

BRAZOSPORT COLLEGE DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2018

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

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BRAZOSPORT COLLEGE DISTRICT

Annual Financial and Compliance Report Year Ended August 31, 2018

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BRAZOSPORT COLLEGE DISTRICT

Annual Financial and Compliance Report Year Ended August 31, 2018

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INTRODUCTORY SECTION

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BRAZOSPORT COLLEGE DISTRICT

ORGANIZATIONAL DATA

Fiscal Year 2017-2018

Board of Regents

Officers

Carolyn Johnson	Chair
Robert Perryman	Vice-Chair

Members

Term Expires

Jane Leidlein, M.D.	Lake Jackson, Texas	May 1, 2020
Richard Wells	Lake Jackson, Texas	May 1, 2020
Daniel L. Yates	Lake Jackson, Texas	May 1, 2020
Jason M. Cordoba	Lake Jackson, Texas	May 3, 2022
Roland K. Hendricks	Lake Jackson, Texas	May 3, 2022
Carolyn Johnson	Freeport, Texas	May 3, 2022
Lucilla Henderson	Lake Jackson, Texas	May 5, 2024
Robert Perryman	Freeport, Texas	May 5, 2024
Steven D. Solis	Lake Jackson, Texas	May 5, 2024

Principal Administrative Officers

Millicent M. Valek, Ph.D.	President
Lynda Villanueva, Ph.D.	Provost and Vice President, Academic & Student Affairs
Marshall S. Campbell, J.D.	Vice-President, Human Resources
Serena Andrews	Vice President, College Advancement
Anne Bartlett	Vice President, Industry & Community Resources
David B. Marshall, MBA	Vice President, Financial Services & CFO

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FINANCIAL SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
979-297-4075

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

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

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Brazosport College District (the "College") as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the College'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 opinion.

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Opinion

In our opinion, financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the Brazosport College District, as of August 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the financial statements, in 2018, the District adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 26, , the Schedule of Proportionate Share of the Net Pension Liability and Related Ratios – Cost Sharing Employer Plan on page 86, the Schedule of Required Pension Contributions – Cost Sharing Employer Plan on page 87, the Schedule of Employer's Proportionate Share of Net OPEB Liability and Related Ratios on Page 88, and the Schedule of Required OPEB Contributions – Cost Sharing Plan on Page 89, 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 College's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and the required Texas Higher Education Coordinating Board schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

Other Matters - Continued

The supplemental schedules and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules, required by the Texas Higher Education Coordinating Board, and the schedules of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of the College'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 College's internal control over financial reporting and compliance.

Kerremey, Masters & Kingford, LLC

Certified Public Accountants
Lake Jackson, Texas
November 16, 2018

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BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2018

This section of Brazosport College District's annual financial report presents a discussion and analysis of the financial performance of the College during the fiscal year ended August 31, 2018. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with them. The financial statements, footnotes, and this discussion are the responsibility of management.

Financial reporting format has been presented in a manner required by the Governmental Accounting Standards Board's Statements No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. As noted in Note 3, the District implemented accounting changes related to Other Postemployment Benefits (OPEB) for the year ended August 31, 2018.

With the implementation of GASB Statement No. 75, as explained in Note 3, comparable information for the years ended August 31, 2017 and 2016 are not available, therefore, only one year is presented. Beginning with the August 31, 2019 financial statements, comparative information will resume.

Using This Annual Report

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

The Statement of Net Position

The Statement of Net Position presents the financial position of the College at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources – net position – is an indicator of the current financial condition of the College. Assets and liabilities are generally measured using current values. Capital assets, which represent 78% of total assets and deferred outflow of resources, are stated at historical cost less an allowance for depreciation.

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

BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 YEAR ENDED AUGUST 31, 2018

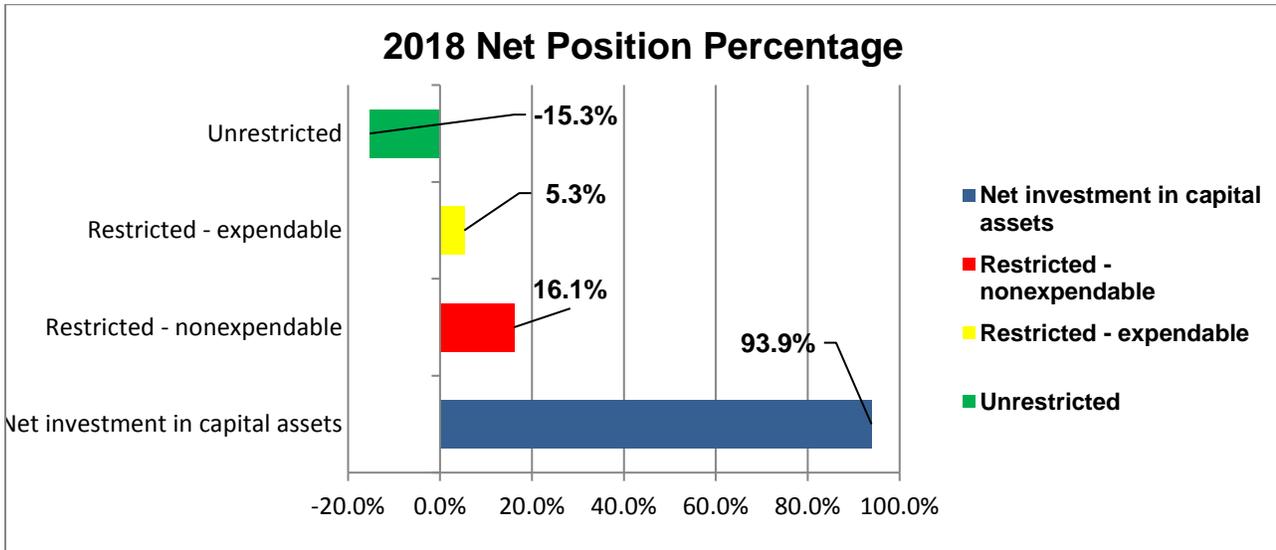
Statement of Net Position
As of August 31, 2018
(in thousands of dollars)

	2018
Assets:	
Current assets	\$ 12,909
Capital assets, net	102,636
Other assets	11,423
Total assets	126,968
Deferred Outflows of Resources:	
Deferred outflows of resources	4,798
Total deferred outflows of resources	4,798
Liabilities:	
Current liabilities	7,168
Noncurrent liabilities	87,988
Total liabilities	95,156
Deferred Inflows of Resources:	
Deferred inflows of resources	4,658
Total deferred inflows of resources	4,658
Net Position Consists Of:	
Net investment in capital assets	29,998
Restricted – nonexpendable	5,162
Restricted – expendable	1,686
Unrestricted	(4,894)
Total net position	\$ 31,952

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

BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2018

The following chart reflects the percentage of net position at August 31, 2018:



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

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

Statement of Revenues, Expenses and Changes in Net Position
For Fiscal Years Ended August 31, 2018
(in thousands of dollars)

	2018
Operating Revenues:	
Net tuition and fees	\$ 9,425
Auxiliary enterprises	96
Grants and contracts	2,858
Other	1,016
Total operating revenues	13,395
Operating Expenses:	
Instruction	17,618
Public services	231
Academic support	2,740
Student services	3,427
Institutional support	6,628
Operation and maintenance of plant	3,395
Scholarships and fellowships	2,295
Auxillary enterprises	675
Depreciation	4,173
Total operating expenses	41,182

(continued)

BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 YEAR ENDED AUGUST 31, 2018

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

	2018
Operating loss	\$(27,787)
Non-operating Revenues and Expenses:	
State appropriations	7,832
Title IV federal programs	3,028
Taxes for maintenance and operations	21,446
Debt service ad valorem taxes	4,480
Net investment income	494
Debt service expenses	(2,895)
Other non-operating expenses	(628)
Net non-operating revenues and expenses	33,757
Income before other revenues, (expenses), gains or (losses)	5,970
Other Revenues, (Expenses), Gains or (Losses):	
Additions to permanent and term endowments	9
Increase (decrease) in net position	5,979
Net Position at beginning of year	41,799
Cumulative effect of change in accounting Principle	(15,826)
Net Position at beginning of year (restated)	25,973
Net position at end of year	\$ 31,952

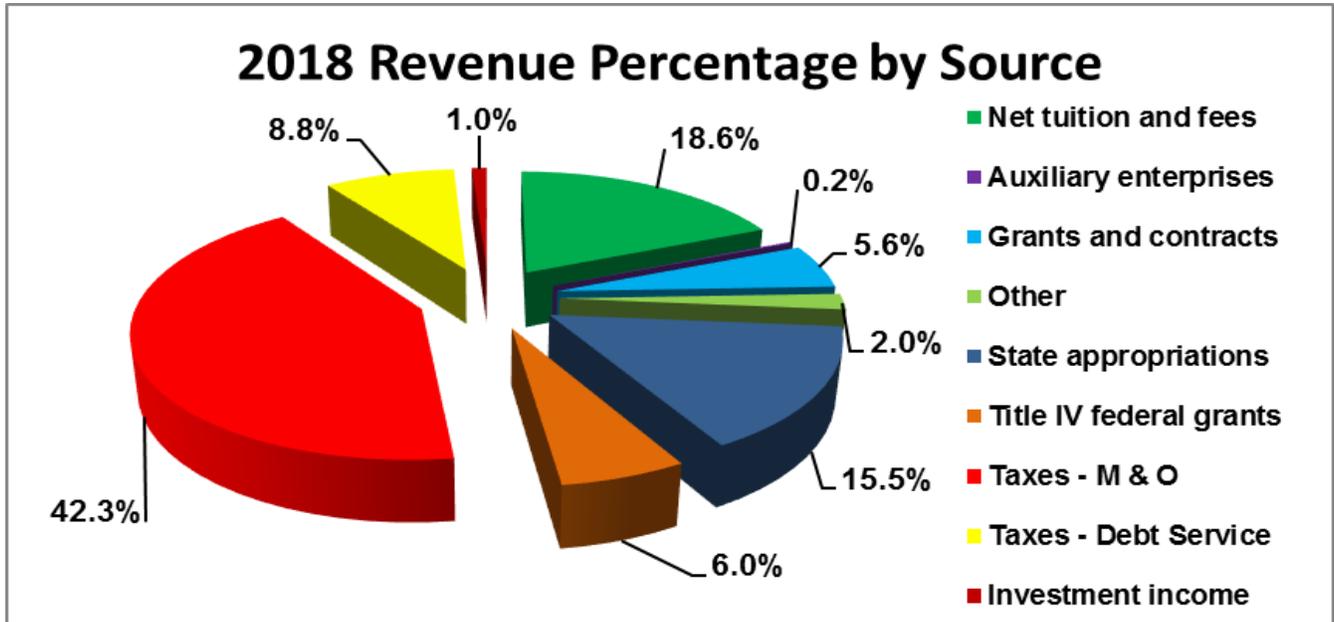
BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
 YEAR ENDED AUGUST 31, 2018

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

The following graphic information illustrates the changes in revenues, expenses and the results of both operating and non-operating activity for the year ended August 31, 2018.

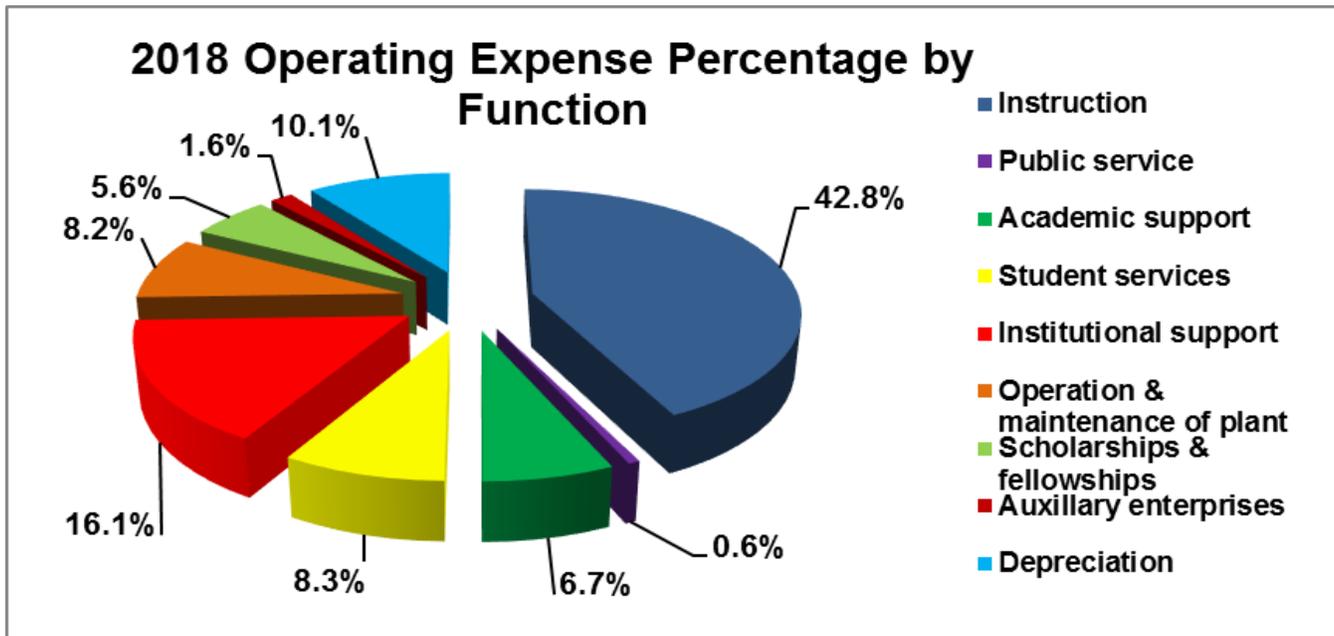
Revenues

The following is a graphic illustration of revenues by source (both operating and non-operating), which were used to fund the College's operating activities for the year ended August 31, 2018.



