

**BRAZOSPORT
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2008**

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

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

*Annual Financial Report
For the Year Ended August 31, 2008*

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

*Annual Financial Report
For the Year Ended August 31, 2008*

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Brazosport Independent School District
Name of School District

Brazoria
County

020-905
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2008, at a meeting of the board of trustees of such school district on the 6th day of January, 2009.

Bobly J. Sharp
Signature of Board Secretary

[Signature]
Signature of Board President

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

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FINANCIAL SECTION

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KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
(979) 297-4075 Fax: (979) 297-6648
(800) 399-4075

Houston Office:
10850 Richmond Avenue, Suite 250
Houston, Texas 77042
(713) 974-3030 Fax: (713) 974-3513

Independent Auditor's Report

January 5, 2009

Board of Trustees
Brazosport Independent School District
Freeport, Texas 77541

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brazosport Independent School District (the "District") as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Board of Trustees
Brazosport Independent School District
January 5, 2009
Page 2

The management's discussion and analysis and budgetary comparison information on pages 13 through 20 and 66, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards, except for Exhibit J-3 (Fund Balance and Cash Flow Worksheet) which is marked **UNAUDITED** and on which we express no opinion, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on it.

Kennekens, Masters & Hunford, LLC

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2008

As management of the Brazosport Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2008. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent period by \$ 13,855,813 (*net assets*). Of this amount, \$ 183,650 (*unrestricted net assets*) may be used to meet the District's ongoing obligations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 11,858,610. Approximately 20 percent of this total amount, \$ 2,314,218, is *available for spending* at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 4,283,267, or 4.3 percent of the total general fund expenditures.

Overview of the Financial Statements

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

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

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

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

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 22 through 23 of this report.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2008

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

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

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

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District maintains thirty-seven governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other thirty-four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, food service special revenue fund, and debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 24 through 27 of this report.
- **Proprietary funds.** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded health and workers' compensation insurance programs. The basic proprietary fund financial statements can be found on pages 28 through 30 of this report.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2008

- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets that can be found on pages 31 through 32. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 63 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on page 66 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 68 through 82 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ 13,855,813 as of August 31, 2008. Net assets of the District's governmental activities increased by \$ 338,760, from \$ 13,517,053 to \$ 13,855,813.

The District's Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 21,490,966	\$ 23,282,232	\$ 30,986,691
Capital assets	<u>154,773,332</u>	<u>158,828,485</u>	<u>160,571,611</u>
Total assets	<u>176,264,298</u>	<u>182,110,717</u>	<u>191,558,302</u>
Long-term liabilities outstanding	153,106,872	158,582,211	164,552,560
Other liabilities	<u>9,301,613</u>	<u>10,011,453</u>	<u>14,888,033</u>
Total liabilities	<u>162,408,485</u>	<u>168,593,664</u>	<u>179,440,593</u>
Net assets:			
Invested in capital assets, net of related debt	7,797,828	6,951,837	5,527,017
Restricted	5,874,335	5,412,811	3,850,302
Unrestricted	<u>183,650</u>	<u>1,152,405</u>	<u>2,740,390</u>
Total net assets	<u>\$ 13,855,813</u>	<u>\$ 13,517,053</u>	<u>\$ 12,117,709</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2008

Investment in capital assets (e.g., land and land improvements, buildings and improvements, furniture, equipment and vehicles, and construction in progress) less any related debt used to acquire those assets that is still outstanding is \$ 7,797,828. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net assets \$ 5,874,335 approximately 42 percent represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$ 183,650 may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term* commitments that are less than currently available resources.

Governmental activities. The District's total net assets increased \$ 338,760. The total cost of all *governmental activities* this year was \$ 129,065,090. The amount that our taxpayers paid for these activities through property taxes was \$ 78,142,620 or 61 percent.

Changes in the District's Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 6,119,807	\$ 5,820,002	\$ 5,687,173
Operating grants & contributions	16,141,056	13,955,716	15,618,506
Capital grants & contributions	574,841	105,890	116,492
General Revenues:			
Property taxes	78,142,620	93,356,522	96,355,083
State grants	25,350,115	12,957,094	6,952,199
Other	<u>3,075,411</u>	<u>3,480,385</u>	<u>3,935,688</u>
Total revenues	<u>129,403,850</u>	<u>129,675,609</u>	<u>128,665,141</u>
Expenses:			
Instruction	63,511,957	58,316,065	58,292,098
Instructional resources & media services	2,325,015	2,179,336	2,013,673
Curriculum & staff development	1,607,642	1,521,462	1,164,918
Instructional leadership	2,249,407	2,212,036	2,624,215
School leadership	6,566,739	6,339,904	6,050,862
Guidance, counseling & evaluation services	4,207,123	3,923,139	3,782,684
Social work services	216,060	157,999	117,607
Health services	1,164,745	1,063,757	998,084
Student (pupil) transportation	2,862,007	2,941,621	2,872,084
Food services	6,997,280	5,903,573	5,826,640
Cocurricular/extracurricular activities	3,627,011	3,188,372	2,560,482
General administration	2,563,700	2,776,462	2,593,747
Plant maintenance and operations	14,293,840	14,362,215	12,422,619
Security and monitoring services	400,801	333,498	261,637
Data processing services	1,370,836	1,379,684	1,404,062
Community services	179,497	157,486	225,614
			(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT**MANAGEMENT'S DISCUSSION AND ANALYSIS**

AUGUST 31, 2008

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Debt service-interest and fees on long-term debt \$	6,809,949	\$ 6,481,388	\$ 6,632,052
Facilities acquisition and construction	144,264	1,806,246	2,780,738
Contracted instructional services between public schools	7,684,853	12,830,688	13,762,903
Payments to shared services arrangements	69,849	87,614	72,410
Payments to juvenile justice alternative education	<u>212,515</u>	<u>313,720</u>	<u>312,322</u>
Total expenses	<u>129,065,090</u>	<u>128,276,265</u>	<u>126,771,451</u>
 Increase (decrease) in net assets	 338,760	 1,399,344	 1,893,690
Beginning net assets	<u>13,517,053</u>	<u>12,117,709</u>	<u>10,224,019</u>
 Ending net assets	 <u>\$ 13,855,813</u>	 <u>\$ 13,517,053</u>	 <u>\$ 12,117,709</u>

Financial Analysis of the District's Funds

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

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 11,858,610, a decrease of \$ 2,469,454. Approximately 20 percent of this total amount \$ 2,314,218 constitutes *unreserved, undesignated fund balance*. The remainder of fund balance is *reserved* or *designated* to indicate that it is not available for new spending because it has already been committed 1) for inventory \$ 908,979, 2) for prepaid items \$ 564,009, 3) for encumbrances \$ 108,411, 4) for food service \$ 1,116,855, 5) to pay debt service \$ 4,717,130, 6) for self-insurance \$ 1,401,279, and 7) other designations \$ 727,729.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$ 2,314,218, while the total fund balance was \$ 5,717,510. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to the total fund expenditures. Unreserved, undesignated fund balance represents 2.3 percent of the total general fund expenditures, while total fund balance represents 5.8 percent of that same amount.

The fund balance of the District's general fund decreased by \$ 2,917,521 during the current fiscal year. Key factors related to this change are as follows:

- Local property taxes totaled approximately \$ 1,400,000 less than originally budgeted, due to the growing effects of the "frozen" tax basis of property owned by taxpayers over the age of 65 along with a significant amount repaid to a single taxpayer who won an appeal from a previous year.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2008

- Actual funding from the state totaled \$ 5,300,000 less than budgeted, primarily due to falling enrollment and changes in appropriation estimates and TRS On-behalf payments.
- Function 11 expenditures were \$ 3,900,000 less than amounts originally budgeted, primarily due to lower than budgeted payroll costs.
- Significant increases in electricity costs of approximately \$ 1,400,000 and diesel fuel also contributed in the current shortfall.

The debt service fund has a total reserve for debt service (fund balance) of \$ 4,717,130. The net increase in reserve for debt service during the current year in the debt service fund was \$ 1,056,047. Following are factors contributing to this change:

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

The capital projects fund has no total fund balance due to the conclusion of construction projects.

