweeny Independent School District (SISD) for management and director services for SISD's Child Nutrition Department. SISD agrees to continue supplying necessary personnel (except the Director position), equipment, supplies, food and other costs to operate the Child Nutrition Department. The District agrees to supply a Director and other management personnel to direct and manage the SISD Child Nutrition Department in accordance with applicable laws and regulations. The parties intend that the District, in performing such services, shall act as an independent contractor and act as a third party director.

The effective commencement date of this agreement shall be September 1, 2012 and shall continue until August 31, 2013. Thereafter, this agreement shall be automatically renewed on an annual basis, unless either party provides the other party with written notice of termination no less than sixty (60) days prior to such renewal. During the current fiscal year, the agreement was terminated and will not be renewed. The District included the following revenues in these financial statements.

Revenues:

5700	Local and intermediate sources	\$	30,000
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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2013****NOTE 18. SUBSEQUENT EVENT**

The District has evaluated subsequent events through December 17, 2013, the date which the financial statements were available to be issued.

On October 17, 2013, the District issued \$ 9,415,000 of Series 2013 Unlimited Tax Refunding Bonds for the advance partial refunding of previously issued outstanding bonds (Series 2003A, 2004B and 2005), maturing in 2023. The bonds have stated interest rates of 3.00%. The bonds are to be paid from annual ad valorem interest and bonded indebtedness.

The following is a schedule of principal maturity for the Series 2013 Unlimited Tax refunding Bonds:

<u>Maturing February 15</u>	<u>Principal</u>
2014	\$ 155,000
2015	3,395,000
2016	2,880,000
2017	380,000
2018	385,000
2019-2023	<u>2,220,000</u>
Total	<u>\$ 9,415,000</u>

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REQUIRED SUPPLEMENTARY INFORMATION

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013**Exhibit G-1
Page 1 of 1

		General Fund			Variance with Final Budget Positive (Negative)
Data Control Codes		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 64,642,077	\$ 64,642,077	\$ 66,793,843	\$ 2,151,766
5800	State program revenues	20,557,129	20,557,129	17,470,666	(3,086,463)
5900	Federal program revenues	<u>1,436,167</u>	<u>1,641,167</u>	<u>1,969,415</u>	<u>328,248</u>
5020	Total revenues	<u>86,635,373</u>	<u>86,840,373</u>	<u>86,233,924</u>	<u>(606,449)</u>
	EXPENDITURES:				
	Current:				
0011	Instruction	49,723,448	49,382,936	47,627,862	1,755,074
0012	Instructional resources and media services	1,561,084	1,674,223	1,333,220	341,003
0013	Curriculum and staff development	1,127,147	1,184,253	773,968	410,285
0021	Instructional leadership	1,687,196	1,714,668	1,442,334	272,334
0023	School leadership	5,981,897	6,131,413	5,866,125	265,288
0031	Guidance, counseling, and evaluation services	3,258,061	3,403,294	3,043,295	359,999
0032	Social work services	151,182	154,442	65,920	88,522
0033	Health services	998,765	1,279,281	1,001,854	277,427
0034	Student transportation	2,592,372	2,366,275	1,926,382	439,893
0036	Extracurricular activities	2,871,779	3,344,902	2,521,564	823,338
0041	General administration	1,836,190	2,059,137	1,884,881	174,256
0051	Plant maintenance and operations	9,968,390	10,202,855	9,558,499	644,356
0052	Security and monitoring services	480,603	895,447	631,458	263,989
0053	Data processing services	1,476,805	1,747,506	1,392,443	355,063
0061	Community services	15,800	15,800	1,645	14,155
0071	Principal on long-term debt	156,964	195,967	97,890	98,077
0072	Interest on long-term debt	668,051	834,048	416,626	417,422
0091	Contracted instructional services between public schools	1,022,480	1,322,480	1,186,550	135,930
0093	Payments related to shared services arrangements	2,884,333	2,976,481	2,596,435	380,046
0095	Payments to Juvenile Justice Alternative Education Programs	60,000	60,000		60,000
0099	Other intergovernmental	<u>595,000</u>	<u>595,000</u>	<u>579,322</u>	<u>15,678</u>
6030	Total expenditures	<u>89,117,547</u>	<u>91,540,408</u>	<u>83,948,273</u>	<u>7,592,135</u>
1100	Excess of revenues over expenditures	<u>(2,482,174)</u>	<u>(4,700,035)</u>	<u>2,285,651</u>	<u>6,985,686</u>
	OTHER FINANCING SOURCES:				
7912	Sale of real or personal property			30,710	30,710
8911	Operating transfers out		<u>(79,897)</u>	<u>(79,897)</u>	<u>-0-</u>
	Total other financing sources	<u>-0-</u>	<u>(79,897)</u>	<u>(49,187)</u>	<u>30,710</u>
1200	Net change in fund balances	<u>(2,482,174)</u>	<u>(4,779,932)</u>	<u>2,236,464</u>	<u>7,016,396</u>
0100	Fund balances – beginning	<u>27,222,059</u>	<u>27,222,059</u>	<u>27,222,059</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 24,739,885</u>	<u>\$ 22,442,127</u>	<u>\$ 29,458,523</u>	<u>\$ 7,016,396</u>