Expenses

Operating expenses can be displayed in two formats, natural classification and functional classification. Both formats are displayed below (as a percentage of total operating expenses), for the year ended August 31, 2018.

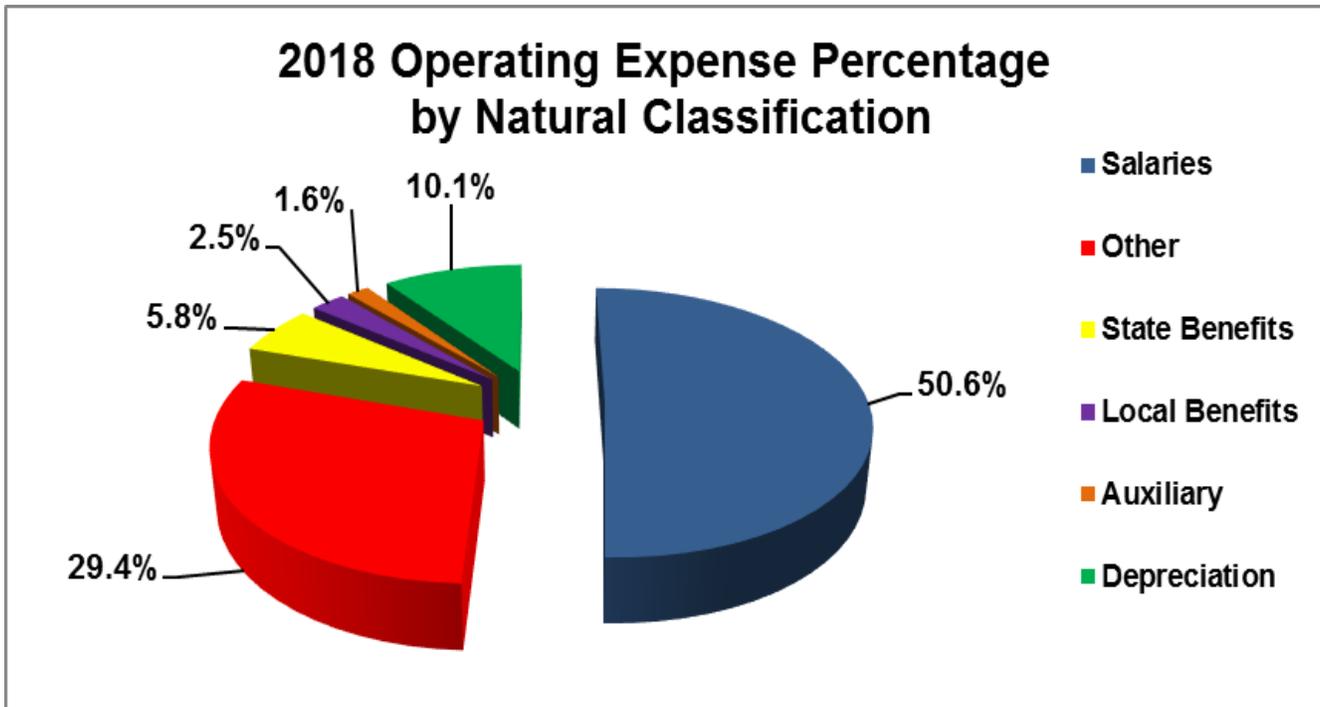


BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2018

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

For the year ended August 31, 2018, forty-two point eight (42.8) percent of operating expenses by function are attributable to instruction, respectively. The percentages for the remaining functional areas range from six tenths (0.6) of a percent to sixteen point one (16.1) percent of total operating expenses.

For the years ended August 31, 2018, fifty-eight point nine (58.9) percent of expenses are attributed to salaries and benefits, while other operating expenses represent twenty-nine point four (29.4) percent of total expenses, and depreciation represent the remaining ten point one (10.1) percent of expenses, respectively. Total Auxiliary expenses represented one point six (1.6) percent of total expenses.



The Statement of Cash Flows

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

Statement of Cash Flows
For the Fiscal Year Ended August 31, 2018
(in thousands of dollars)

	2018
Cash Provided (Used) By:	
Operating activities	\$(24,028)
Non-operating financing activities	34,401
Capital and related financing activities	(7,041)
Investing activities	610
Net increase in cash	3,942
Cash and cash equivalents, beginning of year	8,739
Cash and cash equivalents, end of year	\$ 12,681

BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2018

The Statement of Cash Flows - Continued

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

Capital Asset and Debt Administration

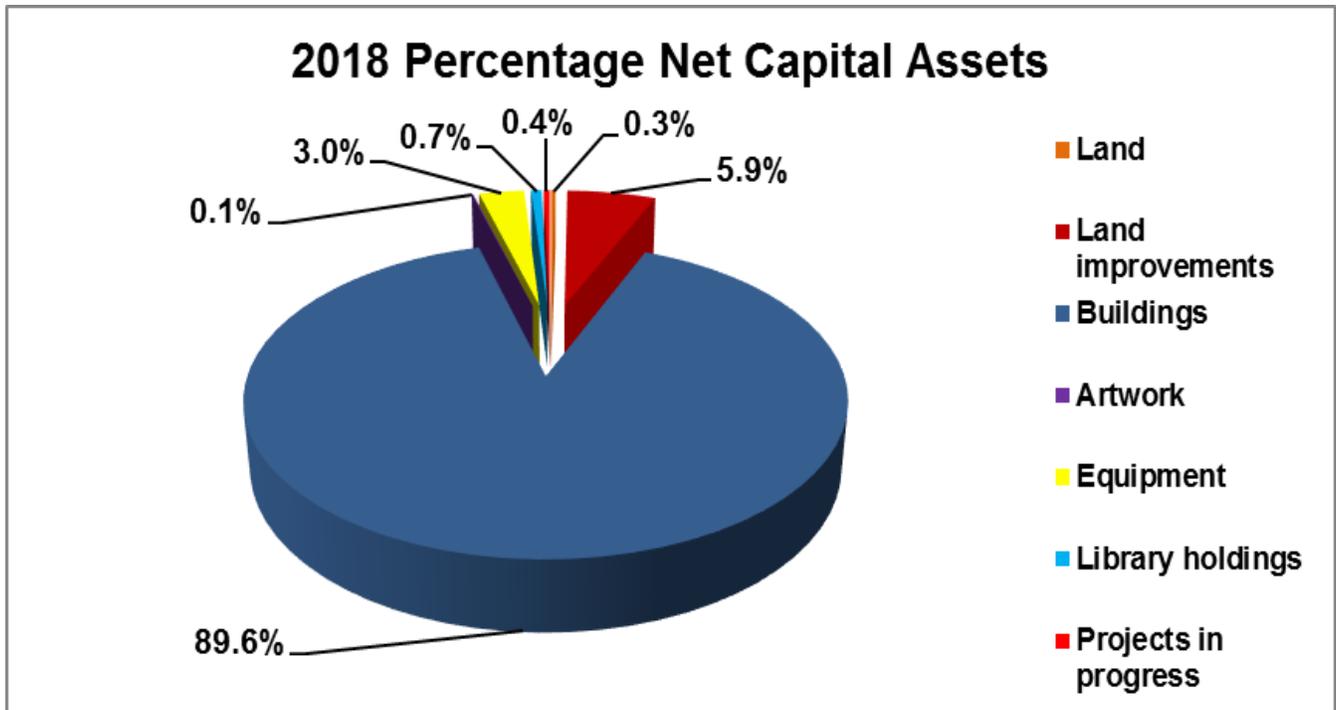
Capital Assets

At August 31, 2018, Brazosport College District had \$ 102,635,980 invested in capital assets, net of accumulated depreciation. Depreciation charges totaled \$ 4,173,448 for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation
As of August 31, 2018
(in thousands of dollars)

	2018
Land	\$ 296
Land improvements	6,085
Buildings	91,926
Artwork	147
Equipment	3,029
Library holdings	745
Projects in progress	408
Total	\$ 102,636

The following is a graphic illustration of the make-up of net capital assets at August 31, 2018:



BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2018

Capital Asset and Debt Administration - Continued

More detailed information about the College capital assets is presented in Note 5 to the financial statements.

Debt

At August 31, 2018, the College had \$ 91,660,683 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt Schedule – Net of Premiums
As of August 31, 2018
(in thousands of dollars)

	2018
Revenue bonds	\$ 4,545
General obligation bonds	53,760
Capital lease	9,739
Net pension obligation	4,623
Net OPEB obligation	13,558
Compensated Absences	332
Components of Long-Term Debt:	
Premium on bonds	5,104
Total Debt	91,661
Less current portion	3,673
Total noncurrent debt	\$ 87,988

On October 14, 2010, the College authorized and issued \$ 29,360,000 in Limited Tax Bonds, Series 2010 to construct the Master Plan which adds several buildings and renovates and improves the campus.

On November 8, 2011, the College authorized and issued \$ 11,820,000 in Limited Tax Bonds, Series 2011 to continue to construct the Master Plan which adds several buildings and renovates and improves the campus.

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

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

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

BRAZOSPORT COLLEGE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2018

Capital Asset and Debt Administration - Continued

On September 15, 2016, the College authorized and issued \$ 4,545,000 in Combined Fee Revenue Refunding Bonds, Series 2016 to refund \$ 4,460,000 in Combined Fee Revenue Bonds Payable – Series 2006.

On April 17, 2017, the College authorized and issued \$ 9,015,000 in Limited Tax Refunding Bonds, Series 2017 to advance refund \$ 9,135,000 in Limited Tax Bonds, Series 2010.

Brazosport College currently is rated as Aa2 by Moody's and as AA- by Standard & Poor's. More detailed information about the College long-term liabilities is presented in Notes 6-10 to the financial statements.

Economic Factors That Will Affect the Future

For Fiscal Year 2018-19, the Board of Regents approved a slight overall decrease in property tax rate in September 2018 of For Fiscal Year 2018-2019, the District Board of Regents approved a slight overall decrease in property tax in September, 2018 of \$ 0.004749 per \$ 100 of valuation. This sets the rate at \$ 0.250704 per \$100 of valuation for the 2018-2019 assessment and \$ 0.047796 per \$100 valuation to pay the debt service on the General Obligation Bonds. Therefore, the current tax rate for the District is \$ 0.298500 per \$100 of valuation, which is a slight decrease over the prior year's overall rate of \$ 0.303249. The current year overall rate was below the rollback rate, but was slightly above the calculated effective rate of \$ 0.285492. The net overall rate decrease of \$ 0.004749 applied to an increase in the tax base generated a Fiscal Year 2019 budget increase of \$ 1,804,000.

The Board approved capital budget increased from \$ 1,700,000 in Fiscal Year 2018 to \$ 6,600,000 in Fiscal Year 2019. The increased capital budget is the result of a number of much needed projects, including switch gear replacement, first stage of piping project, cell phone coverage enhancement and student information system replacement. It is expected that the capital projects will be paid for from unrestricted cash, which increased significantly in Fiscal Year 2018.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the College's finances, as well as demonstrate accountability for funds the College receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Vice-President, Financial Services and CFO, Brazosport College District, 500 College Drive, Lake Jackson, Texas 77566.

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BASIC FINANCIAL STATEMENTS

BRAZOSPORT COLLEGE DISTRICT
STATEMENTS OF NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT 1
Page 1 of 2

	2018
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 11,290,454
Accounts and notes receivable (net of allowance for doubtful accounts)	618,929
Inventories	54,896
Other assets	944,150
Total current assets	12,908,429
Noncurrent Assets:	
Restricted Assets:	
Cash and cash equivalents	1,390,792
Accounts receivable (net of allowance for doubtful accounts)	315,882
Investments	6,061,115
Other assets	303,750
Investments	3,351,294
Capital assets, (net of accumulated depreciation)	102,635,980
Total noncurrent assets	114,058,813
Total assets	126,967,242
DEFERRED OUTFLOWS OF RESOURCES – NET OF AMORTIZATION:	
Deferred outflows of resources – bond refunding costs	509,447
Pension Deferred Outflows of Resources:	
Differences between expected and actual experience	67,637
Changes in assumptions	210,588
Differences between expected and actual investment earnings	710,972
Changes in proportion and differences between employer contributions and proportionate share of contributions	197,705
Subsequent pension contributions from measurement date	478,827
OPEB Deferred Outflows of Resources:	
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,014
Subsequent OPEB contributions from measurement date	2,619,653
Total deferred outflows of resources	4,798,843

BRAZOSPORT COLLEGE DISTRICT
STATEMENTS OF NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT 1
Page 2 of 2

LIABILITIES	<u>2018</u>
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 973,405
Funds held for others	237,491
Unearned revenue	1,833,307
Accrued compensated absences	55,000
Obligation under capital lease	67,632
Net OPEB liability	68,794
Liabilities Payable from Restricted Assets:	
Accounts payable and accrued liabilities	250,730
Unearned revenue	200,495
Bonds payable	<u>3,480,989</u>
Total current liabilities	<u>7,167,843</u>
Noncurrent liabilities:	
Bonds payable	59,927,594
Obligations under capital lease	9,671,020
Accrued compensated absences	277,382
Net pension liability	4,623,057
Net OPEB liability	<u>13,489,215</u>
Total noncurrent liabilities	<u>87,988,268</u>
Total liabilities	<u>95,156,111</u>
DEFERRED INFLOWS OF RESOURCES – NET OF AMORTIZATION:	
Pension Deferred Inflows of Resources:	
Differences between expected and actual experience	249,315
Changes in assumptions	120,556
Differences between projected and actual investment earnings	1,047,891
Changes in proportion and employer contributions and proportionate share of contributions	242,292
OPEB Deferred Inflows of Resources:	
Differences between expected and actual experience	162,924
Changes in assumptions	<u>2,834,818</u>
Total deferred inflows of resources	<u>4,657,796</u>
NET POSITION	
Net investment in capital assets	29,998,191
Restricted:	
Nonexpendable:	
Endowments	5,161,657
Expendable:	
Endowments	903,609
Student aid	129,081
Instructional programs	24,833
Debt service	629,202
Unrestricted	<u>(4,894,395)</u>
Total net position	<u>\$ 31,952,178</u>

The accompanying notes are an integral part of this statement.