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

Unrestricted net assets at August 31, 2008 amounted to \$(1,401,279). The total increase in net assets was \$ 1,375,909. Effective September 1, 2008, the District transitioned to TRS Active Care to help control health care costs and is utilizing the savings to offset this deficit. The deficit is a contingent liability of the general fund.

General Fund Budgetary Highlights

Over the course of the year, the District recommended and the Board approved several revisions to budgeted revenue and appropriations. These amendments fall into the following categories:

- Amendments approved shortly after the beginning of the new fiscal year for amounts reserved and designated in the prior year.
- Amendments near the end of the year to revise revenue and appropriation estimates based on the latest information on student attendance, tax collections, expenditure trends, and anticipated year-end audit adjustments.
- Amendments during the year for unexpected occurrences.

The District made the following amendments to budgeted revenue.

- \$ 355,987 reclassification of technology funding to Special Revenue Fund.
- \$ 917,615 reclassification of high school allotment funding to Special Revenue Fund.
- \$ 5,631,714 increase to reflect TRS On-Behalf Payments revenue.
- \$ 7,308 net increase for revisions in estimates.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2008

Following is a summary of amendments made to appropriations:

- \$ 250,000 increase for transfers to the Capital Projects Fund.
- \$ 5,631,714 increase to reflect TRS On-Behalf Payments expenditures.
- \$ 1,408,688 increase for electricity costs.
- \$ 900,000 increase related to anticipated "Equalization" payments.
- \$ 355,987 reclassification of technology funding to Special Revenue Fund.
- \$ 917,615 reclassification of high school allotment funding to Special Revenue Fund.
- \$ 445,045 net increase for anticipated revisions of estimates.

After revenues and appropriations were amended, as described above, actual revenues were \$ 6,481,400 less than final budgeted amounts due to overestimates of TRS On-Behalf payments, property taxes and state funding. Actual expenditures were \$ 5,242,486 below final budget amounts. This positive variance in expenditures resulted primarily from lower than expected payroll and related costs and overestimates of TRS On-Behalf Payments.

Capital Asset and Debt Administration

Capital assets. The District's investments in capital assets for its governmental activities as of August 31, 2008 amounts to \$ 154,773,332 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and building improvements, furniture, equipment and vehicles, and construction in progress.

District's Capital Assets
(net of depreciation)

	2008	2007	2006
Land	\$ 2,260,973	\$ 2,260,973	\$ 2,260,973
Land improvements	2,192,460	2,415,688	2,616,863
Buildings and improvements	146,177,339	140,657,488	89,911,045
Furniture, equipment and vehicles	4,096,673	4,676,637	4,162,195
Construction in progress	45,887	8,817,699	61,620,535
Total at historical cost (net)	\$ 154,773,332	\$ 158,828,485	\$ 160,571,611

Additional information on the District's capital assets can be found in Note 6 on pages 51 through 53 of this report.

Long-term debt. At August 31, 2008, the District had total long-term debt outstanding of \$ 153,106,872, a decrease of \$ 5,475,339 from the previous year. Long-term debt is made of general obligation bonds of \$ 150,686,391, capital leases of \$ 325,657, premium received on general obligation bonds of \$ 1,828,059, and accrued interest of \$ 266,765.

Moody's Aaa rating on the District's bonded indebtedness is provided by a guarantee of the Texas Permanent School Fund for timely payment of principal and interest in the event the District is unable to meet debt service requirements. Moody's Aa3 underlying rating is representative of the District's sizable but highly concentrated tax base, low debt levels, and modest financial reserves.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2008

Additional information on the District's long-term debt can be found in Notes 7 and 8 on pages 53 through 56 of this report.

Economic Factors and Next Year's Budgets and Rates

- Certified tax values for 2008 increased by approximately \$ 369 million, or 5.7% from 2007.
- The District's 2008-2009 refined average daily attendance is expected to drop approximately 100 students to 12,100.
- The District's attendance rate was estimated to remain stable at approximately 95%.
- In response to recent legislation, which effectively does not allow District's to keep appraisal value increases to fund general operating budget, the District's 2008 tax rate was increased by \$ 0.0583, to \$ 1.1922 (\$ 1.0100 for maintenance and operations and \$ 0.1822 for interest and sinking), versus \$ 0.9484 for maintenance and operations and \$ 0.1855 for interest and sinking for 2007.
- Required wealth equalization payments for the 2008-2009 budget are estimated to be \$ 9.9 million versus approximately \$ 7.7 million for 2007-2008.

These indicators were taken into account when adopting the General Fund budget for 2008-2009. The District has appropriated revenues and expenditures in the 2008-2009 budget of \$ 103,791,399 and \$ 103,491,569, respectively. Total budgeted revenues and expenditures increased from the 2007-2008 budget primarily due to changes in budgeting procedures for which the District now includes appropriations for TRS on-behalf payments along with associated revenue.

Requests for Information

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

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2008

Exhibit A-1
Page 1 of 1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	ASSETS:	
1110	Cash and cash equivalents	\$ 11,402,232
1225	Property taxes receivables	1,625,291
1230	Allowance for uncollectible taxes	(1,001,244)
1240	Due from other governments	6,547,322
1290	Other receivables (net)	213,947
1300	Inventories	908,979
1410	Deferred expenses	564,009
1420	Bond issuance costs (net)	1,230,430
	Capital Assets:	
1510	Land and improvements (net)	4,453,433
1520	Building and improvements (net)	146,177,339
1530	Furniture, equipment and vehicles (net)	4,096,673
1580	Construction in progress	<u>45,887</u>
1000	Total assets	<u>176,264,298</u>
	LIABILITIES:	
2110	Accounts payable	1,582,594
2150	Payroll deductions and withholdings	2,234,185
2160	Accrued wages payable	826,836
2165	Accrued liabilities	3,232,781
2180	Due to other governments	1,323,997
2300	Deferred revenue	101,220
	Noncurrent Liabilities:	
2501	Due within one year	6,809,547
2502	Due in more than one year	<u>146,297,325</u>
2000	Total liabilities	<u>162,408,485</u>
	NET ASSETS:	
3200	Invested in capital assets, net of related debt	7,797,828
	Restricted For:	
3840	Food service	1,264,011
3850	Debt service	4,450,365
3890	Other	159,959
3900	Unrestricted	<u>183,650</u>
3000	Total net assets	<u>\$ 13,855,813</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2008

Exhibit B-1
Page 1 of 1

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
			3 Charges for Services	4 Operating Grants and Contributions	5 Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES:						
11	Instruction	\$ 63,511,957	\$ 2,155,624	\$ 9,028,347	\$	\$(52,327,986)
12	Instructional resources and media services	2,325,015	63,727	197,483		(2,063,805)
13	Curriculum and staff development	1,607,642	10,026	528,435		(1,069,181)
21	Instructional leadership	2,249,407	95,489	598,667		(1,555,251)
23	School leadership	6,566,739	160,371	340,509		(6,065,859)
31	Guidance, counseling, and evaluation services	4,207,123	128,870	899,221	7,331	(3,171,701)
32	Social work services	216,060	2,542	115,952		(97,566)
33	Health services	1,164,745	44,573	60,640		(1,059,532)
34	Student transportation	2,862,007	17,082	100,716		(2,744,209)
35	Food service	6,997,280	2,847,802	3,357,531	567,510	(224,437)
36	Extracurricular activities	3,627,011	172,775	108,787		(3,345,449)
41	General administration	2,563,700	80,566	62,360		(2,420,774)
51	Plant maintenance and operations	14,293,840	300,967	242,218		(13,750,655)
52	Security and monitoring services	400,801	2,159	14,210		(384,432)
53	Data processing services	1,370,836	30,423	373,077		(967,336)
61	Community services	179,497	6,811	112,903		(59,783)
72	Interest on long-term debt	5,981,405				(5,981,405)
73	Bond issuance costs and fees	828,544				(828,544)
81	Facilities acquisition and construction	144,264				(144,264)
91	Contracted instructional services between public schools	7,684,853				(7,684,853)
93	Payments related to shared services arrangements	69,849				(69,849)
95	Payments to juvenile justice alternative education programs	212,515				(212,515)
TG	Total governmental activities	<u>\$ 129,065,090</u>	<u>\$ 6,119,807</u>	<u>\$ 16,141,056</u>	<u>\$ 574,841</u>	<u>\$(106,229,386)</u>
General Revenues:						
Taxes:						
MT	Property taxes, levied for general purposes					\$ 65,139,010
DT	Property taxes, levied for debt service					13,003,610
SF	State aid-formula grants					25,350,115
GC	Grants and contributions not restricted to specific programs					1,324,149
IE	Investment earnings					972,169
MI	Miscellaneous					<u>779,093</u>
TG	Total general revenues, special items, and transfers					<u>106,568,146</u>
CN	Change in net assets					338,760
NB	Net assets – beginning					<u>13,517,053</u>
NE	Net assets – ending					<u>\$ 13,855,813</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
AUGUST 31, 2008