OTHER SUPPLEMENTARY INFORMATION

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2013

Data Control Codes		211	224	225	240	Special 244
		ESEA, Title I Part A - Improving Basic Programs	IDEA - Part B, Formula	IDEA - Part B, Preschool	Child Nutrition Program	Vocational Education Basic Grant
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:					
1110	Cash and cash equivalents	\$	\$	\$	\$ 2,192,944	\$
1240	Receivables from other governments	412,831	450,935	23,544	126,173	7,407
1250	Other receivables				26,024	
1260	Due from other funds	954			815,909	
1310	Inventories				132,456	
1410	Prepaid items					
1000	Total assets	413,785	450,935	23,544	3,293,506	7,407
	DEFERRED OUTFLOWS OF RESOURCES					
1700	Deferred outflows of resources					
	Total deferred outflows of resources	-0-	-0-	-0-	-0-	-0-
	Total assets and deferred outflows of resources	\$ 413,785	\$ 450,935	\$ 23,544	\$ 3,293,506	\$ 7,407
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	\$ 22,408	\$ 1,308	\$	\$ 262,938	\$
2160	Accrued wages payable	51,238	115,582	4,385	86,267	1,324
2170	Due to other funds	340,139	334,045	19,159	493,860	6,083
2300	Unearned revenue				120,568	
2000	Total liabilities	413,785	450,935	23,544	963,633	7,407
	DEFERRED INFLOWS OF RESOURCES					
1700	Deferred inflows of resources					
	Total deferred inflows of resources	-0-	-0-	-0-	-0-	-0-
	Fund Balances:					
	Non-Spendable:					
3410	Inventories				132,456	
3430	Prepaid items					
	Restricted:					
3450	Food service				2,197,417	
3480	Other					
	Unassigned:					
3600	Unassigned fund balance					
3000	Total fund balances	-0-	-0-	-0-	2,329,873	-0-
4000	Total liabilities, deferred inflows of resources, and fund balances	\$ 413,785	\$ 450,935	\$ 23,544	\$ 3,293,506	\$ 7,407

Revenue Funds							
255	263	282	288	385	393	397	404
ESEA, Title II, Part A - Teacher and Principal Training and Recruiting	Title III, Part A - English Language Acquisition and Language Enhancement	Smaller Learning Communities	ESL Summer Program	Orientation and Mobility Grant Program	Texas Successful Schools Program	Advanced Placement Incentives	SSI Grants to Schools
\$	\$	\$	\$	\$	\$	\$	\$
181,980	65,711	5,408					
121		165			1,000	495	
<u>182,101</u>	<u>65,711</u>	<u>5,573</u>	<u>-0-</u>	<u>-0-</u>	<u>1,000</u>	<u>495</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 182,101</u>	<u>\$ 65,711</u>	<u>\$ 5,573</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,000</u>	<u>\$ 495</u>	<u>\$ -0-</u>
\$	\$	\$	\$	\$	\$	\$	\$
66,405	3,900	5,573					
1,460							
114,236	61,811				1,000	495	
<u>182,101</u>	<u>65,711</u>	<u>5,573</u>	<u>-0-</u>	<u>-0-</u>	<u>1,000</u>	<u>495</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 182,101</u>	<u>\$ 65,711</u>	<u>\$ 5,573</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,000</u>	<u>\$ 495</u>	<u>\$ -0-</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2013

Data Control Codes		410	429	461	480	Special 481
		Instructional Materials Allotment Program	Read to Succeed License Plates Program	Campus Activity	Lowe's Grant Program	John & James Knight Foundation
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:					
1110	Cash and cash equivalents	\$	\$	\$	\$	\$
1240	Receivables from other governments	756				
1250	Other receivables					
1260	Due from other funds			2,052,550	2,157	
1310	Inventories					
1410	Prepaid items	210,594				
1000	Total assets	211,350	-0-	2,052,550	2,157	-0-
	DEFERRED OUTFLOWS OF RESOURCES					
1700	Deferred outflows of resources					
	Total deferred outflows of resources	-0-	-0-	-0-	-0-	-0-
	Total assets and deferred outflows of resources	\$ 211,350	\$ -0-	\$ 2,052,550	\$ 2,157	\$ -0-
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	\$ 8,198	\$	\$	\$	\$
2160	Accrued wages payable					
2170	Due to other funds	40,798		1,145,235		
2300	Unearned revenue	162,354				
2000	Total liabilities	211,350	-0-	1,145,235	-0-	-0-
	DEFERRED INFLOWS OF RESOURCES					
1700	Deferred inflows of resources					
	Total deferred inflows of resources	-0-	-0-	-0-	-0-	-0-
	Fund Balances:					
	Non-Spendable:					
3410	Inventories					
3430	Prepaid items	210,594				
	Restricted:					
3450	Food service					
3480	Other			907,315	2,157	
	Unassigned:					
3600	Unassigned fund balance	(210,594)				
3000	Total fund balances	-0-	-0-	907,315	2,157	-0-
4000	Total liabilities, deferred inflows of resources, and fund balances	\$ 211,350	\$ -0-	\$ 2,052,550	\$ 2,157	\$ -0-