BRAZOSPORT COLLEGE FOUNDATION
AFFILIATED ORGANIZATION
BRAZOSPORT COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT 1A
Page 1 of 1

	<u>2018</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 172,093
Pledges receivable (net of allowance for doubtful accounts)	<u>54,570</u>
Total current assets	<u>226,663</u>
Noncurrent Assets:	
Pledges receivable (net of allowance for doubtful accounts and discounts)	331,680
Investments	<u>4,702,074</u>
Total noncurrent assets	<u>5,033,754</u>
Total assets	<u>5,260,417</u>
LIABILITIES:	
Current Liabilities:	
Accounts payable	6,206
Unearned revenue	<u>83,060</u>
Total current liabilities	89,266
Noncurrent liabilities:	
Total noncurrent liabilities	<u> </u>
Total liabilities	<u>89,266</u>
NET ASSETS	
Restricted:	
Permanently restricted	2,107,205
Temporarily restricted	1,952,727
Unrestricted	<u>1,111,219</u>
Total net assets	<u>\$ 5,171,151</u>

The accompanying notes are an integral part of this statement.

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BRAZOSPORT COLLEGE DISTRICT**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2018**EXHIBIT 2
Page 1 of 1

	<u>2018</u>
REVENUES	
Operating Revenues:	
Tuition and fees (net of discounts of \$ 2,117,167, respectively)	\$ 9,425,033
Federal grants and contracts	1,459,126
State grants and contracts	575,312
Local grants and contracts	690,396
Non-governmental grants and contracts	133,475
Sales and services of educational activities	243,916
Auxiliary enterprises	95,893
Other operating revenues	<u>772,101</u>
Total operating revenues	<u>13,395,252</u>
EXPENSES	
Operating Expenses:	
Instruction	17,617,640
Public services	230,561
Academic support	2,740,121
Student services	3,426,524
Institutional support	6,627,810
Operation and maintenance of plant	3,395,178
Scholarships and fellowships	2,295,424
Auxiliary enterprises	675,403
Depreciation	<u>4,173,448</u>
Total operating expense	<u>41,182,109</u>
Operating loss	<u>(27,786,857)</u>
NON-OPERATING REVENUES (EXPENSES)	
State appropriations	7,831,804
Title IV federal programs	3,027,660
Taxes for maintenance and operations	21,446,438
Debt service ad valorem taxes	4,480,136
Investment income net of investment expenses	494,175
Interest on capital related debt	(2,895,193)
Other non-operating revenues (expenses)	<u>(628,162)</u>
Net non-operating revenues	<u>33,756,858</u>
Income before other revenues, (expenses), gains, (losses)	5,970,001
Other Revenues, (Expenses), Gains, (Losses)	
Additions to permanent and term endowments	<u>9,453</u>
Increase in net position	<u>5,979,454</u>
NET POSITION	
Net position – beginning of year	41,798,889
Cumulative effect of change in accounting principle	<u>(15,826,165)</u>
Net position – beginning of year (restated)	<u>25,972,724</u>
Net position – end of year	<u>\$ 31,952,178</u>

The accompanying notes are an integral part of this statement.

BRAZOSPORT COLLEGE FOUNDATION
AFFILIATED ORGANIZATION
BRAZOSPORT COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT 2A
Page 1 of 1

	<u>2018</u>
REVENUE	
Gifts (net of discounts)	\$ 510,802
Fundraising	251,813
Interest and dividend income	99,881
Gain on investments	115,493
Unrealized investment income	<u>84,221</u>
Total revenue	<u>1,062,210</u>
EXPENSES	
Fundraising expenses	154,985
Investment expenses	17,992
Administrative	12,059
Student aid scholarships	444,923
Grants to Brazosport College District	<u>266,655</u>
Total operating expenses	<u>896,614</u>
Increase in net assets	165,596
NET ASSETS	
Net assets - beginning of year	<u>5,005,555</u>
Net assets - end of year	<u>\$ 5,171,151</u>

The accompanying notes are an integral part of this statement.

BRAZOSPORT COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT 3
Page 1 of 2

	<u>2018</u>
Cash Flows from Operating Activities:	
Receipts from students and other customers	\$ 10,268,002
Receipts of appropriations, grants and contracts	2,922,205
Collection of loans to students and employees	100,677
Receipts from student organizations	20,049
Other receipts	772,101
Payments to or on behalf of employees	(24,134,286)
Payments to suppliers of goods and services	(11,595,244)
Payments of scholarships	(2,295,424)
Loans to students and employees	(85,662)
Payment on behalf of student organizations	(284)
Net cash used by operating activities	<u>(24,027,866)</u>
Cash Flows from Noncapital Financing Activities:	
State appropriations	5,462,248
Ad valorem tax revenues	25,901,831
Title IV federal programs	3,027,660
Gifts and grants (other than capital)	<u>9,453</u>
Net cash provided by non-capital and related financing activities	<u>34,401,192</u>
Cash Flows from Capital and Related Financing Activities:	
Principal payments on bonded debt	(2,235,000)
Interest and fees paid on bonded debt	(2,518,684)
Purchases of capital assets	<u>(2,287,243)</u>
Net cash used by capital and related financing activities	<u>(7,040,927)</u>
Cash Flows from Investing Activities	
Proceeds from sale and maturity of investments	6,349,144
Investment earnings	513,414
Purchases of investments	<u>(6,252,560)</u>
Net cash provided by investing activities	<u>609,998</u>
Increase in cash and cash equivalents	3,942,397
Cash and cash equivalents – September 1,	<u>8,738,849</u>
Cash and cash equivalents – August 31,	<u>\$ 12,681,246</u>

BRAZOSPORT COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT 3
Page 2 of 2

	<u>2018</u>
Noncash Transactions Affecting Financial Position:	
Change in value of investments – from cost to fair value	\$ 24,512
Changes in deferred outflows of resources	(2,201,618)
Changes in net pension liability	(587,798)
Changes in net OPEB liability	(2,640,529)
Changes in deferred inflows of resources	<u>3,494,383</u>
Net noncash transactions affecting financial position	<u>\$(1,911,050)</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:	
Operating loss	\$(27,786,857)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	4,173,448
State on-behalf benefits	2,369,556
Change in Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources:	
Assets:	
Receivables, net	8,713
Inventories	9,877
Other assets	(328,965)
Deferred Outflows of Resources:	
Differences between expected and actual experience	14,068
Changes in assumptions	(51,770)
Differences between projected and actual investment earnings	293,167
Changes in proportion and differences between employer contributions And proportionate share of contributions	(201,719)
Subsequent contributions from measurement date	(2,255,364)
Liabilities:	
Accounts payable	(846,611)
Unearned revenue	286,891
Funds held for others	19,765
Compensated absences	2,279
Net pension liability	(587,798)
Net OPEB liability	(2,640,929)
Deferred Inflows of Resources:	
Differences between expected and actual experience	93,722
Changes in assumptions	139,042
Differences between projected and actual investment earnings	484,997
Changes in proportion and employer contributions and proportionate share of contributions	<u>2,776,622</u>
Net cash used by operating activities	<u>\$(24,027,866)</u>

The accompanying notes are an integral part of this statement.

BRAZOSPORT COLLEGE DISTRICT
AFFILIATED ORGANIZATION
BRAZOSPORT COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT 3A
Page 1 of 1

	<u>2018</u>
Cash Flows from Operating Activities:	
Receipts from contributions	\$ 697,397
Receipts from fundraising	298,413
Receipt of interest and dividend earnings	99,881
Proceeds from sale and maturity of investments	495,774
Payments to suppliers of goods and services	(187,808)
Purchases of investments	(743,500)
Payments of scholarships	(444,923)
Payments of grants to Brazosport College District	<u>(266,655)</u>
Net cash used by operating activities	<u>(51,421)</u>
Cash Flows from Noncapital Financing Activities:	
Net cash provided (used) by non-capital and related 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:	
Net cash provided (used) by investing activities	<u>-0-</u>
Decrease in cash and cash equivalents	(51,421)
Cash and cash equivalents – September 1,	<u>223,514</u>
Cash and cash equivalents – August 31,	<u>\$ 172,093</u>
Noncash Transactions Affecting Financial Position:	
Contributions of in-kind services	\$ 7,200
Change in value of investments - from cost to fair value increase	<u>84,221</u>
Net noncash transactions affecting financial position	<u>\$ 91,421</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)	
By Operating Activities:	
Operating income	\$ 165,596
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)	
By Operating Activities:	
Change in Assets and Liabilities:	
Pledges receivable, net of allowance and discount	186,595
Investments	(447,430)
Accounts payable	(2,782)
Unearned revenue	<u>46,600</u>
Net cash used by operating activities	<u>\$(51,421)</u>

The accompanying notes are an integral part of this statement.

BRAZOSPORT COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2018

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

1. REPORTING ENTITY

1.A. Introduction

The accounting and reporting framework and the more significant accounting principles and practices of Brazosport College District (the "College") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the College's financial activities for the fiscal year ended August 31, 2018.

1.B. Reporting Entity

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.A. Report Guidelines

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

2.B. Tuition Discounting

Texas Public Education Grants

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.B. Tuition Discounting (Continued)

Title IV, Higher Education Act Program Funds

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

Other Tuition Discounts

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

2.C. Basis of Accounting

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

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

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

2.D. Budgetary Data

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.E. Cash and Investments

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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of \$ 10,694,001 at August 31, 2018, respectively to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

2.F. Restricted Assets

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

2.G. Inventories

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

2.H. Capital Assets

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.I. Capitalized Interest

Interest costs are capitalized when incurred on debt where proceeds were used to finance construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. During the year ended August 31, 2018, the College capitalized no interest related to the construction of energy conservation measures funded by capital lease, respectively.

2.J. Unearned Revenues

Tuition and fees of \$ 1,833,307, and federal, state and local grants of \$ 200,495, have been reported as unearned revenue at August 31, 2018.

2.K. Estimates

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

2.L. Endowments (Donor Restricted)

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

The College's endowment consists of approximately 38 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Regents to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Endowment net position consists of the following at August 31, 2018:

<u>August 31, 2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$	\$	\$ 5,161,657	\$ 5,161,657
Board-designated endowment funds	_____	903,609	_____	903,609
Total endowed net position	\$ <u>-0-</u>	\$ <u>903,609</u>	\$ <u>5,161,657</u>	\$ <u>6,065,266</u>

Changes in endowment net position for the year ended August 31, 2018:

<u>August 31, 2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net position, September 1, 2017	\$ <u>-0-</u>	\$ <u>862,294</u>	\$ <u>5,119,354</u>	\$ <u>5,981,648</u>
Investment Return:				
Investment income		117,933	16,955	134,888
Realized gains		100,502	14,448	114,950
Unrealized gains		23,590	3,391	26,981
Investments fees		(13,525)	(1,944)	(15,469)
Total investment return	-0-	228,500	32,850	261,350
Contributions			9,453	9,453
Scholarships provided		(187,185)		(187,185)
Endowment net position, August 31, 2018	\$ <u>-0-</u>	\$ <u>903,609</u>	\$ <u>5,161,657</u>	\$ <u>6,065,266</u>

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.L. Endowments (Donor Restricted) - Continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the College to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Regents. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net position. There were no such deficiencies as of August 31, 2018.

Return Objectives and Risk Parameters

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

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

Strategies Employed for Achieving Objectives

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

Spending policy and How the Investment Objectives Relate to Spending Policy

The College's Board of Regents chooses to spend only a portion of the endowment earnings each year. Under the policy established by the Board, annual distributions shall be approximately 3 to 5 percent of the sum of the original corpus plus realized gains. The annual spending shall not reduce the original corpus value. The remaining endowment earnings, if any, is retained and classified as expendable for future years. The Board may spend income from the endowment fund for scholarships or operations of the college. For the year ended August 31, 2018, temporarily restricted assets increased the amount available to be spent by \$ 11,315.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2.N. Authorized Investments

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

2.O. New Pronouncements

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

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. This statement was implemented and impacted the College's financial statements as described in Note 3. This statement is effective for periods beginning after June 15, 2017.

GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" was issued June 2015. This statement was implemented and did not have a material effect on the College's financial statements. This statement is effective for periods beginning after June 15, 2015.

GASB No. 77 "Tax Abatement Disclosures" was issued in August 2015. This statement was implemented during the prior year. This statement is effective for periods beginning after December 15, 2015.

GASB No. 78 "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" was issued in December 2015. The statement was implemented and did not have a material effect on the College's financial statements. This statement is effective for periods beginning after December 15, 2015.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.0. New Pronouncements (Continued)

GASB No. 79 “Certain External Investment Pools and Pool Participants” was issued in December 2015. The statement was implemented and did not have a material effect on the College’s financial statements. This statement is effective for periods beginning after December 15, 2015.

GASB No. 80 “Blending Requirements for Certain Component Units and amendment of GASB No. 14” was issued in January 2016. The statement was implemented and did not have a material effect on the College’s financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 81 “Irrevocable Split-Interest Agreements” was issued in March 2016. The statement was implemented and did not have a material effect on the College’s financial statements. The requirements of this Statement are effective for periods beginning after December 15, 2016.

GASB No. 82 “Pension Issues – an amendment of GASB No. 67, No. 68, and No. 73” was issued in March 2016. The statement was implemented and did not have a material effect on the College’s financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2016.