Exhibit C-1
Page 1 of 1

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Project Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:						
1110	Cash and cash equivalents	\$ 3,224,742	\$ 4,674,277	\$ 770,295	\$ 1,382,884	\$ 10,052,198
1220	Taxes receivable	1,435,828	189,463			1,625,291
1230	Allowance for uncollectible taxes	(909,935)	(91,309)			(1,001,244)
1240	Receivables from other governments	5,482,290			1,065,032	6,547,322
1260	Due from other funds	1,777,030	23,778		250,588	2,051,396
1290	Other receivables	7,835				7,835
1300	Inventories	761,823			147,156	908,979
1410	Deferred expenditures	564,009				564,009
1000	Total assets	<u>\$ 12,343,622</u>	<u>\$ 4,796,209</u>	<u>\$ 770,295</u>	<u>\$ 2,845,660</u>	<u>\$ 20,755,786</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
2110	Accounts payable	\$ 808,480	\$	\$ 392,744	\$ 381,370	\$ 1,582,594
2150	Payroll deductions and withholdings	826,836				826,836
2160	Accrued wages payable	2,950,242			282,539	3,232,781
2170	Due to other funds	310,245		377,551	640,360	1,328,156
2180	Due to other governments	1,307,796			16,201	1,323,997
2300	Deferred revenue	422,513	79,079		101,220	602,812
2000	Total liabilities	<u>6,626,112</u>	<u>79,079</u>	<u>770,295</u>	<u>1,421,690</u>	<u>8,897,176</u>
Fund Balances:						
Reserved For:						
3410	Inventories	761,823			147,156	908,979
3420	Prepaid items	564,009				564,009
3440	Encumbrances	108,411				108,411
3450	Food service				1,116,855	1,116,855
3480	Debt service		4,717,130			4,717,130
Designated For:						
3540	Self insurance	1,401,279				1,401,279
3590	Other purposes	567,770			159,959	727,729
3600	Unreserved	2,314,218				2,314,218
3000	Total fund balances	<u>5,717,510</u>	<u>4,717,130</u>	<u>-0-</u>	<u>1,423,970</u>	<u>11,858,610</u>
4000	Total liabilities and fund balances	<u>\$ 12,343,622</u>	<u>\$ 4,796,209</u>	<u>\$ 770,295</u>	<u>\$ 2,845,660</u>	<u>\$ 20,755,786</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
AUGUST 31, 2008

Exhibit C-1R
Page 1 of 1

Total fund balances – governmental funds balance sheet (C-1)	\$ 11,858,610
Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 201,211,237 in assets less \$ 46,437,905 in accumulated depreciation.	154,773,332
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 422,513 and \$ 79,079, respectively.	501,592
Debt issuance costs on the issuance of bonds is an expenditure in the governmental funds, but the costs increase long-term assets in the statement of net assets. This amount is amortized over the life of the bond. Net bond issuance costs were \$ 1,230,430 (issuance costs of \$ 1,650,350 less amortization of \$ 419,920).	1,230,430
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 1,828,060 (premium on sale of bonds of \$ 2,586,408 less amortization of \$ 758,348).	(1,828,060)
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	(1,401,279)
Payables for bond principal are not reported in the funds.	(150,686,390)
Payables for bond interest are not reported in the funds	(266,765)
Payables for capital lease principal are not reported in the funds.	(325,657)
Net assets of governmental activities – statement of net assets (A-1)	<u>\$ 13,855,813</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2008

Exhibit C-2
Page 1 of 1

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Project Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:						
5700	Local and intermediate sources	\$ 66,862,782	\$ 13,135,767	\$	\$ 2,644,692	\$ 82,643,241
5800	State program revenues	29,416,174			1,940,407	31,356,581
5900	Federal program revenues	319,633			11,713,948	12,033,581
5020	Total revenues	<u>96,598,589</u>	<u>13,135,767</u>	<u>-0-</u>	<u>16,299,047</u>	<u>126,033,403</u>
EXPENDITURES:						
Current:						
0011	Instruction	52,185,531			7,435,133	59,620,664
0012	Instructional resources and media services	1,935,315			111,018	2,046,333
0013	Curriculum and staff development	1,085,199			503,417	1,588,616
0021	Instructional leadership	1,630,889			526,803	2,157,692
0023	School leadership	6,258,520			7,250	6,265,770
0031	Guidance, counseling, and evaluation services	3,367,619			726,479	4,094,098
0032	Social work services	104,508			110,084	214,592
0033	Health services	1,114,380			5,877	1,120,257
0034	Student transportation	2,336,000			1,063	2,337,063
0035	Food Service				7,035,794	7,035,794
0036	Extracurricular activities	2,872,870		75,284	2,939	2,951,093
0041	General administration	2,481,214			2,137	2,483,351
0051	Plant maintenance and operations	13,914,703				13,914,703
0052	Security and monitoring services	390,926			8,771	399,697
0053	Data processing services	1,020,422			320,134	1,340,556
0061	Community services	65,407			110,128	175,535
0071	Principal on long-term debt	191,960	6,070,000			6,261,960
0072	Interest on long-term debt	52,892	6,007,485			6,060,377
0073	Bond issuance costs and fees		157,668			157,668
0081	Capital outlay	185,156		223,500		408,656
0091	Contracted instructional services between public schools	7,684,853				7,684,853
0093	Payments related to shared services arrangements	69,849				69,849
0095	Payments to juvenile justice alternative education programs	212,515				212,515
6030	Total expenditures	<u>99,160,728</u>	<u>12,235,153</u>	<u>298,784</u>	<u>16,907,027</u>	<u>128,601,692</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(2,562,139)</u>	<u>900,614</u>	<u>(298,784)</u>	<u>(607,980)</u>	<u>(2,568,289)</u>
OTHER FINANCING SOURCES (USES):						
7911	Sale of bonds		9,692,271			9,692,271
7915	Operating transfers in			298,784		298,784
7916	Premium on bonds		48,253			48,253
8911	Operating transfers out	(298,784)				(298,784)
8949	Payments to escrow agent		(9,585,091)			(9,585,091)
8989	Net operating expenses	(56,598)				(56,598)
	Total other financing sources and (uses)	<u>(355,382)</u>	<u>155,433</u>	<u>298,784</u>	<u>-0-</u>	<u>98,835</u>
1200	Net change in fund balances	<u>(2,917,521)</u>	<u>1,056,047</u>	<u>-0-</u>	<u>(607,980)</u>	<u>(2,469,454)</u>
0100	Fund balances – beginning	<u>8,635,031</u>	<u>3,661,083</u>	<u>-0-</u>	<u>2,031,950</u>	<u>14,328,064</u>
3000	Fund balances – ending	<u>\$ 5,717,510</u>	<u>\$ 4,717,130</u>	<u>\$ -0-</u>	<u>\$ 1,423,970</u>	<u>\$ 11,858,610</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT,
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2008