Revenue Funds							
482	483	486	490	492	494	496	497
PPCD Program	Professional Development Grant Program	Brazosport College PASS Grant Program	Dow Education Grant Program	University of Houston Mentor Program	Houston A+ Challenge Grant Program	Houston Saengerbund Grant Program	African American Advisory
\$	\$	\$	\$	\$	\$	\$	\$
69,692	14,944	18,994	15,163		1,398	4,000	503
<u>69,692</u>	<u>14,944</u>	<u>18,994</u>	<u>15,163</u>	<u>-0-</u>	<u>1,398</u>	<u>4,000</u>	<u>503</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 69,692</u>	<u>\$ 14,944</u>	<u>\$ 18,994</u>	<u>\$ 15,163</u>	<u>\$ -0-</u>	<u>\$ 1,398</u>	<u>\$ 4,000</u>	<u>\$ 503</u>
\$	\$	\$	\$	\$	\$	\$	\$
1,055		6,994	18				503
	14,944	12,000			1,398	4,000	
<u>1,055</u>	<u>14,944</u>	<u>18,994</u>	<u>18</u>	<u>-0-</u>	<u>1,398</u>	<u>4,000</u>	<u>503</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
68,637			15,145				
<u>68,637</u>	<u>-0-</u>	<u>-0-</u>	<u>15,145</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 69,692</u>	<u>\$ 14,944</u>	<u>\$ 18,994</u>	<u>\$ 15,163</u>	<u>\$ -0-</u>	<u>\$ 1,398</u>	<u>\$ 4,000</u>	<u>\$ 503</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2013

		Special Revenue Funds		
		498	499	
Data Control Codes		BISD Education Foundation	Healthier U.S. Schools Challenge Program	Total Nonmajor Governmental (See C-2)
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:			
1110	Cash and cash equivalents	\$	\$	\$ 2,192,944
1240	Receivables from other governments			1,274,745
1250	Other receivables			45,139
1260	Due from other funds	9,123	10,000	2,998,053
1310	Inventories			132,456
1410	Prepaid items			210,594
1000	Total assets	9,123	10,000	6,853,931
	DEFERRED OUTFLOWS OF RESOURCES			
1700	Deferred outflows of resources			-0-
	Total deferred outflows of resources	-0-	-0-	-0-
	Total assets and deferred outflows of resources	\$ 9,123	\$ 10,000	\$ 6,853,931
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:			
	Liabilities:			
2110	Accounts payable	\$	\$	\$ 370,730
2160	Accrued wages payable			261,311
2170	Due to other funds	568		2,564,944
2300	Unearned revenue		10,000	325,264
2000	Total liabilities	568	10,000	3,522,249
	DEFERRED INFLOWS OF RESOURCES			
1700	Deferred inflows of resources			-0-
	Total deferred inflows of resources	-0-	-0-	-0-
	Fund Balances:			
	Non-Spendable:			
3410	Inventories			132,456
3430	Prepaid items			210,594
	Restricted:			
3450	Food service			2,197,417
3480	Other	8,555		1,001,809
	Unassigned:			
3600	Unassigned fund balance			(210,594)
3000	Total fund balances	8,555	-0-	3,331,682
4000	Total liabilities, deferred inflows of resources, and fund balances	\$ 9,123	\$ 10,000	\$ 6,853,931

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2013

Data Control Codes		211	224	225	240	Special 244
		ESEA, Title I Part A - Improving Basic Programs	IDEA - Part B, Formula	IDEA - Part B, Preschool	Child Nutrition Program	Vocational Education Basic Grant
	REVENUES:					
5700	Local and intermediate sources	\$	\$	\$	\$ 2,144,898	\$
5800	State program revenues				152,698	
5900	Federal program revenues	<u>2,177,933</u>	<u>2,459,673</u>	<u>90,472</u>	<u>4,168,706</u>	<u>78,248</u>
5020	Total revenues	<u>2,177,933</u>	<u>2,459,673</u>	<u>90,472</u>	<u>6,466,302</u>	<u>78,248</u>
	EXPENDITURES:					
	Current:					
0011	Instruction	1,563,677	2,156,661	90,472		3,330
0012	Instructional resources and media services					
0013	Curriculum and staff development	418,819	17,514			2,831
0021	Instructional leadership	74,698	56,613			
0031	Guidance, counseling and evaluation services		228,885			72,087
0032	Social work services	64,104				
0035	Food service				7,029,154	
0036	Extracurricular activities					
0061	Community services	<u>56,635</u>				
6030	Total expenditures	<u>2,177,933</u>	<u>2,459,673</u>	<u>90,472</u>	<u>7,029,154</u>	<u>78,248</u>
1100	Excess (deficiency) of revenues over expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(562,852)</u>	<u>-0-</u>
	OTHER FINANCING SOURCES (USES):					
7912	Sale of real and personal property				5,075	
	Total other financing sources and (uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>5,075</u>	<u>-0-</u>
1200	Net changes in fund balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(557,777)</u>	<u>-0-</u>
0100	Fund balances - beginning				2,887,650	
3000	Fund balances - ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,329,873</u>	<u>\$ -0-</u>