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.O. New Pronouncements (Continued)

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

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

2.P. Pensions and Other Post-Employment Benefits (OPEB)

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

3. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD RESTATEMENT

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

	2018
<u>Business-Type Activities</u>	
Net position, August 31, previously reported	\$ 41,798,889
Addition of Outflows of Resources – Subsequent OPEB Contributions	372,774
Addition of net OPEB liability	(16,198,939)
Net position, August 31, restated	\$ 25,972,724

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

4. DEPOSITS AND INVESTMENTS

The College classifies deposits and investments for financial statement purposes as cash and cash equivalents, short-term investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either short-term investments or investments. Short-term investments have maturity of one year or less and investments are those that have a maturity of one year or more. See Note 2.E. for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

Cash and cash equivalents, short-term investments, and investments as reported on the statement of net position at August 31, 2018 as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Cash Equivalents:			
Cash (cashier and petty cash accounts)	\$ 25,961	\$	\$ 25,961
Financial Institution Deposits:			
Demand deposits	1,270,740	690,534	1,961,274
Pooled Deposits:			
TexPool, Lone Star, LOGIC & TexSTAR	9,993,753	700,248	10,694,001
Total cash and cash equivalents	11,290,454	1,390,782	12,681,236
Investments:			
Investments Held by Broker-Dealers:			
Certificates of deposit	749,258	99,000	848,258
U.S. Treasuries	995,630		995,630
U.S. Agencies	1,539,373		1,539,373
Mutual funds	67,033	4,030,312	4,097,345
Equities		1,931,803	1,931,803
Total investments	3,351,294	6,061,115	9,412,409
	\$ 14,641,748	\$ 7,451,897	\$ 22,093,645

4.A. Deposits

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

At August 31, 2018, the carrying amounts of the College's deposits of the primary government were \$ 2,809,532 and total financial institution balances equaled \$ 3,042,062. At August 31, 2018, financial institutions balances of \$ 1,158,712 were covered by federal depository insurance, \$ 504,100 were covered by the Securities Investor Protection Corporation Insurance, \$ 1,379,250 were covered by collateral pledged in College's name. The collateral was held in safekeeping departments of unrelated financial institutions, which act as the pledging financial institution's agents. The College's deposits held at financial institutions were collateralized or insured.

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

4. DEPOSITS AND INVESTMENTS (Continued)

4.A. Deposits (Continued)

The College's deposits and investments are invested pursuant to the investment policies, which are approved by the Board of Regents. The investment policies include lists of authorized investment instruments and allowable stated maturity of individual investments. In addition they include an "Investment Strategy Statement" that specifically addresses each type's (unrestricted and restricted) investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the College will deposit funds is addressed.

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

4.B. Investments

Unrestricted Investment Policy

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

1. Obligations of the United States Government or its agencies and instrumentalities, which have the full faith and credit guarantee of the United States Government or its agencies and instrumentalities.
2. Certificates of deposit guaranteed by the Federal Deposit Insurance Corporation issued by state and national banks domiciled in Texas.
3. Demand deposits and certificates of deposit guaranteed by the Federal Deposit Insurance Corporation or secured by pledged securities issued by the depository approved by the Board of Regents.
4. Public funds investment pools as permitted by Government Code 2256.016 – 2256.019 and approved by Board resolution up to twenty-five million dollars. Public funds investment pools may also be used to deposit bond sale proceeds up to the limit of the bonds issued. As long-term investments are purchased, the funds are transferred out of the public funds investment pool account.
5. Commercial paper that has a maturity of 270 days or fewer and is rated no less than A-1 or P-1 by at least two nationally recognized rating agencies.
6. Money market mutual funds as permitted by Government Code 2256.014 and approved by Board resolution.
7. Fully collateralized repurchase agreements as permitted by Government Code 2256.011.

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

4. DEPOSITS AND INVESTMENTS (Continued)

4.B. Investments (Continued)

Restricted Investment Policy (Endowments)

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

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

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

1. Mutual Fund Investments – The investment guidelines for mutual funds and limited partnerships are detailed in the prospectus or Declaration of Trust for individual funds. The investment advisor is responsible for reviewing these guidelines to ensure they are generally consistent with College's investment policy and advising the Board.
2. Permitted Securities – The securities shall be registered with the Securities and Exchange Commission, and traded on a recognized U.S. stock exchange or over-the-counter market. Private placement issues also known as "144A" securities may not be purchased.
 - a. Real Estate Securities include: Equity REITs, mortgage REITs, CMO or mortgage-related securities REITs, Health Care REITs, and equities of real estate operating companies.
 - b. Fixed Income Securities include: Domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, U.S. Corporations, Yankee bonds and notes (bonds or notes issued by non-U.S. based corporations and governments but traded in the US), securitized mortgages (GNMA's, FNMA's, FHLMC's) collateralized mortgage obligations, asset-backed securities, taxable municipal bonds, convertible bonds and preferred stock.
 - c. International Securities include: sponsored and unsponsored American Depository Shares (ADS's) or other depository securities of non-U.S. based companies traded in the U.S. and closed-end country funds. Equities of foreign domiciled companies that are traded in the U.S. may also be purchased so long as the securities are registered with the Securities and Exchange Commission and traded on a recognized national exchange or over-the-counter market.

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

4. DEPOSITS AND INVESTMENTS (Continued)

4.B. Investments (Continued)

Restricted Investment Policy (Endowments) (Continued)

3. Excluded Investments – The endowment’s assets may not be used for the following purposes:
- a. Short sales;
 - b. Purchases of letter stock or private placements;
 - c. Leveraged transactions except through experienced fund managers;
 - d. Commodities transactions;
 - e. Puts, calls, straddles, or other option strategies;
 - f. Purchase of real estate, oil and gas properties, or other natural resources related properties with the exception of Real Estate Investment Trusts or marketable real estate securities;
 - g. Investment in limited partnerships except for publicly traded Master Limited Partnerships and debt issued by Real Estate Master Trusts; and
 - h. Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in the investment policy statement.

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

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

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

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

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

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

4. DEPOSITS AND INVESTMENTS (Continued)

4.B. Investments (Continued)

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

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

The College invests in TexPool, Lone Star, TexSTAR, and LOGIC to provide its liquidity needs. TexPool, Lone Star, TexSTAR, and LOGIC are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool, Lone Star, TexSTAR, and LOGIC are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. TexPool, Lone Star, TexSTAR, and LOGIC are rated AAAM and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At August 31, 2018 TexPool, Lone Star, TexSTAR, and LOGIC had a weighted average maturity of 28 days, 20 days, 24 days, and 34 days, respectively. Although TexPool, Lone Star, TexSTAR, and LOGIC portfolios had a weighted average maturity of 28 days, 20 days, 24 days, and 34 days, respectively, the College considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the College's investments are insured, registered, or the College's agent holds the securities in the College's name; therefore, the College is not exposed to custodial credit risk.

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

4. DEPOSITS AND INVESTMENTS (Continued)

4.B. Investments (Continued)

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Local government investment pools	\$ 9,993,753	\$ 700,248	\$ 10,694,001
Certificates of deposit	749,258	99,000	848,258
U.S. Treasuries	995,630		995,630
U.S. Agencies	1,539,373		1,539,373
Mutual funds	67,033	4,030,312	4,097,345
Equities		<u>1,931,803</u>	<u>1,931,803</u>
	<u>\$ 13,345,047</u>	<u>\$ 6,761,363</u>	<u>\$ 20,106,410</u>

Unrestricted Funds

As of August 31, 2018, the College's unrestricted funds had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Certificates of deposit	\$ 749,258	85
Local government investment pools (LGIP)	9,993,753	28
U.S. Treasuries	995,630	181
U.S. Agencies	<u>1,539,373</u>	382
	13,278,014	88
Mutual funds	<u>67,033</u>	
	<u>\$ 13,345,047</u>	

Credit Risk – As of August 31, 2018, the LGIPs (which represent approximately 69% of the unrestricted portfolio are rated AAAM by Standard and Poor's. The money market cash accounts (which represent approximately 6% of the unrestricted portfolio are covered 100% by federal deposit insurance, SIPC and private insurance. The certificates of deposit accounts (which represent approximately 6% of the unrestricted portfolio are covered 100% by federal deposit insurance. The U.S. Treasuries (which represent approximately 7%) and the U.S. agencies (which represent approximately 11%) of the unrestricted portfolio are rated AAA and Aaa by Standard and Poor's, and Moody's. The Mutual funds (which represent 1% of the unrestricted portfolio complete the investment portfolio.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires 50% of unrestricted net assets not exceed one (1) year and none exceed two (2) years, unless matched to a specific requirement, such as investments required to support student scholarships. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the College's cash flow requirements.

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

4. DEPOSITS AND INVESTMENTS (Continued)

4.B. Investments (Continued)

Restricted (Non-Endowment) Funds

As of August 31, 2018, the College's non-endowment restricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pools (LGIP)	\$ <u>700,248</u>	28
	\$ <u>700,248</u>	

Credit Risk - As of August 31, 2018, the LGIP's (which represent 100% of the restricted (non-endowment) portfolio are rated AAAM by Standard and Poor's.

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

Restricted (Endowment) Funds

As of August 31, 2018, the College's endowment restricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Certificates of deposit	\$ 99,000	28
Mutual funds	4,030,312	
Equities	<u>1,931,803</u>	
	<u>\$ 6,061,115</u>	

Credit Risk - As of August 31, 2018, the money market cash accounts (which represent approximately 0% of the restricted (endowment) portfolio are covered 100% by SIPC. The certificates of deposit (which represent approximately 2% of the restricted (endowment) portfolio are covered 100% by federal deposit insurance. Mutual funds (which represent approximately 66% of the restricted (endowment) portfolio, and equities (which represent approximately 32% of the restricted (endowment) portfolio, complete the investment portfolio.

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

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

4. DEPOSITS AND INVESTMENTS (Continued)

4.B. Investments (Continued)

Foreign Currency Risk – The College’s investment policy permits it to invest up to 15 percent of total investments in foreign investments. Amounts over 15 percent require periodic rebalancing. As of August 31, 2018, the College’s restricted investments in mutual funds and equity securities were exposed to foreign currency risk as follows:

Country	Currency	Value August 31, 2018
Argentina	Argentinian Peso	\$ 5,636
Brazil	Real	5,376
Canada	Dollar	27,743
Chile	Chilean Peso	11,203
China	Chinese Renminbi	24,605
Czech Republic	Czech Koruna	208
Denmark	Danish Krone	6,506
Egypt	Egyptian Pound	2,256
Georgia	Lari	38
Hong Kong	Hong Kong Dollar	25,396
Hungary	Hungarian Forint	296
India	Indian Rupee	33,626
Indonesia	Rupiah	2,171
Japan	Japanese Yen	100,685
Kenya	Shilling	478
Malaysia	Ringgit	24,436
Norway	Norwegian Krone	23,421
Philippines	Philippine Peso	1,057
Qatar	Qatar Rial	609
Russia	Ruble	5,543
Singapore	Dollar	3,781
South Africa	Rand	6,833
South Korea	Won	29,471
Sweden	Krona	13,107
Argentina	Argentinian Peso	\$ 5,636
Thailand	Bhat	\$ 2,624
United Arab Emirates	Dirhan	726
Uruguay	Peso	1,754
Vietnamese	Dong	467
Various	Euro	<u>6,361</u>
Total foreign investments		366,413
United States		<u>5,662,735</u>
Total mutual funds, real estate securities and equities		<u>\$ 6,029,148</u>

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

4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

4.B. Investments (Continued)

At August 31, 2018, the College held 6.1% and 3.9% in foreign investments in restricted investments and total investments, respectively. These balances will be reviewed annually and adjusted as necessary to comply with the investment policy and to maximize the College's return on investment.

4.C. Fair Value Measures

GASB No. 72, "Fair Value Measurement and Application" establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB No. 72 are described below:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

Unrestricted Funds

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasuries	\$ 995,630	\$	\$	\$ 995,630
U.S. Agencies	1,539,373			1,539,373
Mutual funds	<u>67,033</u>	<u> </u>	<u> </u>	<u>67,033</u>
Total assets at fair value	<u>\$ 2,602,036</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,602,036</u>

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

4. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

4.C. Fair Value Measures (Continued)

Restricted (Non-Endowment) Funds

No investments held subject to the fair value hierarchy.

Restricted (Endowment) Funds

The following table sets forth by level, within the fair value hierarchy; the College's restricted (endowment) assets at fair value as of August 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 4,030,312	\$	\$	\$ 4,030,312
Equities	<u>1,931,803</u>	<u> </u>	<u> </u>	<u>1,931,803</u>
Total assets at fair value	<u>\$ 5,962,115</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,962,115</u>

4.D. 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 College made no direct investments in derivatives during the year ended August 31, 2018, and held no direct investments in derivatives at August 31, 2018.