Exhibit C-2R
Page 1 of 1

Net change in fund balances – total governmental funds (from C-2)	\$(2,469,454)
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation \$ 5,065,105 exceeded capital outlay \$ 1,009,952 in the current period.	(4,055,153)
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund and the debt service fund increased by \$(34,108) and decreased by \$ 6,943, respectively.	(27,165)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net assets. Long-term proceeds in the governmental fund were \$ 9,692,271 for refunding bonds, less \$ 8,875,000 of bonds defeased by the refunding bonds.	(817,271)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. These amounts were for general obligation bonded debt \$ 6,160,000; and capital lease of \$ 101,960.	6,261,960
Debt issuance costs on the issuance of bonds is an expenditure in the governmental funds, but the costs increase long-term assets in the statement of net assets. This amount is amortized over the life of the bond. Bond issuance costs were \$ 140,025, while amortization costs of bond issuance costs was \$ 100,810.	39,215
Premium on the issuance of bonds provides current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. Premium on the issuance of bonds was \$ 48,253, while amortization of of bond premiums was \$ 180,239.	131,986
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	13,457
Internal service funds are used by management to charge the costs of insurance, health and worker's compensation to individual funds. The net revenue (expense) of the internal service funds is reported in the governmental activities statement of activities (see D-2)	1,375,909
Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activity but is not reported in governmental funds.	(<u>114,724</u>)
Change in net assets of governmental activities (see B-1)	\$ <u><u>338,760</u></u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2008

Exhibit D-1
Page 1 of 1

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Funds (See H-3)</u>
	ASSETS:	
	Current Assets:	
1110	Cash and cash equivalents	\$ 1,350,034
1290	Due from others	<u>192,888</u>
	Total current assets	1,542,922
	Noncurrent Assets:	
	Total noncurrent assets	<u> </u>
	Total assets	<u>1,542,922</u>
	LIABILITIES:	
	Current Liabilities:	
2165	Accrued expenses payable	2,234,185
2170	Due to other funds	<u>710,016</u>
	Total current liabilities	2,944,201
	Noncurrent Liabilities:	
	Total noncurrent liabilities	<u> </u>
	Total liabilities	<u>2,944,201</u>
	NET ASSETS:	
3900	Unrestricted net assets	<u>(1,401,279)</u>
	Total net assets	<u><u>\$ (1,401,279)</u></u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2008

Exhibit D-2
Page 1 of 1

	Governmental Activities Internal Service Funds (See H-4)
Operating Revenues:	
Charges for services	\$ <u>10,857,591</u>
Total operating revenues	<u>10,857,591</u>
Operating Expenses:	
Insurance claims and expenses	<u>9,511,660</u>
Total operating expenses	<u>9,511,660</u>
Operating income (loss)	<u>1,345,931</u>
Nonoperating Revenues (Expenses):	
Interest and investment revenue	<u>29,978</u>
Total nonoperating revenues (expenses)	<u>29,978</u>
Income (loss) before contributions and transfers	1,375,909
Contributions and transfers	<u> </u>
Changes in net assets	1,375,909
Net assets – beginning	(<u>2,777,188</u>)
Net assets – ending	\$(<u>1,401,279</u>)

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2008

Exhibit D-3
Page 1 of 1

	Governmental Activities Internal Service Funds (See H-5)
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 10,770,458
Payments to other funds	(1,169,575)
Payments to suppliers	(975,430)
Claims paid	<u>(8,371,963)</u>
Net cash provided (used) by operating activities	<u>253,490</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net cash provided (used) by noncapital financing activities	<u>-0-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net cash provided (used) by capital and related financing activities	<u>-0-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>29,978</u>
Net cash provided by investing activities	<u>29,978</u>
Net increase (decrease) in cash and cash equivalents	283,468
Balances – beginning of year	<u>1,066,566</u>
Balances – end of year	<u>\$ 1,350,034</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 1,345,931
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Changes in Assets and Liabilities:	
Due from other funds	(87,133)
Accounts payable	164,267
Due to other funds	<u>(1,169,575)</u>
Net cash provided (used) by operating activities	<u>\$ 253,490</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2008

Exhibit E-1
Page 1 of 1

	Private- Purpose Trusts	Agency Funds
ASSETS:		
Cash and cash equivalents	\$ <u>136,311</u>	\$ <u>1,057,453</u>
Receivables:		
Due from other funds		35,879
Deferred expenditures		<u>1,191</u>
Total receivables	<u>-0-</u>	<u>37,070</u>
Total assets	<u>136,311</u>	\$ <u><u>1,094,523</u></u>
LIABILITIES:		
Accounts payable		\$ 112,721
Amounts due to student and employee groups		981,802
Due to other funds	<u>49,103</u>	
Total liabilities	<u>49,103</u>	\$ <u><u>1,094,523</u></u>
NET ASSETS:		
Held in trust for other purposes	<u>87,208</u>	
Total net assets	\$ <u><u>87,208</u></u>	

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED AUGUST 31, 2008

Exhibit E-2
Page 1 of 1

	<u>Private- Purpose Trusts</u>
ADDITIONS:	
Contributions:	
Private donations	\$ <u>-0-</u>
Investment Earning:	
Interest	<u>525</u>
Total investment earnings	525
Less investment expense	<u> </u>
Net investment earnings	<u>525</u>
Total additions	<u>525</u>
DEDUCTIONS:	
Instruction	<u>22,416</u>
Total deductions	<u>22,416</u>
Change in net assets	(21,891)
NET ASSETS	
Net assets – beginning of the year	<u>109,099</u>
Net assets – end of the year	<u>\$ 87,208</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Brazosport Independent School District (District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees that are elected by registered voters of the District. The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in the *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

The District reports the following major governmental funds:

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The District reports the following proprietary funds:

The *internal service funds* account for the District's self-funded medical insurance plan provided for the benefit of eligible employees and its self-funded worker's compensation program. The revenues of these funds are received from both the general and special revenue funds, and District employees and the expenses are comprised of claims paid on behalf of the District and its employees. The general fund is contingently liable for liabilities of these funds. Sub-fund accounting is employed to maintain the integrity of the various self-insurance activities of the District. See Notes 13 and 14 for additional discussion of the District's self-funded insurance plans.

The medical insurance plan is intended to be self-supporting and contributions for premiums are increased periodically to cover the cost of claims, insurance premiums and administrative fees. As of August 31, 2008, liabilities totaled \$ 1,827,115 and net assets (deficit) of the health insurance plan was \$(1,059,323).

The worker's compensation program provides for incurred but not reported costs for worker's compensation claims through the establishment of undiscounted liability accounts and net assets. As of August 31, 2008, undiscounted liabilities totaled \$ 1,117,086 and net assets (deficit) of the worker's compensation program was \$(341,956).

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Additionally, the District reports the following fiduciary funds:

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

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

Cash and Investments

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

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

Interfund Receivables, Payables and Transfers

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

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

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

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

The assessed value (adjusted) of the property tax roll on August 1, 2007, upon which the levy for the 2007-08 fiscal year was based, was \$ 6,843,169,794. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and Interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2008, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$.9484 and \$.1855 per \$ 100 valuation, respectively, for a total of \$ 1.1339 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2008 were 99.28% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2008, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 525,893 and \$ 98,154 for the general and debt service funds, respectively.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Capital Assets and Depreciation

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

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

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

Compensated Absences

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

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

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

Budgetary Data

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

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

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

The Official Budget was prepared for adoption for the general fund, food service (special revenue fund) and debt service fund prior to August 30, 2007. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within fund groups at the function code level and revenue object code level.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

The Budget is formally adopted by the Board of Trustees at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System. Should any change in the approved budget be required, budget amendment requests are presented to the Board of Trustees for consideration. Amendments are made before the fact and once approved are reflected in the official minutes. During the year the budget was properly amended in accordance with the above procedures. The Board of Trustees approved the final budget amendment on August 26, 2008.

Encumbrance Accounting

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

Outstanding encumbrances at August 31, 2008 that were subsequently provided for in the 2007-08 budget as a September amendment for Board approval totaled \$ 108,411. The entire amount is reflected as a reserve of fund balance in the general fund.

Fund Equity

Unreserved undesignated fund equity for governmental funds indicates available amounts for the budgeting of future operations. The unreserved designated fund equity for governmental funds indicates unreserved funds that have been earmarked by Board Resolution for specific purposes and are therefore not available for general expenditures to be appropriated in the following period unless amended by future Board action. As of August 31, 2008, unreserved designated fund equity includes \$ 1,401,279 designated for self insurance and \$ 567,770 designated for subsequent years expenditures in the general fund and \$ 159,959 designated for subsequent years expenditures in the other governmental funds (Special Revenue Funds). Reserved fund balance is that portion of fund equity, which is not available for appropriation or which has been legally separated for specific purposes. As of August 31, 2008, reserved fund balance includes \$ 761,823 for inventories, \$ 564,009 for prepaid items, and \$ 108,411 for encumbrances in the general fund. The food service (special revenue fund) reserves \$ 147,156 for inventories, and \$ 1,116,855 for food service. Debt service fund reserves total \$ 4,717,130 for retirement of funded indebtedness as of August 31, 2008.