Revenue Funds							
255	263	282	288	385	393	397	404
ESEA, Title II, Part A - Teacher and Principal Training and Recruiting	Title III, Part A - English Language Acquisition and Language Enhancement	Smaller Learning Communities	ESL Summer Program	Orientation and Mobility Grant Program	Texas Successful Schools Program	Advanced Placement Incentives	SSI Grants to Schools
\$	\$	\$	\$	\$	\$	\$	\$
				5,000			55,934
553,873	88,497	281,672	4,461				
553,873	88,497	281,672	4,461	5,000	-0-	-0-	55,934
1,268	41,285	128,958	4,461	5,000	13,323	1,833	55,934
552,415	43,478	42,799				950	
190	3,734	109,915					
553,873	88,497	281,672	4,461	5,000	13,323	2,783	55,934
					(13,323)	(2,783)	
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	(13,323)	(2,783)	-0-
					13,323	2,783	
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2013

Data Control Codes		410	429	461	480	Special 481
		Instructional Materials Allotment Program	Read to Succeed License Plates Program	Campus Activity	Lowe's Grant Program	John & James Knight Foundation
	REVENUES:					
5700	Local and intermediate sources	\$	\$	\$ 1,411,039	\$ 4,350	\$
5800	State program revenues	955,828				
5900	Federal program revenues					
5020	Total revenues	955,828	-0-	1,411,039	4,350	-0-
	EXPENDITURES:					
	Current:					
0011	Instruction	955,828			5,035	353
0012	Instructional resources and media services		26		4,097	
0013	Curriculum and staff development					
0021	Instructional leadership					
0031	Guidance, counseling and evaluation services					
0032	Social work services					
0035	Food service					
0036	Extracurricular activities			1,145,235		
0061	Community services					
6030	Total expenditures	955,828	26	1,145,235	9,132	353
1100	Excess (deficiency) of revenues over expenditures	-0-	(26)	265,804	(4,782)	(353)
	OTHER FINANCING SOURCES (USES):					
7912	Sale of real and personal property					
	Total other financing sources and (uses)	-0-	-0-	-0-	-0-	-0-
1200	Net changes in fund balances	-0-	(26)	265,804	(4,782)	(353)
0100	Fund balances - beginning		26	641,511	6,939	353
3000	Fund balances - ending	\$ -0-	\$ -0-	\$ 907,315	\$ 2,157	\$ -0-

Revenue Funds							
482	483	486	490	492	494	496	497
PPCD Program	Professional Development Grant Program	Brazosport College PASS Grant Program	Dow Education Grant Program	University of Houston Mentor Program	Houston A+ Challenge Grant Program	Houston Saengerbund Grant Program	African American Advisory
\$ 62,934	\$	\$ 50,641	\$ 27,409	\$	\$ 58,603	\$	\$
62,934	-0-	50,641	27,409	-0-	58,603	-0-	-0-
49,288		50,641	23,427 450	6,829	58,808		503
49,288	-0-	50,641	23,877	6,829	58,808	-0-	503
13,646	-0-	-0-	3,532	(6,829)	(205)	-0-	(503)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
13,646	-0-	-0-	3,532	(6,829)	(205)	-0-	(503)
54,991			11,613	6,829	205		503
\$ 68,637	\$ -0-	\$ -0-	\$ 15,145	\$ -0-	\$ -0-	\$ -0-	\$ -0-

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2013

		Special Revenue Funds		
		498	499	
Data Control Codes		BISD Education Education Foundation	Healthier U.S. Schools Challenge Program	Total Nonmajor Governmental (See C-2)
	REVENUES:			
5700	Local and intermediate sources	\$ 22,844	\$	\$ 3,782,718
5800	State program revenues			1,169,460
5900	Federal program revenues			9,903,535
5020	Total revenues	22,844	-0-	14,855,713
	EXPENDITURES:			
	Current:			
0011	Instruction	23,892		5,233,474
0012	Instructional resources and media services			4,573
0013	Curriculum and staff development			1,085,635
0021	Instructional leadership			245,150
0031	Guidance, counseling and evaluation services			301,475
0032	Social work services			64,104
0035	Food service			7,029,154
0036	Extracurricular activities			1,145,235
0061	Community services	2,330		58,965
6030	Total expenditures	26,222	-0-	15,167,765
1100	Excess (deficiency) of revenues over expenditures	(3,378)	-0-	(312,052)
	OTHER FINANCING SOURCES (USES):			
7912	Sale of real and personal property			5,075
	Total other financing sources and (uses)	-0-	-0-	5,075
1200	Net changes in fund balances	(3,378)	-0-	(306,977)
0100	Fund balances - beginning	11,933	-0-	3,638,659
3000	Fund balances - ending	\$ 8,555	\$ -0-	\$ 3,331,682