5. CAPITAL ASSETS

5.A. Changes in Capital Assets

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

	<u>Balance September 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2018</u>
Non-Depreciated Capital Assets:				
Land	\$ 296,189	\$	\$	\$ 296,189
Art	146,795			146,795
Construction in progress	<u>10,113,434</u>	<u>1,118,781</u>	<u>10,824,640</u>	<u>407,575</u>
Total non-depreciated	<u>10,556,418</u>	<u>1,118,781</u>	<u>10,824,640</u>	<u>850,559</u>

(continued)

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

5. CAPITAL ASSETS (Continued)

5.A. Changes in Capital Assets (Continued)

	Balance September 1, 2017	Increases	Decreases	Balance August 31, 2018
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciated Capital Assets:				
Land improvements	\$ 11,873,213	\$ 80,333	\$ 265,193	\$ 11,688,353
Buildings	116,078,136	10,637,271	2,664,417	124,050,990
Furniture, machinery, vehicles, and other equipment	6,203,505	257,896	538,989	5,922,412
Library books	2,772,256	125,265	66,731	2,830,790
Telecommunication and peripheral equipment	<u>5,534,632</u>	<u>892,337</u>	<u>351,198</u>	<u>6,075,771</u>
Total depreciated capital assets	<u>142,461,742</u>	<u>11,993,102</u>	<u>3,886,528</u>	<u>150,568,316</u>
Total assets	<u>153,018,160</u>	13,111,883	14,711,168	<u>151,418,875</u>
Construction in progress		<u>10,824,640</u>	<u>10,824,640</u>	
Total additions/retirements		<u>\$ 2,287,243</u>	<u>\$ 3,886,528</u>	
Accumulated Depreciated:				
Land improvements	5,417,800	\$ 392,448	\$ 207,344	5,602,904
Buildings	31,556,676	2,662,237	2,094,104	32,124,809
Furniture, machinery, vehicles and other equipment	4,281,961	265,250	538,989	4,008,222
Library books	1,993,506	158,655	66,731	2,085,430
Telecommunications and peripheral equipment	<u>4,617,870</u>	<u>694,858</u>	<u>351,198</u>	<u>4,961,530</u>
Total accumulated depreciation	<u>47,867,813</u>	<u>\$ 4,173,448</u>	<u>\$ 3,258,366</u>	<u>48,782,895</u>
Net depreciated capital assets	<u>94,593,929</u>			<u>101,785,421</u>
Net capital assets	<u>\$ 105,150,347</u>			<u>\$ 102,635,980</u>

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

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

5. CAPITAL ASSETS (Continued)

5.B. Depreciation Expense

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

5.C. Unexpended Plant Construction Commitments

There were no construction commitments as of August 31, 2018.

6. LONG-TERM LIABILITIES

The following is a summary of changes in long-term debt for the years ended August 31, 2018:

	Balance September 1, 2017	<u>Additions</u>	<u>Reductions</u>	Balance August 31, 2018	Current Portion
Revenue bonds	\$ 4,545,000	\$	\$	\$ 4,545,000	\$ 880,000
Limited tax bonds	55,995,000		2,235,000	53,760,000	2,270,000
Capital lease	9,738,652			9,738,652	67,632
Components of Long-Term Debt:					
Premium on limited tax bonds	5,443,239		339,656	5,103,583	330,989
Net pension obligation	5,210,855	2,964,605	3,552,403	4,623,057	
Net OPEB obligation	16,198,938	1,513,040	4,153,969	13,558,009	68,794
Compensated absences	<u>330,103</u>	<u>53,968</u>	<u>51,689</u>	<u>332,382</u>	<u>55,000</u>
Total long-term liabilities	<u>\$ 97,461,787</u>	<u>\$ 4,531,613</u>	<u>\$ 10,332,717</u>	<u>\$ 91,660,683</u>	<u>\$ 3,672,415</u>

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

6. LONG-TERM LIABILITIES (Continued)

The annual debt service requirements to maturity for bonded debt as of August 31, 2018 are as follows:

For the Year Ended August 31,	Combined Fee Revenue Refunding Bonds Series 2006		Limited Tax Bonds Series 2010	
	Principal	Interest	Principal	Interest
	2019	\$ 880,000	\$ 72,720	\$ 955,000
2020	895,000	58,640	985,000	151,425
2021	910,000	44,320	1,015,000	121,425
2022	925,000	29,760	290,000	101,850
2023	935,000	14,960		97,500
2024-2028			700,000	426,250
2029-2033			1,825,000	93,900
Total	<u>\$ 4,545,000</u>	<u>\$ 220,400</u>	<u>\$ 5,770,000</u>	<u>\$ 1,172,875</u>

For the Year Ended August 31,	Limited Tax Bonds Series 2011		Limited Tax Bonds Series 2015	
	Principal	Interest	Principal	Interest
	2019	\$ 375,000	\$ 337,781	\$
2020	390,000	322,482		374,638
2021	405,000	306,581		374,637
2022	425,000	287,857		374,638
2023		277,231		374,637
2024-2028	1,110,000	1,340,781	295,000	1,866,919
2029-2033	3,215,000	835,322	8,520,000	935,638
2034-2036	2,285,000	148,431		
Total	<u>\$ 8,205,000</u>	<u>\$ 3,856,466</u>	<u>\$ 8,815,000</u>	<u>\$ 4,675,744</u>

For the Year Ended August 31,	Limited Tax Refunding Bonds Series 2016		Limited Tax Refunding Bonds Series 2017	
	Principal	Interest	Principal	Interest
	2019	\$ 940,000	\$ 931,857	\$
2020	960,000	912,855		360,600
2021	980,000	888,557		360,600
2022	1,785,000	829,230		360,600
2023	2,630,000	718,857		360,600
2024-2028	10,550,000	1,715,856	2,590,000	1,700,400
2029-2033	1,985,000	571,981	3,515,000	958,900
2034-2036	2,125,000	98,791	2,910,000	178,200
Total	<u>\$ 21,955,000</u>	<u>\$ 6,667,984</u>	<u>\$ 9,015,000</u>	<u>\$ 4,640,500</u>

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

6. LONG-TERM LIABILITIES (Continued)

For the Year Ended August 31,	Total		Total Bonds	
	General Obligation Bonds		Principal	Interest
	Principal	Interest		
2019	\$ 2,270,000	\$ 2,185,400	\$ 3,150,000	\$ 2,258,120
2020	2,335,000	2,122,000	3,230,000	2,180,640
2021	2,400,000	2,051,800	3,310,000	2,096,120
2022	2,500,000	1,954,175	3,425,000	1,983,935
2023	2,630,000	1,828,825	3,565,000	1,843,785
2024-2028	15,245,000	7,050,206	15,245,000	7,050,206
2029-2033	19,060,000	3,395,741	19,060,000	3,395,741
2034-2036	<u>7,320,000</u>	<u>425,422</u>	<u>7,320,000</u>	<u>425,422</u>
Total	<u>\$ 53,760,000</u>	<u>\$ 21,013,569</u>	<u>\$ 58,305,000</u>	<u>\$ 21,233,969</u>

7. BONDS PAYABLE

General information related to bonds payable is summarized below:

7.A. Limited Tax Bonds, Series 2008

- To construct the Master Plan which adds several buildings and renovates and improves the campus.
- Issue date was May 23, 2008.
- Original amount of issue; amount authorized \$ 28,470,000.
- Limited Tax Bond Issue was approved by the voters of the Brazosport College District for \$ 70,000,000. Property taxes will pay the debt.
- Balance as of August 31, 2018 was \$ -0-.

7.B. Limited Tax Bonds, Series 2010

- To construct the Master Plan, which adds several buildings, and renovates, and improves the campus.
- Issue date was October 14, 2010.
- Original amount of issue: amount authorized \$ 29,360,000.
- Limited Tax Bond Issue was approved by the voters of the Brazosport College District for \$ 70,000,000. Property taxes will pay the debt.
- Balance as of August 31, 2018 was \$ 5,770,000.

7.C. Limited Tax Bonds, Series 2011

- To construct the Master Plan, which adds several buildings, and renovates, and improves the campus.
- Issue date was November 8, 2011.
- Original amount of issue: amount authorized \$ 11,820,000.
- Limited Tax Bond Issue was approved by the voters of the Brazosport College District for \$ 70,000,000. Property taxes will pay the debt.
- Balance as of August 31, 2018 was \$ 8,205,000.

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

7. BONDS PAYABLE (Continued)

7.D. Limited Tax Refunding Bonds, Series 2015

- To advance refund \$ 8,945,000 in Limited Tax Bonds, Series 2008.
- Issue date was December 15, 2015.
- Original amount of issue: amount authorized \$ 8,890,000.
- Limited Tax Refunding Bond Issue was approved by the Board of Regents of the Brazosport College District. Property taxes will pay the debt.
- Balance as of August 31, 2018 was \$ 8,815,000.

7.E. Limited Tax Refunding Bonds, Series 2016

- To advance refund \$ 11,795,000 in Limited Tax Bonds, Series 2008, \$ 9,280,000 in Limited Tax Bonds, Series 2010, and \$ 1,935,000 in Limited Tax Bonds, Series 2011.
- Issue date was May 10, 2016.
- Original amount of issue: amount authorized \$ 21,955,000.
- Limited Tax Refunding Bond Issue was approved by the Board of Regents of the Brazosport College District. Property taxes will pay the debt.
- Balance as of August 31, 2018 was \$ 21,955,000.

7.F. Combined Fee Revenue Refunding Bonds, Series 2016

- To refund \$ 4,460,000 in Combined Fee Revenue Refunding Bonds, Series 2006.
- Issue date was September 15, 2016.
- Original amount of issue: amount authorized \$ 4,545,000.
- The sources for debt service are the registration fee, pledged tuition fee, building fee, and corporate learning fee.
- Balance as of August 31, 2018 was \$ 4,545,000.

7.G. Limited Tax Refunding Bonds, Series 2017

- To advance refund \$ 9,135,000 in Limited Tax Bonds, Series 2017, \$ 9,280 in Limited Tax Bonds, Series 2010.
- Issue date was April 17, 2017.
- Original amount of issue: amount authorized \$ 9,015,000.
- Limited Tax Refunding Bond Issue was approved by the Board of Regents of the Brazosport College District. Property taxes will pay the debt.
- Balance as of August 31, 2018 was \$ 9,015,000.

Bonds (principal and interest) payable are due in annual installments varying from \$ 2,578,169 to \$ 5,410,640 with interest rates from 1.60% to 5.50% with the final installment due in 2036.

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

8. ADVANCE REFUNDING AND DEFEASED DEBT, AND REFUNDING COSTS

8A. Advance Refunding and Defeased Debt

On November 29, 2006, the College issued \$ 6,885,000 in Combined Fee Revenue Refunding Bonds – Series 2006 for the refunding of previously issued outstanding bonds, as follows: \$ 4,190,000 Combined Fee Revenue Bonds, Series 2001 and \$ 2,320,000 Combined Fee Revenue Bonds, Series 2002. The College placed the proceeds (\$ 6,832,346) of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 231,800. The economic gain resulting from the transaction was \$ 205,753. The outstanding balance of these defeased bonds at August 31, 2018 was \$ 2,635,000, and the balance held in escrow was \$ 2,560,885.

On December 15, 2015, the College issued \$ 8,890,000 in Limited Tax Revenue Refunding Bonds – Series 2015 for the refunding of \$ 8,945,000 in Limited Tax Bonds, Series 2008. The College placed the proceeds (\$ 9,982,082) of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 1,849,569. The economic gain resulting from the transaction was \$ 1,392,407. These bonds were payed off during the year ended August 31, 2018.

On May 10, 2016, the College issued \$ 21,955,000 in Limited Tax Revenue Refunding Bonds – Series 2016 for the refunding of previously issued outstanding bonds, as follows: \$ 11,795,000 in Limited Tax Bonds, Series 2008; \$ 9,280,000 in Limited Tax Bonds, Series 2010; and \$ 1,935,000 in Limited Tax Bonds, Series 2011. The College placed the proceeds (\$ 25,500,789) of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 2,525,873. The economic gain resulting from the transaction was \$ 2,013,892. The outstanding balance of these defeased bonds at August 31, 2018 was \$ 11,215,000, and the balance held in escrow was \$ 11,458,098.

On April 17, 2017, the College issued \$ 9,015,000 in Limited Tax Revenue Refunding Bonds – Series 2017 for the refunding of previously issued outstanding bonds, as follows: \$ 9,135,000 in Limited Tax Bonds, Series 2010. The College placed the proceeds (\$ 9,885,638) of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 534,103. The economic gain resulting from the transaction was \$ 405,181. The outstanding balance of these defeased bonds at August 31, 2018 was \$ 9,135,000, and the balance held in escrow was \$ 9,633,254.

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

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

8B. Refunding Costs

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

The Limited Tax Refunding Bonds – Series 2015 resulted in a \$ 706,636 refunding cost. These refunding costs were fully amortized on February 15, 2018.

The Limited Tax Refunding Bonds – Series 2016 resulted in a \$ 1,986,472 refunding cost. At August 31, 2018, the net refunding cost was \$ 153,892. These refunding costs will be fully amortized on February 15, 2020.

The Combined Fee Limited Tax Refunding Bonds – Series 2016 resulted in a \$ 140,504 refunding cost. At August 31, 2018, the net refunding cost was \$ 93,973. These refunding costs will be fully amortized on February 15, 2022.

The Limited Tax Refunding Bonds – Series 2017 resulted in a \$ 522,642 refunding cost. At August 31, 2018, the net refunding cost was \$ 261,582. These refunding costs will be fully amortized on February 15, 2020.

9. CAPITAL LEASE COMMITMENTS

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

These funds were placed in an escrow account and have been utilized for the construction costs associated with the projects identified as part of this capital lease. Construction costs on these projects at August 31, 2018 was \$ 9,738,652, includes \$ 264,61 in construction period interest) and is reported as capital assets.

The following represents the minimum lease payments required under the lease at August 31, 2018:

For the Year Ended August 31,	2018
2019	\$ 332,916
2020	337,404
2021	341,873
2022	710,452
2023	1,079,370
2024-2028	5,396,850
2029-2032	3,777,795
	11,976,660
Less; Amount representing Interest	2,238,008
Total	\$ 9,738,652

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

10. SHORT-TERM DEBT AND OPERATING LEASE COMMITMENTS

10.A. Short-Term Debt

The College had and incurred no short-term debt at and for the year ended August 31, 2018.

10.B. Lease Commitments

Operating Lease Obligations

The College is involved in various operating leases as lessee. These leases are for properties such as buildings, copiers, and facilities. The majority are under operating leases but some are on a month-to-month basis.

During the years ended September 30, 2018, the College had approximately twenty-five (25) copiers on operating leases, with various terms and payment amounts.

On August 1, 2016, the College entered into a lease for facilities with the Freeport Historical Museum Foundation. The lease calls for an initial payment of \$ 54,000 for the first and last year's annual lease. Years two (2) through four (4) annual payments are scheduled at \$ 27,000. This facility lease began on August 1, 2016 and expires July 31, 2021. The College has an option to renew after the end of the initial expiration date for a three (3) year renewal period.