Data Control Codes

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 2. NEW PRONOUNCEMENTS

GASB No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," was issued May 2004 and establishes uniform financial reporting by state and local government entities for Other Postemployment Benefit plans. This statement provides standards for measurement, recognition, and display of the assets, liabilities and where applicable, net assets and changes in net assets of such funds and for related disclosures. This statement is effective for periods beginning after December 15, 2007. This statement has been implemented and did not have a material effect on the financial statements of the District.

In May 2004, the GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1". This statement amends the portions of NCGA statement 1, "Governmental Accounting and Financial Reporting Principles", that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements and required supplementary information to assess the economic condition of a government. This statement has been implemented and did not have a material effect on the financial statements of the District.

GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," was issued June 2004. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective for periods beginning after December 15, 2008. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District.

GASB No. 46, "Net Assets Restricted by Enabling Legislation: an amendment of GASB Statement No. 34", was issued December 2004. This statement clarifies the meaning of legally enforceable as applied to restrictions on net asset use imposed by enabling legislation. This statement is effective for periods beginning after June 15, 2006. The statement was implemented and did not have a material impact on the District's financial statements.

GASB No. 47, "Accounting for Termination Benefits", was issued April 2005. This statement provides guidance for measuring for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, both voluntary and involuntary. This statement is effective for periods beginning after June 15, 2005. This statement has been implemented and did not have a material effect on the financial statements of the District.

GASB No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues", was issued September 2006. This statement provides guidance for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. This statement is effective for periods beginning after December 15, 2006. The statement was implemented and did not have an impact on the District's financial statements.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2008***NOTE 2. NEW PRONOUNCEMENTS (Continued)**

GASB No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", was issued November 2006. This statement provides guidance for pollution remediation obligations. This statement is effective for periods beginning after December 15, 2007. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District.

GASB No. 50, "Pension Disclosures", was issued May 2007. This statement provides guidance for financial reporting by pension plans and by employers that provide defined benefit and contribution plans. This statement is effective for periods beginning after June 15, 2007. The statement was implemented and did not have a material effect on the financial statements of the District.

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District.

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES

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

Cash and cash equivalents, current investments, and non-current investments as reported on the statement of net assets at August 31, 2008 are as follows:

	Governmental Funds	Proprietary (Internal Service) Funds	Fiduciary Funds	Total
Cash and Cash Equivalents:				
Cash (petty cash accounts)	\$ 25,750	\$	\$ 3,300	\$ 29,050
Financial Institution Deposits:				
Demand deposits	5,493,124	1,350,034	1,176,050	8,019,208
Repurchase agreement	3,361,224			3,361,224
Public Funds Investment Pool:				
Lone Star	<u>1,172,100</u>	<u> </u>	<u>14,414</u>	<u>1,186,514</u>
	<u>\$ 10,052,198</u>	<u>\$ 1,350,034</u>	<u>\$ 1,193,764</u>	<u>\$ 12,595,996</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Deposits

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

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

At August 31, 2008, in addition to petty cash of \$ 29,050, the carrying amount of the District's cash, savings, and time deposits was \$ 8,019,208. The financial institutions balances were \$ 8,623,078 at August 31, 2008. Financial institution balances of \$ 100,000 were covered by federal depository insurance, and \$ 8,523,078 was covered by collateral pledged in the District's name. The collateral was held in safekeeping departments of unrelated financial institutions, which act as the pledging bank's agent.

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

Depository:

- a. Name of bank: Texas Gulf Bank, Freeport, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 17,534,189.
- c. Largest cash, savings and time deposit combined account balance amounted to \$ 15,770,951 and occurred on September 26, 2007.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$ 100,000.

Investments

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

The District's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes it complied with the requirements of the PFIA and the District's investment policy.

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

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

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

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

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

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

The District participates in one Local Government Investment Pool (LGIP): Lone Star Investment Pool. The Lone Star Investment Pool (the Pool) was established on July 25, 1991, as a public funds investment pool in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. Lone Star is a 2(a)7 like fund, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Standard and Poor's has assigned its "aaa" bond fund risk rating and "AAAF" credit quality rating to the Pool's U.S. Government Fund and Liquidity Plus Fund, respectively. The "aaa" rating is the highest possible ranking and indicates each fund's low sensitivity to changing market conditions. The "AAAF" credit quality rating reflects the high credit quality of the U.S. Government Fund's and the Liquidity Plus Fund's eligible investments and counterparts. Standard and Poor's has also assigned its "AAAm" money market fund rating to the Pool's Liquidity Fund. The "AAAm" is the highest possible ranking and indicates the Liquidity Fund's low sensitivity to changing market conditions. Standard and Poor's reviews investments of the U.S. Government Fund and Liquidity Plus Fund monthly. Investments of the Liquidity Fund are reviewed weekly.

At August 31, 2008 Lone Star Investment Pool had a weighted average maturity of 32 days. Although Lone Star Investment Pool had a weighted average maturity of 32 days, the District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

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

The following table includes the portfolio balances of all investment types of the District at August 31, 2008:

	<u>Market Value</u>
Repurchase agreement	\$ 3,361,224
Local Government Investment Pools:	
Lone Star Investment Pool	<u>1,186,514</u>
Total investments	<u>\$ 4,547,738</u>

Credit Risk – As of August 31, 2008, the LGIPs are rated AA Af by Standard and Poor's. The Repurchase Agreement is invested in direct obligations of the United States of America backed by the full faith and credit of the United States of America.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2008***NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)****Investments (Continued)**

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

At August 31, 2008, 26% of the investment portfolio was invested in AAAs rated LGIPs (2(a)7 like pools) and 74% of the investment portfolio was invested in obligations of the United States of America or obligations backed by the full faith and credit of the United States of America.

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUES**Receivables and Allowances**

Receivables as of August 31, 2008, for the government's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Receivables:				
Property taxes	\$ 1,435,828	\$ 189,463	\$	\$ 1,625,291
Receivables from other governments	5,482,290		1,065,032	6,547,322
Other receivables	<u>7,835</u>			<u>7,835</u>
Gross receivables	6,925,953	189,463	1,065,032	8,180,448
Less: allowance for uncollectibles	<u>909,935</u>	<u>91,309</u>		<u>1,001,244</u>
Net receivables	<u>\$ 6,016,018</u>	<u>\$ 98,154</u>	<u>\$ 1,065,032</u>	<u>\$ 7,179,204</u>

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

YEAR ENDED AUGUST 31, 2008

**NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUES
(Continued)****Receivables/Payables from/to Other Governments**

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

Amounts due from federal, state, and local governments as of August 31, 2008 are summarized below.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>State Grants and Other</u>	<u>Total</u>
Major Governmental Funds:				
General fund	\$ 5,410,150	\$ 6,272	\$ 65,868	\$ 5,482,290
Other funds	<u>72,562</u>	<u>820,897</u>	<u>171,573</u>	<u>1,065,032</u>
Total	<u>\$ 5,482,712</u>	<u>\$ 827,169</u>	<u>\$ 237,441</u>	<u>\$ 6,547,322</u>

Amounts due to federal, state, and local governments as of August 31, 2008 are summarized below.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>State Grants and Other</u>	<u>Total</u>
Major Governmental Funds:				
General fund	\$ 1,226,666	\$ 81,130	\$	\$ 1,307,796
Other funds	<u> </u>	<u>16,201</u>	<u> </u>	<u>16,201</u>
Total	<u>\$ 1,226,666</u>	<u>\$ 97,331</u>	<u>\$ -0-</u>	<u>\$ 1,323,997</u>

For the year ended August 31, 2008, the District was determined to be subject to Chapter 41 under the Texas Education Code (TEC). During the year ended August 31, 2008, the District was required to pay \$ 7,988,685 to the state and at August 31, 2008, the District had paid the state \$ 6,762,019. The under payment in the amount of \$ 1,226,666 is recorded as a payable to other governments. The amount incurred as Chapter 41 costs of \$ 7,684,853 is reported as expenditures under Function 91 - Contracted Instructional Services Between Public Schools. The District will continue to be classified as a Chapter 41 District for the 2008-2009 year.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

**NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUES
(Continued)**

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of August 31, 2008, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 422,513	\$
Delinquent property taxes receivable (debt service fund)	79,079	
Federal food commodities		85,666
Local grants and contributions	<u> </u>	<u>15,554</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 501,592</u>	<u>\$ 101,220</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivables and Payables

Interfund balances at August 31, 2008 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Funds	\$ 640,360	\$ 250,588
Debt Service Fund		23,778
Capital Projects	377,551	
Internal Service Funds	710,016	
Fiduciary Funds	<u>49,103</u>	<u>35,879</u>
Total general fund	<u>1,777,030</u>	<u>310,245</u>

Special Revenue Funds:

General Fund:

ESEA, Title IV, Part A - Safe and Drug Free Schools and Communities Act		4,655
ESEA, Title I, Part A - Improving Basic Programs		89,515
ESEA, Title I, Part C - Education of Migratory Children		8,445
IDEA - Part B, Formula		111,631
IDEA - Part B, Preschool	161	
IDEA - Part B, Preschool L.R.E.		6,249

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

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

Interfund Receivables and Payables (Continued)

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
National School Breakfast and Lunch Program	\$ 246,880	\$
Vocational Education - Basic Grant		11,783
ESEA, Title II, Part A - Teacher and Principal Training and Recruiting		60,335
Title II, Part D, Subpart 1 - Enhancing Education Through Technology		478
ESEA, Title III, Part A - English Language Acquisition and Language Enhancement	3,547	
Smaller Learning Communities		131,949
Non-educational Community - Based Support		4,860
State-Funded Optional Extended-Year Program		43,747
Accelerated Reading Program		150,418
Technology Allotment		9,743
Region XIII-Mentor		6,552
	<u>250,588</u>	<u>640,360</u>
Debt Service Fund:		
General Fund	<u>23,778</u>	<u> </u>
Capital Projects Fund:		
General Fund	<u> </u>	<u>377,551</u>
Internal Service Funds:		
Medical Plan:		
General Fund	<u> </u>	<u>710,016</u>
Fiduciary Funds:		
Trust Fund:		
General Fund		49,103
Agency Funds:		
General Fund	<u>35,879</u>	<u> </u>
	<u>35,879</u>	<u>49,103</u>
Total	<u>\$ 2,087,275</u>	<u>\$ 2,087,275</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

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

Interfund Transfers

Interfund transfers for the year ended August 31, 2008 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Capital Projects	\$	\$ 298,784
Capital Projects Fund:		
General Fund	<u>298,784</u>	<u> </u>
	<u>\$ 298,784</u>	<u>\$ 298,784</u>

This transfer was made to provide local funds for the completion of the construction projects in excess of original funding.

NOTE 6. CAPITAL ASSETS

Changes in Capital Assets and Accumulated Depreciation

The following provides a summary of changes in capital assets and accumulated depreciation for the year ended August 31, 2008:

	<u>September 1, 2007</u>	<u>Additions</u>	<u>Retirements & Re- classifications</u>	<u>August 31, 2008</u>
Non-Depreciated Capital Assets:				
Land	\$ 2,260,973	\$	\$	\$ 2,260,973
Construction in progress	<u>8,817,699</u>	<u>53,233</u>	<u>8,825,045</u>	<u>45,887</u>
Total non-depreciated	<u>11,078,672</u>	<u>53,233</u>	<u>8,825,045</u>	<u>2,306,860</u>
Depreciated Capital Assets:				
Land improvements	5,816,917	20,515		5,837,432
Buildings and improvements	171,843,629	9,535,047		181,378,676
Furniture, equipment & vehicles	<u>11,462,067</u>	<u>226,202</u>		<u>11,688,269</u>
Total depreciated	<u>189,122,613</u>	<u>9,781,764</u>	<u>-0-</u>	<u>198,904,377</u>
Total additions/retirements		<u>\$ 9,834,997</u>	<u>\$ 8,825,045</u>	

(continued)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 6. CAPITAL ASSETS (Continued)

Changes in Capital Assets and Accumulated Depreciation (Continued)

	<u>September 1, 2007</u>	<u>Additions</u>	<u>Retirements & Re- classifications</u>	<u>August 31, 2008</u>
Accumulated Depreciated:				
Land and land improvements	\$ 3,401,229	\$ 243,743	\$	\$ 3,644,972
Buildings and improvements	31,186,141	4,015,196		35,201,337
Furniture, equipment & vehicles	<u>6,785,430</u>	<u>806,166</u>		<u>7,591,596</u>
 Total accumulated depreciation	 <u>41,372,800</u>	 <u>\$ 5,065,105</u>	 <u>\$ -0-</u>	 <u>46,437,905</u>
 Net depreciated capital assets	 <u>147,749,813</u>			 <u>152,466,472</u>
 Net capital assets	 <u>\$158,828,485</u>			 <u>\$154,773,332</u>

See Note 1 for additional information regarding capital assets.

Depreciation Expense

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

<u>Data Control Codes</u>	<u>Function</u>	<u>Amount</u>
0011	Instruction	\$ 2,624,560
0012	Instructional resources and media services	237,976
0013	Instructional leadership	12,395
0021	School leadership	31,791
0023	Guidance, counseling, and evaluation services	198,680
0031	Health services	37,895
0033	Student (pupil) transportation	19,639
0034	Food service	574,013
0035	Extracurricular activities	349,324
0036	General administration	665,390
0041	Plant maintenance and operations	28,921
0051	Security and monitoring services	272,338
0053	Data processing services	<u>12,183</u>
	Total depreciation expense	<u>\$ 5,065,105</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

NOTE 6. CAPITAL ASSETS (Continued)

Governmental Fund Construction Commitments

At August 31, 2008, the District had no construction commitments.

NOTE 7. LONG-TERM DEBT

Loans

Short-term debts are accounted for through the appropriate fund, and consist of notes made in accordance with the provisions of the Texas Education Code. The District did not borrow any funds through loan transactions during the year ended August 31, 2008.

General Obligation Bonds

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

The following is a summary of the District's general obligation bonded debt as of August 31, 2008:

<u>Date of Issue</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>% Rates</u>	<u>Outstanding Balance</u>
2001	\$ 820,000	2011	4.75	\$ 285,000
2002	5,955,000	2022	3.00-5.10	5,030,000
2002	4,955,000	2013	3.00-4.35	2,370,000
2002	589,627	2013	3.48-4.45	617,544
2003	23,985,000	2022	3.75-5.50	16,035,000
2003	1,900,000	2010	1.90-3.75	1,255,000
2003	2,778,267	2010	2.67-3.09	-0-
2003	8,000,000	2018	0.00	8,000,000
2003	39,450,000	2023	2.00-5.00	36,325,000
2004	35,000,000	2024	2.00-5.25	31,300,000
2004	8,265,000	2016	2.00-5.00	8,100,000
2004	263,058	2008	2.66-3.00	-0-
2005	14,530,000	2016	2.50-5.00	13,175,000
2005	8,000,000	2021	0.00	8,000,000
2005	13,000,000	2025	3.75-4.50	10,665,000
2007	8,010,000	2022	4.00	7,790,000
2007	<u>1,682,270</u>	2018	4.00	<u>1,738,846</u>
Total	<u>\$ 177,183,222</u>			<u>\$ 150,686,390</u>

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

YEAR ENDED AUGUST 31, 2008

NOTE 7. LONG-TERM DEBT (Continued)**General Obligation Bonds (Continued)**

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

<u>Year Ended August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2009	\$ 6,240,000	\$ 5,907,918	\$ 12,147,918
2010	6,470,000	5,690,881	12,160,881
2011	6,705,000	5,453,116	12,158,116
2012	6,860,000	5,191,912	12,051,912
2013	7,165,000	4,905,366	12,070,366
2014-2018	49,155,000	19,171,708	68,326,708
2019-2023	62,685,000	8,426,902	71,111,902
2024-2025	<u>6,240,000</u>	<u>214,550</u>	<u>6,454,550</u>
Totals	<u>\$ 151,520,000</u>	<u>\$ 54,962,353</u>	<u>\$ 206,482,353</u>

Difference in bond payable and future principal payments is due to \$ 833,609 of accretion, which will occur in future years prior to payment.