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
AUGUST 31, 2013

Exhibit H-3
Page 1 of 1

<u>Data Control Codes</u>		<u>Dental Plan</u>	<u>Worker's Compensation</u>	<u>Total (See D-1)</u>
	ASSETS:			
	Current Assets:			
1110	Cash and cash equivalents	\$ 490,189	\$ 1,647,216	\$ 2,137,405
1290	Other receivables	<u>46</u>	<u></u>	<u>46</u>
	Total current assets	490,235	1,647,216	2,137,451
	DEFERRED OUTFLOWS OF RESOURCES:			
1700	Deferred outflows of resources	<u></u>	<u></u>	<u>-0-</u>
	Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	Total assets and deferred outflows of resources	<u>\$ 490,235</u>	<u>\$ 1,647,216</u>	<u>\$ 2,137,451</u>
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:			
	Liabilities:			
2165	Accrued expenses payable	<u>30,945</u>	<u>340,943</u>	<u>371,888</u>
	Total liabilities	30,945	340,943	371,888
	DEFERRED INFLOWS OF RESOURCES:			
2600	Deferred inflows of resources	<u></u>	<u></u>	<u>-0-</u>
	Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	NET POSITION:			
3900	Unrestricted net position	<u>459,290</u>	<u>1,306,273</u>	<u>1,765,563</u>
	Total net position	<u>\$ 459,290</u>	<u>\$ 1,306,273</u>	<u>\$ 1,765,563</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUNDS
YEAR ENDED AUGUST 31, 2013

Exhibit H-4
Page 1 of 1

	<u>Dental Plan</u>	<u>Worker's Compensation</u>	<u>Total (See D-2)</u>
Operating Revenues:			
Charges for services	\$ <u>583,042</u>	\$ <u>483,516</u>	\$ <u>1,066,558</u>
Total operating revenues	<u>583,042</u>	<u>483,516</u>	<u>1,066,558</u>
Operating Expenses:			
Insurance claims and expenses	<u>443,730</u>	<u>74,152</u>	<u>517,882</u>
Total operating expenses	<u>443,730</u>	<u>74,152</u>	<u>517,882</u>
Operating income	<u>139,312</u>	<u>409,364</u>	<u>548,676</u>
Nonoperating Revenues:			
Interest and investment revenue	<u>374</u>	<u>1,274</u>	<u>1,648</u>
Total nonoperating revenues	<u>374</u>	<u>1,274</u>	<u>1,648</u>
Change in net position	139,686	410,638	550,324
Net position – beginning	<u>319,604</u>	<u>895,635</u>	<u>1,215,239</u>
Net position – ending	\$ <u><u>459,290</u></u>	\$ <u><u>1,306,273</u></u>	\$ <u><u>1,765,563</u></u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED AUGUST 31, 2013

Exhibit H-5
Page 1 of 1

	Dental Plan	Worker's Compensation	Total (See D-3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 582,996	\$ 483,516	\$ 1,066,512
Claims paid	(458,321)	(215,874)	(674,195)
Net cash provided by operating activities	<u>124,675</u>	<u>267,642</u>	<u>392,317</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net cash provided (used) by noncapital financing activities	<u></u>	<u></u>	<u>-0-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Net cash provided (used) by capital and related financing activities	<u></u>	<u></u>	<u>-0-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>374</u>	<u>1,274</u>	<u>1,648</u>
Net cash provided by investing activities	<u>374</u>	<u>1,274</u>	<u>1,648</u>
Net increase in cash and cash equivalents	125,049	268,916	393,965
Balances – beginning of the year	<u>365,140</u>	<u>1,378,300</u>	<u>1,743,440</u>
Balances – end of the year	<u>\$ 490,189</u>	<u>\$ 1,647,216</u>	<u>\$ 2,137,405</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income	\$ 139,312	\$ 409,364	\$ 548,676
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Changes in Assets and Liabilities:			
Other receivables	(46)		(46)
Accrued expenses payable	(14,591)	(141,722)	(156,313)
Net cash provided by operating activities	<u>\$ 124,675</u>	<u>\$ 267,642</u>	<u>\$ 392,317</u>