Minimum future rentals to be paid on non-cancellable leases, as of August 31, 2018, for each of the next two years are as follows:

<u>For the Year Ended</u> <u>August 31,</u>	<u>2018</u>
2019	90,563
2020	63,563
2021	63,563
2022	63,562
2023	<u>30,302</u>
Total	<u>\$ 311,553</u>

The College paid \$ 147,294 as rent expense for the year ended August 31, 2018.

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

11. EMPLOYEE RETIREMENT PLANS AND OPEB PLANS (Continued)

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

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

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

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

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

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

Contribution Rates

	2017	2018
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer # 1788 – 2017 Employer Contributions		\$ 473,866
Employer # 1788 – 2017 Member Contributions		\$ 468,826
Employer # 1788 – 2017 NECE On-behalf Contributions		\$ 387,647

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

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

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

Contributions (Continued)

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

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

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

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

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment	
Rate of Return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit changes during the year	None
Ad-hoc post-employment benefit changes	None

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

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

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

Discount Rate – The discount rate used to measure the total pension liability was 8.00%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

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

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

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

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

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

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
College's proportionate share of the Net pension liability	\$ 7,793,560	\$ 4,623,057	\$ 1,983,098

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At August 31, 2017, the College reported a liability of \$ 4,623,057 for its proportionate share of TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College were as follows:

College's Proportionate share of the collective net pension liability	\$ 4,623,057
State's proportionate share that is associated with the College	3,114,700
Total	\$ 7,737,757

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

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0137895% which was a decrease of 0.000144585228% from its proportion measured as of August 31, 2016.

Changes since the prior Actual Valuation – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date.

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

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

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

For the year ended August 31, 2018, the College recognized pension expense of \$ 457,586 and revenue of \$ 387,647 for support provided by the State.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 67,637	\$ 249,315
Changes in actuarial assumptions	210,588	120,556
Difference between projected and actual investment earnings	710,972	1,047,891
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	197,705	242,292
Contribution paid to TRS subsequent to the measurement date	<u>478,827</u>	<u> </u>
Total	<u>\$ 1,665,729</u>	<u>\$ 1,660,054</u>

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

<u>Year Ended August 31,</u>	<u>Pension Expense Amount</u>
2019	\$ (174,861)
2020	120,240
2021	(197,529)
2022	(283,621)
2023	21,163
Thereafter	21,456

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

11.B. Other Post-Employment Benefits (OPEB) – Employees Retirement System of Texas (ERS)

Plan Description

The College participates in a cost-sharing, multiple-employer, other post-employment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain postemployment health care, life and dental insurance benefits to retired employees of participating universities, community college, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature..

OPEB Plan Fiduciary Net Position

Detailed information about the GBP's fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report (CAFR) that includes financial statements, notes to the financial statements and required supplementary information. That report may be obtained on the Internet at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377.

Benefits Provided

Retiree health benefits offered through the GBP are available to most State of Texas retirees and their eligible dependents. Participants need at least ten years of service credit with an agency or institution that participates in the GBP to be eligible for GBP retiree insurance. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan and life insurance benefits to eligible retirees via a minimum premium funding arrangement. The authority under which the obligations of the plan members and employers are established and/or may be amended is Chapter 1551, Texas Insurance Code.

Contributions

Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employer and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and its consulting actuary. The contribution rates are determined based on (I) the benefit and administrative costs expected to be incurred, (II) the funds appropriated and (III) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

The following table summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. As the non-employer contributing entity (NECE), the State of Texas pays part of the premiums for the junior and community colleges.

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

11.B. Other Post-Employment Benefits (OPEB) – Employees Retirement System of Texas (ERS) (Continued)

Contributions (Continued)

Maximum Monthly Employer Contribution
 Retiree Health and Basic Life Premium
 Fiscal Year Ended August 31, 2018

Retiree only	\$	622
Retiree and spouse		978
Retiree and children		860
Retiree and family		1,217

Contributions of premiums to the GBP plan for the current and prior fiscal year by source is summarized in the following table:

Premium Contributions by Source
 Group benefits Program Plan
 For the Years Ended August 31, 2018 and 2017

	2018	2017
Employers	\$ 2,619,653	\$ 2,546,404
Members (Employees)	3,345,275	3,226,408
Nonemployer Contributing Entity (State of Texas)	1,483,517	1,391,079

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of August 31, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Assumptions
 ERS Group Benefits Program Plan

Valuation Date	August 31, 2017
Actuarial Cost Method	Entry Age
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset Valuation Method	Market Value
Discount Rate	3.51%
Projected Annual Salary Increases (includes inflation)	2.50% to 9.50%
Annual Healthcare Trend Rates	8.50% for FY19, decreasing 0.5% per Year to 4.50% for FY27 and later years
Inflation assumption rate	2.50%
Ad hoc postemployment benefit changes	None

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

11.B. Other Post-Employment Benefits (OPEB) – Employees Retirement System of Texas (ERS) (Continued)

Assumptions (Continued)

Actuarial Assumptions
ERS Group Benefits Program Plan

Mortality Assumptions:

Service retirees, survivors and other inactive members	Tables based on TRS experience with full generational projection using Scale BB form Base Year 2014
Disability retirees	Tables based on TRS experience with full generational projection using Scale BB from base year 2014 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active members	Sex District RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 31, 2010 to August 31, 2014 for higher education members.

Investment Policy

The State Retiree Health Plan is a pay-as-you-go plan and does not accumulate funds in advance of retirement. The System's Board of Trustees adopted the amendment to the investment policy in August 2017 to require that all funds in the plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments is 2.4%.

Discount Rate

Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the *beginning* of the measurement year was 2.84%. The discount rate used to measure the total OPEB liability as of the *end* of the measurement year was 3.51%, which amounted to an increase of 0.67%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp's AA rating. Projected cash flows into the plan are equal to projected benefit payments out of the plan. Because the plan operates on a pay-as-you-go (PAYGO) basis and is not intended to accumulate assets, there is no long-term expected rate of return on plan assets and therefore the years of projected benefit payments in which the long-term expected rate of return is applicable is zero years.

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

11.B. Other Post-Employment Benefits (OPEB) – Employees Retirement System of Texas (ERS) (Continued)

Discount Rate sensitivity Analysis. The following schedule shows the Impact on the College's proportionate share of the collective net OPEB Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used 3.51% in measuring the net OPEB Liability.

	1% Decrease in Discount Rate 2.51%	Discount Rate 3.51%	1% Increase in Discount Rate 4.51%
College's proportionate share of the net OPEB liability	\$ <u>16,184,301</u>	\$ <u>13,558,009</u>	\$ <u>11,523,711</u>

Healthcare Trend Rate Sensitivity Analysis

The initial healthcare trend rate is 8.50% and the ultimate rate is 4.50%. The following schedule shows the Impact on the College's proportionate share of the collective net OPEB Liability if the healthcare cost trend rate used was 1 percent less than and 1 percent greater than the healthcare cost trend rate that was used 4.50% In measuring the net OPEB liability.

	1% Decrease in Healthcare Cost Trend Rates 7.5% decreasing to 3.5%	Healthcare Cost Trend Rates 8.5% decreasing to 4.5%	1% Increase in Healthcare Cost Trend Rates 9.5% decreasing to 5.5%
College's proportionate share of the net OPEB liability	\$ <u>11,397,810</u>	\$ <u>13,558,009</u>	\$ <u>16,360,989</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At August 31, 2018, the College reported a liability of \$ 13,558,009 for its proportionate share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to the College for OPEB. The amount recognized by the College as Its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

College's Proportionate share of the collective net OPEB liability	\$ 13,558,009
State's proportionate share that is associated with College	<u>8,655,434</u>
Total	\$ <u>22,213,443</u>

The net OPEB liability was measured as of August 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The College's proportion of the net OPEB liability was based on the College's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017, thru August 31, 2018.

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

11.B. Other Post-Employment Benefits (OPEB) – Employees Retirement System of Texas (ERS) (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At the measurement date of August 31, 2017, the College's proportion of the collective net OPEB liability was 0.03979105%, which was the same proportion measured as of August 31, 2017.

For the year ended August 31, 2018, the employer recognized OPEB expense of \$ 334,302 and revenue of \$ 334,302 for support provided by the State.

Changes Since the Prior Actuarial Valuation – Changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period were as follows:

- Additional demographic assumptions (aggregate payroll increases and rate of general inflation) to reflect an experience study;
- The percentage of current and future retirees and retirees' spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan who will elect to participate at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends;
- Assumptions for administrative expenses, assumed per capita Health Benefit Costs, Health Benefit Cost and Retiree Contribution trends to reflect recent health plan experience;
- Effects in short-term expectations and revised assumed rate of general inflation.

Changes of Benefit Terms Since Prior Measurement Date - The following benefit revisions have been adopted since the prior valuation: [Example disclosures below - Obtain changes (if any) from the ERS FY2017 Actuarial Reporting and Disclosure Information for OPEB document on the ERS website.

- An increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility;
- An elimination of the copayment for virtual visits;
- A copay reduction for Airossti and for out-of-state participants;
- Elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits.

These minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs.

At August 31, 2018 the employer reported its proportionate share of the ERS plan's collective deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

11.B. Other Post-Employment Benefits (OPEB) – Employees Retirement System of Texas (ERS) (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

	<u>Healthcare Deferred Outflows of Resources</u>	<u>1% Increase in Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 162,924
Changes in actuarial assumptions		2,834,818
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	4,014	
Contributions paid to ERS subsequent to the measurement date	<u>2,619,653</u>	<u> </u>
Total	<u>\$ 2,623,667</u>	<u>\$ 2,997,742</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to Other Post-Employment Benefits (OPEB) will be recognized in OPEB expense as follows:

<u>Year Ended August 31,</u>	<u>OPEB Expense Amount</u>
2019	\$(674,163)
2020	(674,163)
2021	(674,163)
2022	(674,163)
2023	(297,076)
Thereafter	-0-

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

11. EMPLOYEE RETIREMENT AND OPEB PLANS (Continued)

11.C. Optional Retirement System

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

The State of Texas contribution rate is 3.30% for fiscal year 2017-2018 with a 0.76% supplement for 2017-2018 for those participating on August 31, 1995 or before which is paid by the College. Member contribution rate is 6.65% for fiscal year 2017-2018. These rates are set by state statutes. The contribution requirement of the fiscal year ended August 31, 2018 for the College was \$ 684,943, which consisted of \$ 163,037 from the state, \$ 193,362 from the College, and \$ 328,544 from the employees, and, \$ -0- from grantors. The College's total payroll for the year ended August 31, 2018 was \$ 20,991,992 of which \$ 4,940,517 was covered payroll for this plan, respectively.

11.D. Teachers Insurance Annuity Association/College Retirement Equities Fund

Brazosport College District's part-time employees are eligible to participate in the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF). The member contribution rate was 6% for fiscal year 2017-2018. The College's contribution rate was 1.5% for the same period. The contribution requirement of the fiscal year ended August 31, 2018 was \$ 38,468 from the College and \$ 153,866 from the employees, respectively. The College's total payroll for the year ended August 31, 2018 was \$ 20,991,992 of which \$ 2,564,415 was covered payroll for this plan, respectively.

12. DEFERRED COMPENSATION PROGRAM

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

As of August 31, 2018, the College has 53 employees participating in the program, 55 employees were vested as of August 31, 2018. A total of \$ 500,255 in contributions were deferred by employees during the fiscal year ended August 31, 2018 creating a payable to the vested employees of zero. The College is not custodian for this plan and therefore does not administrate any type of plan where it would have any records on employee contributions. The College withholds the amount requested by the various employees and then immediately remits it to the broker selected by each employee. Since these are individual annuity contracts, the College has no additional or unfunded liability for this program and has no contractual liability.

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

13. COMPENSATED ABSENCES

Full time employees of the College earn annual leave from 12 to 20 days each year depending upon the number of years employed with the College; however, in no case shall annual leave accrue in units other than one-half day or full days. Individuals employed after March 1, shall not receive credit for a year of service under this policy. Employees may accrue to a maximum of fifteen days of leave from prior years with the approval of the College president. At August 31, 2018 the accrued liability for unpaid leave totaled \$ 332,382, of which \$ 55,000 respectively is classified as a current liability.

Under the College's sick leave policy, full-time and part-time (regularly employed on 50% or more basis) employed personnel, incapable of performing duties, shall be allowed up to ninety working days disability leave (sick leave) without loss of pay during any academic year or for any continuous absence for an accident or illness in which the ninety days includes days in two academic years. No leave under this policy shall accrue from one year to another; therefore, no accrual of liability exists at August 31, 2018.

14. PENDING LAWSUITS AND CLAIMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College maintains commercial insurance for these types of risks. There have been no significant changes in insurance coverage, and no settlements have significantly exceeded insurance coverage for the year ended August 31, 2018.

The College is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the College at August 31, 2018.

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

15.A. Accounts and Notes Receivables

Receivables at August 31, 2018 were as follows:

	2018
Current Receivables:	
Student notes receivable	\$ 30,517
Taxes receivable	266,263
Accounts receivable	1,024,385
Interest receivable	16,236
Subtotal	1,337,401
Allowance for doubtful accounts	718,472
Net current receivables	618,929

(continued)

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

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

15.A. Accounts and Notes Receivables (Continued)

	2018
Restricted Assets:	
Taxes receivable	\$ 62,008
Federal grants receivable	266,857
State grants receivable	23,857
Interest receivable	50
Subtotal	352,772
Allowance for doubtful accounts	36,890
Total restricted receivables	315,882
Total receivables	\$ 934,811

15.B. Accounts and Accrued Liabilities

Payables at August 31, 2018 were as follows:

	2018
Current Liabilities:	
Vendors payable	\$ 606,009
Salaries and benefits payable	293,812
Accrued interest payable	73,584
Total current liabilities	973,405
Liabilities Payable from Restricted Assets:	
Vendors payable	118,869
Salaries and benefits payable	34,694
Accrued interest	97,167
Total from restricted assets	250,730
Total payables	\$ 1,224,135

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

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

15.C. Uncollectible Accounts

Taxes

Ad valorem taxes receivable are reserved based upon historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The allowance for uncollectible taxes as of August 31, 2018 was \$ 184,908.