The District entered into two repurchase agreements for 2003B Unlimited Tax School Building QZAB Bonds and the 2005 Unlimited Tax School Building QZAB Bonds. The 2003B Unlimited Tax School Building QZAB Bonds repurchase agreement calls for annual payments of \$ 377,642 and will yield an interest rate of 4.21% with maturity date of August 15, 2018. The 2005 Unlimited Tax School Building QZAB Bonds repurchase agreement calls for annual payments of \$ 401,939 and will yield an interest rate of 2.83% with maturity date of June 30, 2021. The total requirement deposited for the year ended August 31, 2008 was \$ 779,580. The sinking fund balance as of August 31, 2008 was \$ 3,361,224 (\$ 1,250,038 Series 2005 and \$ 2,111,186 Series 2003).

Presented below is a summary of the sinking fund requirements:

<u>Year Ended August 31</u>	<u>Series 2005</u>	<u>Series 2003</u>	<u>Total Requirements</u>
2009	\$ 401,938	\$ 377,642	\$ 779,580
2010	401,939	377,641	779,580
2011	401,938	377,642	779,580
2012	401,939	377,641	779,580
2013	401,939	377,642	779,581
2014-2018	2,009,695	1,888,209	3,897,904
2019-2021	<u>1,205,817</u>	<u> </u>	<u>1,205,817</u>
Total minimum requirements	<u>\$ 5,225,205</u>	<u>\$ 3,776,417</u>	<u>\$ 9,001,622</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2008***NOTE 7. LONG-TERM DEBT (Continued)****General Obligation Bonds (Continued)**

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

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

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2008.

Debt Issuances

On October 17, 2007, the District issued \$ 8,869,065 in Unlimited Tax Refunding Bonds, Series 2007, for the refunding of previously issued outstanding bonds as follows: \$ 7,950,000 Unlimited Tax School Building and Refunding Bonds, Series 2003A and \$ 925,000 Unlimited Tax School Building and Refunding Bonds, Series 2002. The District placed the proceeds of the refunding, in the amount of \$ 9,585,091, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issues being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 612,640. The economic gain resulting from the transaction was \$ 442,538.

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended August 31, 2008, was as follows:

	<u>Balance</u> <u>09-01-07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>08-31-08</u>	<u>Due Within</u> <u>One Year</u>
Long-Term Debt:					
General obligation bonds	\$ 155,914,396	\$ 9,806,995	\$ 15,035,000	\$ 150,686,391	\$ 6,240,000
Capital leases	427,618		101,961	325,657	122,223
Components of Long-Term Debt:					
Premium (discount) on general obligation bond	1,960,044	48,253	180,238	1,828,059	180,559
Accrued interest	<u>280,222</u>	<u>266,765</u>	<u>280,222</u>	<u>266,765</u>	<u>266,765</u>
Totals	<u>\$ 158,582,280</u>	<u>\$ 10,122,013</u>	<u>\$ 15,597,421</u>	<u>\$ 153,106,872</u>	<u>\$ 6,809,547</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 8. LEASES

Capital Leases

The District leases various office machines under capital leases. During the year ended August 31, 2006, the District acquired \$ 471,114 of new office equipment through capital leases. In connection with the new leases certain equipment under old leases were exchanged and the remaining balances were refinanced. The effective interest rates of the capital lease is 9.75%, expiring in 2011. The leased assets and related obligations are accounted for in the government activities column of the government-wide financial statements as capital assets and noncurrent liabilities. Current requirements for principal and interest expenditures accounted for in the General Fund, were \$ 101,960 and \$ 37,216.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments, as of August 31, 2008:

<u>Year Ended</u> <u>August 31</u>	<u>Amount</u>
2009	\$ 150,775
2010	139,177
2011	<u>92,784</u>
	382,736
Less amount representing interest	<u>57,079</u>
Net present value of minimum lease payments	<u>\$ 325,657</u>

Operating Leases

On March 15, 2004, the District entered into a non-cancelable lease agreement through February 28, 2009 for space to be used for records retention and a media center. Future minimum lease payments as of August 31, 2008 are as follows:

<u>Year Ended</u> <u>August 31</u>	<u>Amount</u>
2009	\$ <u>27,919</u>
	<u>\$ 27,919</u>

Rental expenditures related to this lease for the year ended August 31, 2008 totaled \$ 55,838.

NOTE 9. PENSION PLAN OBLIGATIONS

Plan Description - The District contributes to the Teacher Retirement System of Texas (TRS), a cost sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS board of Trustees. TRS issues a

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

NOTE 9. PENSION PLAN OBLIGATIONS (Continued)

publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, www.trs.state.tx.us under the TRS Publications heading.

Funding Policy - Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2008, 2007 and 2006, and a state contribution rate of 6.58% contribution for fiscal year 2007 and 2006. In certain circumstances the reporting district is required to make all or a portion of the state's 6.58% contribution for fiscal year 2008 and 6.00% for fiscal years 2007 and 2006. State contributions to TRS made on behalf of the District's employees for the years ended June 30, 2008, 2007 and 2006 were \$ 4,173,503 \$ 3,748,089 and \$ 3,693,059 respectively. The District paid additional state contributions for the years ended June 30, 2008, 2007 and 2006 in the amount of \$ 556,369, \$ 464,489 and \$ 437,017 respectively, on the portion of the employees' salaries that exceeded the statutory minimum. The District's total payroll for the years ended June 30, 2008, 2007 and 2006 were \$ 72,691,198, \$ 69,448,346 and \$ 65,603,227 respectively, of which \$ 69,011,767, \$ 65,666,225 and \$ 61,550,983 was covered payroll for this plan, respectively.

NOTE 10. GENERAL FUND FEDERAL SOURCE REVENUES

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

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Total</u>
Direct Costs:		
School Health and Related Services (SHARS)	---	\$ 170,463
ROTC Program	12.000	94,271
Medicaid Administrative Claiming Program (MAC)	93.778	9,229
Indirect Costs:		
ESEA, Title I, Part A – Improving Basic Programs	84.010	34,382
ESEA, Title II, Part A – Teacher and Principal Training and Recruiting	84.367	9,849
ESEA, Title I, Part C – Education of Migratory Children	84.011	<u>1,439</u>
		<u>\$ 319,633</u>

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2008***NOTE 11. LOCAL AND INTERMEDIATE REVENUES**

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

	General Fund	Debt Service Fund	Other Funds	Total
Property Taxes	\$ 64,804,351	\$ 12,952,074		\$ 77,756,425
Food sales			2,555,225	2,555,225
Investment income	777,032	139,100	26,058	942,190
Penalties, interest and other tax related income	368,767	44,593		413,360
Co-curricular income	172,775			172,775
Other tuition and fees from patrons	24,173			24,173
Enterprising activities	8,376			8,376
Grants and contributions			63,409	63,409
Other	<u>707,308</u>			<u>707,308</u>
Total	<u>\$ 66,862,782</u>	<u>\$ 13,135,767</u>	<u>\$ 2,644,692</u>	<u>\$ 82,643,241</u>

NOTE 12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2008, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 13. SELF-INSURED HEALTH CARE

During the year ended August 31, 2008, the District provided medical benefits coverage to its employees through a self-funded health insurance plan through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Employee Benefits Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute an Interlocal Agreement that defines the responsibilities of the parties. Health claim payments are payroll withholdings to pay premiums for dependents' health insurance processed by a third party administrator acting on behalf of the District. See Note 1 for additional discussion of the plan. The Fund provides administrative services to its self-funded districts, including claims administration, customer service, billing and eligibility, and utilization management.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

NOTE 13. SELF-INSURED HEALTH CARE (Continued)

In accordance with state statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Life Investors Insurance Company of America, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$ 200,000 and for annual aggregate loss exceeding \$ 1,000,000. At August 31, 2008, the District has recorded current health claim short-term liabilities of \$ 1,117,099 in the internal service fund representing claims reported but not paid and incurred but not reported.

These liabilities are based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated.

The latest financial statements available for Aetna Life Insurance Company are filed with the Texas State Board of Insurance, Austin, Texas, and are public records. The District provides post-retirement health benefits to its employees.