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED AUGUST 31, 2013

Last Ten Years Ended August 31,	1		2		3		10	
	Tax Rates				Assessed/Appraised Value for School Tax Purposes		Beginning Balance September 1, 2012	
	Maintenance		Debt Service					
2003 and Prior	\$	Various	\$	Various	\$	Various	\$	168,599
2004		1.362600		0.110200		5,942,025,104		60,217
2005		1.362600		0.160200		5,946,464,855		55,738
2006		1.362600		0.210200		6,167,488,798		55,316
2007		1.228200		0.195500		6,422,002,991		59,672
2008		0.94840 0		0.185500		6,785,512,912		59,976
2009		1.01000 0		0.182200		7,328,104,426		81,202
2010		1.04000 0		0.188500		6,666,775,818		110,551
2011		1.04000 0		0.201500		6,238,933,790		277,794
2012		1.040000		0.201500		6,068,476,601		768,071
2013 (School Year Under Audit)		1.040000		0.219500		6,034,844,303		
1000 Totals							\$	<u>1,697,136</u>

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance August 31, 2013
\$	\$ 4,854	\$ 242	\$(53,172)	\$ 110,331
	2,128	172	(1,091)	56,826
	1,143	134	(1,246)	53,215
	3,810	587	(1,187)	49,732
	3,502	557	(777)	54,836
	3,563	697	(224)	55,492
	15,030	2,711	3,976	67,437
	31,193	5,654	4,773	78,477
	87,588	16,970	(52,329)	120,907
	366,409	70,992	(4,780)	325,890
<u>76,008,864</u>	<u>65,260,214</u>	<u>13,773,670</u>	<u>3,694,976</u>	<u>669,956</u>
\$ <u>76,008,864</u>	\$ <u>65,779,434</u>	\$ <u>13,872,386</u>	\$ <u>3,588,919</u>	\$ <u>1,643,099</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COST FOR 2014-2015
GENERAL AND SPECIAL REVENUE FUNDS
YEAR ENDED AUGUST 31, 2013

Exhibit J-2
Page 1 of 1

Account Number	Account Name	1 (702) School Board	2 (703) Tax Office	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Costs	6 (Other) Miscel- laneous	7 Total
611X-6146	PAYROLL COSTS	\$	\$	\$ 423,607	\$ 1,016,522	\$	\$	\$ 1,440,129
6149	Fringe benefits (unused leave for separating employees in function 41 and related 53)							-0-
6149	Fringe benefits (unused leave for separating employees in all functions except 41 and related 53)							-0-
6211	Legal services	89,812						89,812
6212	Audit services				44,088			44,088
6213	Tax appraisal & collection		579,322					579,322
621X	Other professional services		10,811					10,811
6220	Tuition & transfer payments							-0-
6230	Education service centers			200	590			790
6240	Contract maintenance & repair					86,619		86,619
6250	Utilities							-0-
6260	Rentals				14,068			14,068
6290	Miscellaneous contract				62,339		6,012	68,351
6320	Textbooks & reading			1,486				1,486
6330	Testing materials							-0-
63XX	Other supplies/materials	3,009		15,795	19,915			38,719
6410	Travel, subsistence, stipends	7,785		11,563	12,928			32,276
6420	Ins. & bonding costs							-0-
6430	Election costs	3,245						3,245
6490	Miscellaneous operating	2,889		31,118	20,480			54,487
6500	Debt service							-0-
6600	Capital outlay							-0-
TOTAL		\$ 106,740	\$ 590,133	\$ 483,769	\$ 1,190,930	\$ 86,619	\$ 6,012	\$ 2,464,203

Total expenditures for General and Special Revenue Funds (9) \$ 99,116,038

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 473,741
Total Debt & Lease (6500)	(11) 514,516
Plant Maintenance (Function 51, 6100-6400)	(12) 9,356,895
Food (Function 35, 6341 and 6499)	(13) 2,734,741
Stipends (6413)	(14) -0-
Column 4 (above) - Total Indirect Cost	1,190,930
Subtotal	14,270,823
Net Allowed Direct Cost	\$ 84,845,215

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 191,124,235
Historical Cost of Buildings over 50 years old	(16) \$ -0-
Amount of Federal Money in Building Cost (Net of Above)	(17) \$ -0-
Total Cost of Furniture and Equipment before Depreciation (1530 & 1540)	(18) \$ 15,526,235
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ -0-
Amount of Federal Money in Furniture & Equipment (Net of Above)	(20) \$ 5,211,354

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND
AUGUST 31, 2013
UNAUDITED

Exhibit J-3
Page 1 of 1

<u>Data Control Code</u>	<u>Explanation</u>	<u>Amount</u>
1	Total General Fund Balance as of 08/31/13 (Exhibit C-1 object 3000 for the General Fund only)	\$ <u>29,458,523</u>
2	Total Non-Spendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	1,184,417
3	Total Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	1,030,000
4	Total Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	750,000
5	Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	5,000,000
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds representing deferred revenues)	7,673,493
7	Estimate of two months' average cash disbursements during the regular School session (9/1/12 – 5/31/13)	13,943,871
8	Estimate of delayed payments from state sources (58XX)	
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
10	Estimate of delayed payments from federal sources (59XX)	
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	
12	Optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10+11)	<u>29,581,781</u>
13	Excess (deficit) unassigned General Fund fund balance (1- 12)	\$(<u>123,258</u>)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - FOOD SERVICE SPECIAL REVENUE FUND
YEAR ENDED AUGUST 31, 2013**Exhibit J-4
Page 1 of 1