Customer Receivables

The allowance for uncollectible receivables related to College services is determined based on historical experience and evaluation of collectivity in relation to the aging of customer accounts. The allowance for uncollectible accounts as of August 31, 2018 was \$ 570,454.

Tuition and Fees Receivable

The allowance for uncollectible receivables related to College services is determined based on historical experience and evaluation of collectivity in relation to the aging of customer accounts. The College considers tuition and fees receivable to be fully collectible as of August 31, 2018; accordingly no allowance for uncollectible accounts is required.

Notes Receivable - Student Loans

The allowance for uncollectible student loans is determined based on historical experience and evaluation of collectivity in relation to the aging of notes outstanding. At August 31, 2018 no allowance was established. During the year ended August 31, 2018 there were no write-offs of student loans.

15.D. Unearned Revenues

Current Unrestricted Fund revenues, consisting of tuition and fees related to academic terms in the next fiscal year, are recorded on the balance sheet as unearned revenue at August 31, 2018. Of these amounts only the tuition and fees, and clarion tickets were collected prior to August 31, 2018. These amounts are as follows:

	2018
Current Liabilities:	
Tuition and fees	\$ 1,833,307
Liabilities Payable from Restricted Assets:	
State and local grants	200,495
Totals	\$ 2,033,802

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

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

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

Business-Type Activities

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

As of August 31, 2018, the various components of deferred inflows and outflows of resources reported in the business-type activities were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
TRS Pension Deferred Outflows and Inflows:		
Differences between expected and actual experience	\$ 67,637	\$ 249,315
Changes in assumptions	210,588	120,556
Differences between projected and actual investment earnings	710,972	1,047,891
Changes in proportion and employer contributions and proportionate share of contributions	197,705	242,292
Pension contributions subsequent to the measurement date	478,827	
OPEB Deferred Outflows and Inflows:		
Differences between expected and actual experience		162,924
Differences between projected and actual investment earnings		2,834,818
Changes in proportion and employer contributions and proportionate share of contributions	4,014	
OPEB contributions subsequent to the measurement date	2,619,653	
Bond refunding costs	509,447	
Totals	\$ 4,798,843	\$ 4,657,796

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

16. OPERATING LEASE REVENUES

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

1. Beginning April 18, 2003 the College entered into a lease agreement with Texas Book Company to lease the bookstore for 8.5% of gross sales up to \$ 2,000,000, plus 10% of gross sales over \$ 2,000,000, but not less than \$ 100,000 annually. The College provides utilities, furniture and equipment, and maintenance of facilities while the lessee provides maintenance of furniture and equipment and specified insurance coverage. On August 21, 2006, the College approved modifications to the existing agreement, which calls for the Texas Book Company to commit up to \$ 90,000 for bookstore renovations and to provide a \$ 10,000 contribution to the College. The agreement was for seven years from May 1, 2007 to April 30, 2014. Effective November 1, 2012, the College renewed the agreement through October 31, 2017 and again effective November 1, 2017 the College renewed the agreement through October 31, 2022. Upon completion of the renewal term, the lease shall automatically self-renew for five years under the same provisions. The College received \$ 95,893 and \$ 77,308 in lease income for the year ended August 31, 2018.
2. On May 23, 2012, the College entered into a lease agreement with Tommy's to lease the cafeteria for 5% of net sales (gross sales less sales taxes), but not less than \$ 400 monthly. If not paid by the due date, the amount due will increase to 6%. The College provides utilities, specified furniture and equipment, and maintenance of facilities and the lessee provides maintenance of furniture and equipment, specified insurance coverage, inventory and business licenses and permits. Lessee agrees to comply with all applicable laws. The lease began on January 20, 1999 and was renewed several times. The most recent amendment, which was on September 1, 2012, makes the agreement effective until August 31, 2019. The College received \$ 40,955 of lease income on this contract for the year ended August 31, 2018.

17. CONTRACTS AND GRANTS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, Audits of Colleges and Universities. Revenues are recognized on Exhibit 2 as federal grants and contracts (operating revenue) and Title IV federal grants (non-operating revenues). For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards already committed, e.g., multi-year awards, or funds awarded during fiscal year ending August 31, 2018 for which monies have not been received totaled zero.

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

18. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee varied based upon coverage category. Monthly contributions for the year ended August 31, 2018 was \$ 621.90 for "Employee Only" coverage, \$ 978.22 for "Employee and Spouse" coverage, \$ 860.48 for "Employee and Children" coverage, and \$ 1,216.80 for "Employee and Family" coverage. The cost of providing those benefits for 83 retirees was \$ 353,205 and for 278 active employees was \$ 1,130,312. For the year ended August 31, 2018 the state contribution was limited to \$ 1,483,517.

19. ON-BEHALF PAYMENTS

The State of Texas provided on-behalf payments for the following benefits for the year ended August 31, 2018:

	2018
Teacher Retirement System	\$ 388,700
Optional Retirement Program (ORP)	163,037
Postretirement health care and life insurance benefits	1,483,517
Employee Retirement System of Texas (ERS)	334,302
Total	\$ 2,369,556

20. PROPERTY TAXES

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

	2018
Assessed Valuation of the College	\$14,548,419,764
Less: Abatements	587,515,912
Less: Exemptions	5,424,109,971
Net assessed valuation of the College	\$ 8,536,793,881

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

20. PROPERTY TAXES (Continued)

	2018		
	Current Operations	Debt Service	Total
Authorized Tax Rate per \$ 100 valuation (Maximum per enabling legislation)	\$ 0.350000	\$ 0.063598	\$ 0.413598
Assessed Tax Rate per \$ 100 valuation	\$ 0.250934	\$ 0.052315	\$ 0.303249

Taxes levied for the year ended August 31, 2018 were \$ 25,887,645 (which includes any penalty and interest assessed if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

The following is a summary of tax collections for the years ended August 31, 2018:

Taxes Collected	Current Operations	Debt Service	Total
Current taxes collected	\$ 21,284,501	\$ 4,437,416	\$ 25,721,917
Delinquent taxes collected	90,245	24,158	114,403
Penalties and interest collected	81,974	18,562	100,536
Total collections	21,456,720	4,480,136	25,936,856
Tax appraisal and collection fees	(10,282)		(10,282)
Net collections	\$ 21,446,438	\$ 4,480,136	\$ 25,926,574

Tax collections for the year ended August 31, 2018 were 99.80% of the current tax levy, respectively. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance and operations.

21. INCOME TAXES

The College is exempt from income taxes under internal Revenue Code Section 115. Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The college had no unrelated business income tax liability for the year ended August 31, 2018.

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

22. COMPONENT UNITS

Brazosport College Foundation - Discrete Component Unit

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

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

23. RELATED PARTIES

The College has no related parties except the Brazosport College Foundation which is mentioned as a Component Unit in Note 22.

24. EVALUATION OF SUBSEQUENT EVENTS

The management of the College has evaluated subsequent events through November 16, 2018, the date which the financial statements were available to be issued.

25. TAX ABATEMENTS

The College enters into property tax abatement agreements with local businesses. The abatement agreements, which were approved by the College's Board of Regents, call for a partial or full abatement of property taxes for a range of from five to ten years. The agreements call for a minimal annual fee to be paid during the years of active abatement. The College has the following tax abatement agreements in place which span a total of nine (9) entities, as follows:

Purpose	Percentage of Taxes Abated during Fiscal Year	Amount of Taxes Abated During the Fiscal Year
Manufacturing facility to be constructed and operated; Seven (7) year abatement, start date January 1, 2013	100%	\$ 2,356,245
Building/Training facility to be constructed and operated; Five (5) year abatement, start date January 1, 2015	50%	\$ 15,921
Manufacturing facility to be constructed and operated; Seven (7) year abatement, start date January 1, 2014	100%	\$ 94,007
Manufacturing facility to be constructed and operated; Seven (7) year abatement, start date January 1, 2014	100%	412,419

(continued)

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

25. TAX ABATEMENTS (Continued)

Purpose	Percentage of Taxes Abated during Fiscal Year	Amount of Taxes Abated During the Fiscal Year
Manufacturing facility to be constructed and operated; Seven (7) year abatement, start date January 1, 2015	100%	\$ 2,347,147
Metal fabrication facility to be constructed and operated; Seven (7) year abatement, start date January 1, 2015	Graduated	9,097
Manufacturing facility to be constructed and operated; Seven (7) year abatement, start date January 1, 2016	100%	1,501,083
Manufacturing facility to be constructed and operated; Ten (10) year abatement, start date January 1, 2014	100%	2,911,190
Manufacturing facility to be constructed and operated; Ten (10) year abatement, start date January 1, 2015	100%	4,245,486
Manufacturing facility to be constructed and operated; Ten (10) year abatement, start date January 1, 2014	100%	4,109,024
Gas processing facility to be constructed and operated; Ten (10) year abatement, start date January 1, 2016	100%	4,548,735
Gas processing facility to be constructed and operated; Ten (10) year abatement, start date January 1, 2016	100%	3,335,739
Manufacturing facility to be constructed and operated; Ten (10) year abatement, start date January 1, 2018	100%	2,101,516

REQUIRED SUPPLEMENTARY INFORMATION

BRAZOSPORT COLLEGE DISTRICT**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND RELATED RATIOS – COST SHARING EMPLOYER PLAN
FOR THE LAST TEN YEARS (1)
AUGUST 31, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017**EXHIBIT 4
Page 1 of 1

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
College's proportion of the net pension liability (assets)	0.015062600%	0.0140208%	0.0137895%	0.014585228%
College's proportionate share of the net pension liability (asset)	\$ 4,023,428	\$ 4,956,166	\$ 5,210,855	\$ 4,623,057
State's proportionate share of the net pension liability (asset) associated with the College	<u>2,429,809</u>	<u>2,663,809</u>	<u>2,748,120</u>	<u>3,114,700</u>
Total	<u>\$ 6,453,237</u>	<u>\$ 7,619,975</u>	<u>\$ 7,958,975</u>	<u>\$ 7,737,757</u>
College's covered-employee payroll	<u>\$ 10,001,986</u>	<u>\$ 11,668,335</u>	<u>\$ 12,592,573</u>	<u>\$ 12,954,983</u>
College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.23%	42.48%	41.38%	35.69%
Plan fiduciary net position as a percentage of total pension liability	83.25%	78.43%	78.00%	82.17%

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

BRAZOSPORT COLLEGE DISTRICT**SCHEDULE OF REQUIRED PENSION CONTRIBUTIONS -
COST SHARING EMPLOYER PLAN
FOR THE LAST TEN YEARS (1)
AUGUST 31, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017**EXHIBIT 5
Page 1 of 1

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contributions	\$ 381,878	\$ 415,162	\$ 438,128	\$ 473,866
Contributions in relation to the contractually required contribution	<u>381,878</u>	<u>415,162</u>	<u>438,128</u>	<u>\$ 473,866</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
College's covered-employee payroll	<u>\$ 10,001,986</u>	<u>\$ 11,668,335</u>	<u>\$ 12,592,573</u>	<u>\$ 12,954,983</u>
Contributions as a percentage of covered-employee payroll	3.82%	3.56%	3.48%	3.66%

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

BRAZOSPORT COLLEGE DISTRICT

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

EXHIBIT 6
Page 1 of 1

	<u>2018</u>
College's proportion of the net OPEB liability (assets)	0.03979105%
College's proportionate share of the net OPEB liability (asset)	\$ 13,558,009
State's proportionate share of the net OPEB liability (asset) associated with the College	<u>8,655,434</u>
Total	<u>\$ 22,213,443</u>
College's covered-employee payroll	<u>\$ 17,895,500</u>
College's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	75.76%
Plan fiduciary net position as a percentage of total OPEB liability	2.04%

(1) The first TRS actuarial report was completed for the year ended August 31, 2017 (measurement date), therefore, only one years of required supplemental information is available.

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

	<u>2018</u>
Contractually required contributions	\$ 2,546,404
Contributions in relation to the contractually required contribution	\$ <u>2,546,404</u>
Contribution deficiency (excess)	\$ <u>-0-</u>
College's covered-employee payroll	\$ <u>17,895,500</u>
Contributions as a percentage of covered-employee payroll	14.23%

(1) The first TRS actuarial report was completed for the year ended August 31, 2017 (measurement date), therefore, only one years of required supplemental information is available.