		Food Service Special Revenue Fund			Variance with Final Budget Positive (Negative)
Data Control Codes		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 2,150,000	\$ 2,150,000	\$ 2,144,898	\$(5,102)
5800	State program revenues	42,500	242,500	152,698	(89,802)
5900	Federal program revenues	<u>3,937,500</u>	<u>4,187,500</u>	<u>4,168,706</u>	<u>(18,794)</u>
5020	Total revenues	<u>6,130,000</u>	<u>6,580,000</u>	<u>6,466,302</u>	<u>(113,698)</u>
	EXPENDITURES:				
	Current:				
0035	Food service	<u>6,130,000</u>	<u>7,031,000</u>	<u>7,029,154</u>	<u>1,846</u>
6030	Total expenditures	<u>6,130,000</u>	<u>7,031,000</u>	<u>7,029,154</u>	<u>1,846</u>
1100	Excess (deficiency) of revenues over expenditures	-0-	(451,000)	(562,852)	(111,852)
	OTHER FINANCING SOURCES (USES):				
	Sale of real and personal property			<u>5,075</u>	<u>5,075</u>
	Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>5,075</u>	<u>5,075</u>
1200	Net change in fund balances	-0-	(451,000)	(557,777)	(106,777)
0100	Fund balances – beginning	<u>2,887,650</u>	<u>2,887,650</u>	<u>2,887,650</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 2,887,650</u>	<u>\$ 2,436,650</u>	<u>\$ 2,329,873</u>	<u>\$(106,777)</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****BUDGET AND ACTUAL - DEBT SERVICE FUND****YEAR ENDED AUGUST 31, 2013***Exhibit J-5**Page 1 of 1*

		Debt Service Fund			Variance with Final Budget Positive (Negative)
Data Control Codes		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 14,024,192	\$ 14,024,192	\$ 14,899,777	\$ 875,585
5020	Total revenues	14,024,192	14,024,192	14,899,777	875,585
	EXPENDITURES:				
	Current:				
0071	Principal on long-term debt	9,645,519	9,645,519	8,985,000	660,519
0072	Interest on long-term debt	4,187,452	4,187,452	3,979,356	208,096
0073	Bond issuance costs and fees	191,221	191,221	12,756	178,465
6030	Total expenditures	14,024,192	14,024,192	12,977,112	1,047,080
1100	Excess (deficiency) of revenues over expenditures	-0-	-0-	1,922,665	1,992,665
	OTHER FINANCING SOURCES (USES):				
	Total other financing sources and (uses)	-0-	-0-	-0-	-0-
1200	Net change in fund balances			1,922,665	1,922,665
0100	Fund balances – beginning	11,289,231	11,289,231	11,289,231	-0-
3000	Fund balances – ending	\$ 11,289,231	\$ 11,289,231	\$ 13,211,896	\$ 1,922,665

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FEDERAL AWARDS SECTION

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KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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

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

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

Independent Auditor's Report

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

To the Board of Trustees
Brazosport Independent School District
Freeport, Texas 77541

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brazosport Independent School District (the "District"), as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District, in a separate letter dated December 18, 2013.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kennemer, Masters & Hunford, LLC

Lake Jackson, Texas
December 18, 2013

KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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

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

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

Independent Auditor's Report

Report on Compliance for Each Major Program and on Internal Control Over Compliance Required
by OMB Circular A-133

To the Board of Trustees
Brazosport Independent School District
Freeport, Texas 77541

Report on Compliance for Each Major Federal Program

We have audited Brazosport Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied in all material respects, with the types of compliance requirements referred to above that could have a material effect on each of its major federal programs for the year ended August 31, 2013.

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Internal Control Over Compliance

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

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

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. 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 requirement of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kennemer, Masters & Langford, LLC

Lake Jackson, Texas
December 18, 2013

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2013

Page 1 of 1

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unmodified.
2. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None
4. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unmodified.
6. Did the audit disclose findings, which are required to be reported under Sec. 510(a): No.
7. Major programs include:
 - Special Education Cluster:
 - 84.027 Grants to States (IDEA, Part B)
 - 84.173 Preschool Grants (IDEA Preschool)
 - Other Programs:
 - 84.367 Title II, Part A – Teacher/Principal Training and Recruiting
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 316,810.
9. Low risk auditee: Yes.

II. Findings related to the financial statements

The audit disclosed no findings required to be reported.

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

The audit disclosed no findings required to be reported.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2013

Page 1 of 1

None.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2013

Page 1 of 1

None.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2013

EXHIBIT K-1
PAGE 1 OF 2

(1) Federal Grantor/Pass-Through Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass Through Entity Identifying Number	(3) Expenditures Indirect Costs or Award Amount
<u>U.S. Department of Education</u>			
Direct:			
Smaller Learning Communities	84.215L	S215L080612	\$ <u>281,672</u>
Passed Through State Department of Education:			
ESEA, Title I, Part A - Improving Basic Programs*	84.010A	13610101020905	2,044,561
ESEA, Title I, Part A - Improving Basic Programs*	84.010A	14610101020905	69,794
ESEA, Title I, Part A - School Improvement Programs*	84.010A	13610104020905042	1,526
ESEA, Title I, Part A - School Improvement Programs*	84.010A	13610104020905001	3,462
ESEA, Title I, Part A - School Improvement Programs*	84.010A	13610104020905116	3,000
ESEA, Title I, Part A - School Improvement Programs*	84.010A	13610110020905042	<u>79,811</u>
			<u>2,202,154</u>
IDEA - Part B, Formula **	84.027	136600010209056600	2,363,316
IDEA - Part B, Formula **	84.027	146600010209056600	<u>124,470</u>
			<u>2,487,786</u>
Vocational Education - Basic Grant	84.048	1342000602090504	70,841
Vocational Education - Basic Grant	84.048	1442000602090504	<u>7,407</u>
			<u>78,248</u>
IDEA - Part B, Preschool **	84.173	126610010209056610	55
IDEA - Part B, Preschool **	84.173	136610010209056610	87,111
IDEA - Part B, Preschool **	84.173	146610010209056610	<u>4,385</u>
			<u>91,551</u>
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	13671001020905	<u>88,497</u>
			<u>88,497</u>
ESEA, Title II, Part A - Teacher/Principal Training and Recruiting	84.367A	13694501020905	458,491
ESEA, Title II, Part A - Teacher/Principal Training and Recruiting	84.367A	14694501020905	<u>100,786</u>
			<u>559,277</u>
English Second Language (ESL) - Summer School Program	84.369A	069551202	<u>4,461</u>
TOTAL DEPARTMENT OF EDUCATION			\$ <u>5,793,646</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2013

EXHIBIT K-1
PAGE 2 OF 2

(1)	(2)	(2A)	(3)
Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures Indirect Costs or Award Amount
<u>U.S. Department of Agriculture</u>			
Direct Program:			
Commodity Supplement Program ***	10.555	020905	\$ <u>469,702</u> <u>469,702</u>
Passed Through State Department of Education:			
School Breakfast Program ***	10.553	71401301	933,023
National School Lunch Program ***	10.555	71301301	<u>3,257,178</u> <u>4,190,201</u>
TOTAL DEPARTMENT OF AGRICULTURE			\$ <u>4,659,903</u>
<u>U.S. Department of Defense</u>			
Direct Programs:			
ROTC	12.000	-	\$ <u>68,329</u>
TOTAL DEPARTMENT OF DEFENSE			\$ <u>68,329</u>
<u>U.S. Department of Health & Human Services</u>			
Passed Through State Department of Human Services:			
Medicaid Administrative Claiming Program – MAC	93.778	-	\$ <u>17,468</u>
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES			\$ <u>17,468</u>
TOTAL FEDERAL ASSISTANCE			\$ <u>10,539,346</u>
*, **, *** - Cluster Programs			
RECONCILIATION:			
Federal Program Revenues (Exhibit C-2)			\$ 11,872,950
Less: School Health and Related Services (SHARS) not considered federal revenue for the Schedule of Federal Awards			(941,837)
Build America Bonds not considered federal revenue for the Schedule of Federal Awards			(<u>391,767</u>)
Total federal financial assistance (Schedule of expenditures of Federal Awards)			\$ <u>10,539,346</u>

See notes to supplemental Schedule of Expenditures of Federal Awards

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2013

NOTE 1 – BASIS OF ACCOUNTING

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

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

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

Commodity Supplement (CFDA 10.555) received like kind goods and no grant revenue received was reported on the schedule for the monetary value of these goods. The monetary value of goods received was \$ 422,469, while the monetary value of goods used and recognized as income and expenditures was \$ 469,702.

NOTE 2 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 3 – RECONCILIATION TO BASIC FINANCIAL STATEMENTS

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-2:

Total shown on Schedule of Expenditures of Federal Awards (Exhibit K-1)	\$ 10,539,346
Federal Revenue Not Included in the Schedule of Federal Awards:	
School Health and Related Services (SHARS)	941,837
Build American Bonds	<u>391,767</u>
Total federal revenue (Exhibit C-2)	\$ <u>11,872,950</u>

SCHEDULE FOR ELECTRONIC FILING

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AUGUST 31, 2013

SCHEDULE L-1
Page 1 of 1

<u>Code</u>	<u>Questions</u>	<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the District receive a clean audit? – Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 612,721

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