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SUPPLEMENTAL SCHEDULES

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2018

SCHEDULE A
Page 1 of 1

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>Total Year Ended August 31, 2018</u>
Tuition:					
State Funded Courses:					
In-district resident tuition	\$ 2,903,068	\$	\$ 2,903,068	\$	\$ 2,903,068
Out-of-district resident tuition	3,212,850		3,212,850		3,212,850
TPEG (set aside)*		313,231	313,231		313,231
Non-resident tuition	103,596		103,596		103,596
Non-state funded continuing education	<u>2,315,528</u>		<u>2,315,528</u>		<u>2,315,528</u>
Total tuition	<u>8,535,042</u>	<u>313,231</u>	<u>8,848,273</u>	<u>-0-</u>	<u>8,848,273</u>
Fees:					
General fee	871,909		871,909	59,173	931,082
Student service fee			-0-	268,135	268,135
Laboratory fee	540,514		540,514		540,514
Building use fee	<u>1,176,058</u>		<u>1,176,058</u>		<u>1,176,058</u>
Total fees	<u>2,588,481</u>	<u>-0-</u>	<u>2,588,481</u>	<u>327,308</u>	<u>2,915,789</u>
Scholarship Allowances and Discounts:					
Scholarship allowances	(634,869)		(634,869)		(634,869)
Remissions and exemptions	(202,541)		(202,541)		(202,541)
TPEG allowances	(292,485)		(292,485)		(292,485)
Federal grants to students	(1,119,204)		(1,119,204)		(1,119,204)
State grants to students	<u>(89,930)</u>		<u>(89,930)</u>		<u>(89,930)</u>
Total scholarship allowances and discounts	<u>(2,339,029)</u>	<u>-0-</u>	<u>(2,339,029)</u>	<u>-0-</u>	<u>(2,339,029)</u>
Net tuition and fees	<u>8,784,494</u>	<u>313,231</u>	<u>9,097,725</u>	<u>327,308</u>	<u>9,425,033</u>
ADDITIONAL OPERATING REVENUES:					
Federal grants and contracts	\$	\$ 1,459,126	\$ 1,459,126		\$ 1,459,126
State grants and contracts		575,312	575,312		575,312
Local grants and contracts	239,000	451,396	690,396		690,396
Nongovernmental grants and contracts	122,725	10,750	133,475		133,475
Sales and services of educational activities	191,441	3,200	194,641	49,275	243,916
Other operating revenues	<u>772,101</u>		<u>772,101</u>		<u>772,101</u>
Total other operating revenues	<u>1,325,267</u>	<u>2,499,784</u>	<u>3,825,051</u>	<u>49,275</u>	<u>3,874,326</u>
AUXILIARY ENTERPRISES:					
Bookstore			-0-	95,893	95,893
Total auxiliary enterprises	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>95,893</u>	<u>95,853</u>
Total operating revenues	<u>\$ 10,109,761</u>	<u>\$ 2,813,015</u>	<u>\$ 12,922,776</u>	<u>472,476</u>	<u>\$ 13,395,252</u> (Exhibit 2)

* In accordance with Education Code 56.033, \$ 292,485 for year ended August 31, 2018, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

BRAZOSPORT COLLEGE DISTRICT**SCHEDULE OF OPERATING EXPENSES BY FUNCTION AND NATURAL CLASSIFICATION
FOR THE YEAR ENDED AUGUST 31, 2018**SCHEDULE B
Page 1 of 1

	Operating Expenses			Other Expenses	August 31, 2018
	Salaries and Wages	Benefits			
		State	Local		
Unrestricted Educational Activities:					
Instruction	\$ 11,301,162	\$	\$ 280,358	\$ 3,418,898	\$ 15,000,418
Public services	84,401		3,314	10	87,725
Academic support	1,302,521		31,322	951,493	2,285,336
Student services	2,367,678		55,907	638,237	3,061,822
Institutional support	4,419,438		538,678	938,467	5,896,583
Operation and maintenance of plant	588,102		37,161	2,769,915	3,395,178
Scholarship and fellowships				82,200	82,200
Total unrestricted educational activities	<u>20,063,302</u>	<u>-0-</u>	<u>946,740</u>	<u>8,799,220</u>	<u>29,809,262</u>
Restricted Educational Activities:					
Instruction	531,484	994,647	67,414	1,023,677	2,617,222
Public services	97,765		13,102	31,969	142,836
Academic support		441,619		13,166	454,785
Student services	143,900	202,063	547	18,192	364,702
Institutional support		731,227			731,227
Scholarship and fellowships				2,213,224	2,213,224
Total restricted educational activities	<u>773,149</u>	<u>2,369,556</u>	<u>81,063</u>	<u>3,300,228</u>	<u>6,523,996</u>
Total educational activities	20,836,451	2,369,556	1,027,803	12,099,448	36,333,258
Auxiliary enterprises	156,482		6,560	512,361	675,403
Depreciation Expense:					
Buildings and other real estate				3,054,685	3,054,685
Equipment and furniture				960,108	960,108
Library books				158,655	158,655
Total operating expenses	<u>\$ 20,992,933</u>	<u>\$ 2,369,556</u>	<u>\$ 1,034,363</u>	<u>\$ 16,785,257</u>	<u>\$ 41,182,109</u> (Exhibit 2)

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

SCHEDULE C
Page 1 of 1

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>August 31, 2018</u>
NON-OPERATING REVENUES:				
State appropriations:				
Education and general state support	\$ 5,462,248	\$	\$	\$ 5,462,248
State group insurance		1,483,517		1,483,517
State retirement matching		551,737		551,737
State OPEB matching		<u>334,302</u>		<u>334,302</u>
Total state appropriations	5,462,248	2,369,556	-0-	7,831,804
Title IV federal programs	3,027,660			3,027,660
Maintenance ad valorem taxes	21,446,438			21,446,438
Debt service ad valorem taxes		4,480,136		4,480,136
Investment income (net of fees)	206,571	148,037	104	354,712
Increase (decrease) in value of investments	(2,468)	26,981		24,513
Gain (loss) on sale of investments		<u>114,950</u>		<u>114,950</u>
Total non-operating revenue	<u>30,140,449</u>	<u>7,139,660</u>	<u>104</u>	<u>37,280,213</u>
NON-OPERATING EXPENSES:				
Interest on capital related debt	154,563	2,740,630		2,895,193
Loss on sale of assets	<u>628,162</u>			<u>628,162</u>
Total non-operating expenses	<u>782,725</u>	<u>2,740,630</u>	<u>-0-</u>	<u>3,523,355</u>
Net non-operating revenues	<u>\$ 29,357,724</u>	<u>\$ 4,399,030</u>	<u>\$ 104</u>	<u>\$ 33,756,858</u> (Exhibit 2)

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BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
FOR THE YEAR ENDED AUGUST 31, 2018

SCHEDULE D
Page 1 of 1

	Detail by Source				Total
	Unrestricted	Restricted		Net Investment in Capital Assets	
		Expendable	Non- Expendable		
Current:					
Unrestricted	\$(6,698,950)				\$(6,698,950)
Restricted		153,914			153,914
Auxiliary enterprises	1,151,238				1,151,238
Loan	30,517				30,517
Endowment:					
Endowment:					
True		903,609	5,161,657		6,065,266
Plant:					
Capital projects	622,800				622,800
Debt service		629,202			629,202
Investment in plant				<u>29,998,191</u>	<u>29,998,191</u>
Total net position, August 31, 2018	<u>\$(4,894,395)</u>	<u>\$ 1,686,725</u>	<u>\$ 5,161,657</u>	<u>\$ 29,998,191</u>	<u>\$ 31,952,178</u> (Exhibit 1)

Available for
Current Operations

Yes	No
\$(6,698,950) \$ 153,914 1,151,238	30,517
903,609	5,161,657
	622,800 629,202 29,998,191
<u>\$(4,490,189)</u>	<u>\$ 36,442,367</u>

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FEDERAL AND STATE AWARD SECTION

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Kennemer, Masters & Lunsford

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Independent Auditor's Report

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, each major fund, and the discretely presented component unit of Brazosport College District (the "College"), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated November 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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

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Board of Regents
Brazosport College District
Lake Jackson, Texas 77566

Compliance and Other Matters

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

We have performed tests designed to verify the District's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2018, no instances of noncompliance, either material or immaterial, were found.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kerremey, Masters & Rungford, LLC

Lake Jackson, Texas
November 16, 2018

Kennemer, Masters & Lunsford

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Independent Auditor's Report

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

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

Report on Compliance for Each Major Federal Program

We have audited the Brazosport College District's (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended August 31, 2018. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College'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 College's compliance.

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Opinion on Each Major Federal Program

In our opinion, the College, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

Report on Internal Control over Compliance

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

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

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

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

Kernemer, Masters & Hunzford, LLC

Certified Public Accountants
Lake Jackson, Texas 77566
November 16, 2018

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unmodified.
2. No significant internal control deficiency, which was considered a material weakness that is required to be reported in this schedule, was disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None.
4. No internal control deficiencies that are required to be reported in this schedule were disclosed in the audit of major programs.
5. Type of auditor's report on compliance for major programs: Unmodified.
6. Did the audit disclose findings, which are required to be reported under Sec. 576 (a): No.
7. Major Programs Include:
 - Federal:
 - SFA Cluster Programs:
 - CFDA #84.007 Federal Supplemental Education Opportunity Grants (FSEOG)
 - CFDA #84.268 Federal Family Education Loan Program (FFELP)
 - CFDA #84.033 Federal Work Study Program (FWS)
 - CFDA #84.063 Pell Grant Program
8. Dollar threshold used to distinguish between Type A and Type B programs:
 - Federal - \$ 750,000
9. Low Risk Auditee: Yes.

II. Findings related to the financial statements.

None.

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

None.

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018

None.

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2018

None.

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT E
Page 1 of 3

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
<u>U.S. Department of Education</u>			
Direct Programs:			
Title IV Cluster Programs:			
Federal Supplemental Education Opportunity Grants (FSEOG)	84.007	P007A168372	\$ 145,162
Federal Family Education Loan Program (FFELP)	84.268	P268K172911	244,650
Federal Work Study Program (FWS)	84.033	P033A168372	120,269
Pell Grant Program	84.063	P063P162911	<u>2,517,579</u>
Total Title IV Cluster Programs			<u>3,027,660</u>
Passed Through From:			
Texas Workforce Commission via Houston Galveston Area Council:			
Adult Basic Education Programs:			
Temporary Assistance for Needy Families (TANF)	84.002	210-18	31,322
Temporary Assistance for Needy Families (TANF)	84.002	210-19	1,728
ABE-COOP ESL	84.002	210-17	113,461
ABE-COOP ESL	84.002	210-18	473,771
ABE-COOP ESL	84.002	210-19	95,928
English Literacy & Civics Awareness (EI Civics)	84.002	210-17	3,120
English Literacy & Civics Awareness (EI Civics)	84.002	210-18	52,507
English Literacy & Civics Awareness (EI Civics)	84.002	210-19	<u>2,807</u>
Subtotal			<u>774,644</u>
Texas Higher Education Coordinating Board:			
Vocational Education - Basic Grants	84.048	19194	54,899
Vocational Education - Professional Development Grants	84.048	19194	6,996
Vocational Education - Special Populations Grants	84.048	19194	34,589
Vocational Education - Capital	84.048	19194	<u>6,500</u>
Total Vocational Education			<u>102,984</u>
Total U.S. Department of Education			<u>\$ 3,905,288</u>

NOTE 1 - FEDERAL ASSISTANCE RECONCILIATION

Federal Revenues – per Exhibit 2:	
Federal grants and contracts (operating revenues)	\$ 1,459,126
Title IV federal grants (non-operating revenues)	3,027,660
Less Reconciling Items:	
Refuge Revenue Sharing Act of 1978 (Non-Single Audit Federal Revenue)	<u>1,013</u>
 Total pass-through and expenditures per federal schedule	 \$ <u>4,485,773</u>

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING SCHEDULE

The expenditures included in the schedule are reported for the college’s fiscal year ended August 31, 2018. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the College for purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the general purpose financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The College has followed all applicable guidelines issued by various entities in the preparation of the schedule.

NOTE 3 - MATCHING EXPENDITURES

The Small Business Development (SBDC) program requires local matching expenditures. The College accounts for these expenditures within the Current Unrestricted Funds. Matching expenditures for the year ended August 31, 2018 were as follows:

	Federal CFDA Number	Pass -Through Grantor's Number	Program Matching Required	<u>Direct Matching Expenditures</u> Years Ended August 31,		
				<u>2018</u>	<u>2017</u>	<u>Total</u>
SBDC Program (10-01-16/09-30-17)	59.037	R-17-0028-53805	\$ 95,448	\$ 7,363	\$ 88,839	\$ 96,202
SBDC Program (10-01-17/09-30-18)	59.037	R-18-0047-53805	97,777	<u>90,763</u>		<u>90,763</u>
				<u>\$ 98,126</u>	<u>\$ 88,839</u>	<u>\$ 186,965</u>

NOTE 4 - INDIRECT COST

The College did not receive reimbursement for indirect costs during the year ended August 31, 2018. Indirect costs are allowed as part of the Small Business Development program matching expenditures, however, none are reimbursed.

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BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT F
Page 1 of 2

<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Texas Higher Education Coordination Board:		
Direct:		
Nursing Shortage Program	007287	\$ 27,427
State WS Mentorship Program	007287	17,274
Work Study Program	007287	12,631
Texas Education Opportunity Grant Program	007287	<u>173,853</u>
Total Texas Higher Education Coordinating Board		<u>\$ 231,185</u>
Texas Workforce Commission:		
Direct:		
Skills Development Fund Programs-Braskem Training Grant	2817SDF001	\$ 119,117
Skills Development Fund Programs-BASF New Hire Training Grant	2818SDF000	<u>100,331</u>
		<u>219,448</u>
Passed Through Houston Galveston Area Council:		
Adult Basic Education	210-18	95,350
Adult Basic Education	210-19	<u>24,329</u>
		<u>119,679</u>
Total Texas Workforce Commission		<u>\$ 339,127</u>
Texas Commission on the Arts:		
Direct:		
Texas State of the Arts Grant	18-42061	\$ <u>5,000</u>
Total Texas Commission on the Arts		<u>\$ 5,000</u>
TOTAL STATE FINANCIAL ASSISTANCE		<u>\$ 575,312</u>

BRAZOSPORT COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

NOTE 1 - STATE ASSISTANCE RECONCILIATION

State Revenues - per Exhibit 2:	
State grants and contracts	\$ 575,312
Reconciling Items:	
None	<u>-0-</u>
Expenditures per state schedule	<u>\$ 575,312</u>

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING SCHEDULE

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

NOTE 3 – SINGLE AUDIT REQUIREMENTS

The single audit requirements for state programs under the State of Texas *Single Audit Circular A-133* is effective when state programs exceed \$ 750,000. During the year ended August 31, 2018 the College only had \$ 575,312 in state programs, therefore no single audit was performed for the year ended August 31, 2018.

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