Changes in the medical claims liability amounts in fiscal 2006-2007 and 2007-2008 are presented below:

	Beginning of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2006-2007 Medical	\$ 1,039,170	\$ 8,510,318	\$ 8,608,614	\$ 940,874
2007-2008 Medical	940,874	8,458,480	8,282,255	1,117,099

NOTE 14. SELF-INSURED WORKERS' COMPENSATION

Beginning September 1, 2001, the District established its self-funding Workers' Compensation program. The District met its statutory worker's compensation obligations by participating as a self-funded member of the TASB Risk Management Fund. The accrued liability for the Workers' Compensation self-insurance program is projected to be \$ 1,117,086 as of August 31, 2008. The District claim history does not allow for a credible projection of loss adjustment expenses (LAE). Data from other self-insured and insurance entities suggests costs for these items may be in the neighborhood of 5.0% of the liability for losses.

The District has maintained a self-insured retention of \$ 325,000 per occurrence during the year ended August 31, 2008. The District currently purchases specific excess coverage of \$ 325,000 per occurrence from Midwest Employers Casualty Company and \$ 1,000,000 in the aggregate. Claims administration is also provided by Texas Association of School Boards.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT*NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2008***NOTE 14. SELF-INSURED WORKERS' COMPENSATION (Continued)**

The accrued liability for Workers' Compensation self insurance of \$ 1,117,086 includes estimated incurred but not reported claims. This liability reported in the fund at August 31, 2008, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

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

<u>Fiscal Year</u>	<u>Claims</u>
2002-03	127
2003-04	152
2004-05	179
2005-06	200
2006-07	185
2007-08	165
6 Yr. Average	168

Changes in the workers' compensation claims liability amounts in fiscal 2006-2007 and 2007-2008 are presented below:

	<u>Beginning of Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2006-2007 Workers' Compensation	\$ 1,111,925	\$ 257,881	\$ 240,762	\$ 1,129,044
2007-2008 Workers' Compensation	\$ 1,129,044	\$ 286,958	\$ 298,916	\$ 1,117,086

NOTE 15. UNEMPLOYMENT COMPENSATION POOL

During the year ended August 31, 2008, Brazosport ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 15. UNEMPLOYMENT COMPENSATION POOL (Continued)

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustee in February of the following year. The Fund's audited financial statements as of August 31, 2007 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

NOTE 16. LITIGATION AND CONTINGENCIES

The District participates in numerous state and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2008 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

The District is involved in the following legal actions, and is represented by legal counsel. The stated probable outcome and the possible effect are the opinion of legal counsel based upon conditions existing as of December 16, 2008.

Cause No. C1033897; Don and Sheryl Smith, as Next Friends of a minor child, vs. Rudy Okruhlik, Individually and in his Official Capacity as Superintendent of Brazosport Independent School District, et al.; in the County Court at Law No. 3 of Brazoria County, Texas. The plaintiffs filed a lawsuit against the District's superintendent, the president of the Board of Trustees, and five other District employees (collectively, the "District Defendants"). The plaintiffs alleged that their child was unfairly charged and found guilty of violating the District's Student Code of Conduct by possessing or delivering a controlled substance while on a school sponsored activity. The plaintiffs alleged that the initial finding and its affirmation on appeal by the District Defendants was arbitrary and capricious due to lack of evidence. The plaintiffs sought the expungement of the disciplinary finding from their child's school record, and an order requiring a new plan from the District for the makeup of Level One and Two appeals panels. In addition, the Plaintiffs sought compensatory damages of \$ 10,000 each against the two District Defendants who made the initial disciplinary finding and upheld it on Level One appeal; \$ 5,000 each against the three District Defendants who upheld the disciplinary finding on a Level Two appeal; and \$ 2,500 each against the superintendent and president in their official capacities, plus attorney's fees. The District Defendants denied the Plaintiffs' claims. The case was dismissed for want of prosecution on May 2, 2008. This matter is now closed.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 16. LITIGATION AND CONTINGENCIES (Continued)

Charge No. 460-2007-04104: Charging Party: Grace M. LeBlanc; Filed with the Equal Employment Opportunity Commission. On July 23, 2007, Grace M. Leblanc, a former employee of the District, filed a charge against the District alleging age discrimination. The District denies the charge. As of the date of this report, the charge is in the preliminary investigation stage. District counsel is unable to determine at present that an outcome unfavorable to the District is either probable or remote.

Charge No. 460-2007-0005588: Charging Party: Paul D. Williams; Filed with the Equal Employment Opportunity Commission. On August 24, 2007, Paul D. Williams, a former employee of the District, filed a charge against the District alleging age discrimination. The District denied the charge. On May 29, 2008, the Equal Employment Opportunity Commission issued its determination that it found no cause to believe that a violation of the statutes had occurred. As of the date of this report, there is no information that Mr. Williams has filed a suit in federal court against the District with respect to this charge, and the deadline for doing so has expired. District counsel is unable to determine whether Mr. Williams intends to file suit against the District in state court nor can they determine that an outcome unfavorable to the District is either probable or remote.

Charge No. 460-2008-0000650; Charging Party: Aida Levario; Filed with the Equal Employment Opportunity Commission. In January, 2008, Aida Levario, a former employee of the District, filed a charge against the District alleging gender discrimination. The District denies the charge. As of the date of the report, the charge is in the preliminary investigation stage. District counsel is unable to determine at present that an outcome unfavorable to the District is either probable or remote.

Lofton Matter – Demand Letter; The District received a letter dated November 1, 2007, from Jamie Lofton, individually and as next friend of her daughter, a minor. Ms. Lofton alleges that her daughter, age 7, sustained physical injuries while playing on gym equipment at Lake Jackson Junior High School during an evening football game. Ms. Lofton seeks an unspecified amount of damages for negligence in failing to maintain or secure the gym equipment. The District denies Ms. Lofton's claims. District counsel is unable to determine whether Ms. Lofton will take any action against the District with respect to her allegations, nor can they determine that an outcome unfavorable to the District is either probable or remote.

NOTE 17. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS

The District participates in a Shared Services Arrangement ("SSA") for teaching and services for the Juvenile Justice Alternative Education Program with seven other school districts. Although approximately 27% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures of this program and does not disclose them in these financial statements. Brazoria County is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement. The District does not have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Brazosport Independent School District. The District reimburses Brazoria County for expenditures attributable to their participation. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the expenditures attributable to the District's participation.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

NOTE 17. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS (Continued)

Expenditures:

6200	Professional and Contracted Services	\$	212,515
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The District participates in a Shared Services Arrangement (“SSA”) for the hearing impaired through the Brazoria-Fort Bend Cooperative with eleven other school districts. Although approximately 8% of the activity of the Shared Services Arrangement is attributable to the District’s participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Alief Independent School District, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Brazosport Independent School District. The fiscal manager is responsible for all financial activities of the shared services arrangement. The amount of state revenues and expenditures attributable to the District’s participation is not available.

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

Expenditures:

6200	Professional and Contracted Services	\$	69,849
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NOTE 18. DEFICIT NET ASSETS

The expenses incurred by the District in the District’s self-funded workers’ compensation plan, as accounted for in the Internal Service Fund were less than District contributions by \$ 233,245, resulting in a deficit net assets balance of \$ 341,956.

The District’s expenses for claims and administrative costs in the self-funded Health Insurance Plan, accounted for in the Internal Service Fund, were less than revenues from the District and employee contributions by \$ 1,142,664, resulting in a deficit net assets balance of \$ 1,059,323.

NOTE 19. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended August 31, 2008, the District incurred expenditures in excess of appropriations within the following fund and functions:

Food Service Special Revenue Fund:

Function 35 - Food Service	\$	168,718
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This variance was primarily the result of differences in year-end accruals.

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REQUIRED SUPPLEMENTARY INFORMATION

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2008

Exhibit G-1
Page 1 of 1

Data Control Codes		General Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and intermediate sources	\$ 68,298,045	\$ 68,290,737	\$ 66,862,782	\$(1,427,955)
5800	State program revenues	30,331,141	34,689,253	29,416,174	(5,273,079)
5900	Federal program revenues	<u>100,000</u>	<u>100,000</u>	<u>319,634</u>	<u>219,634</u>
5020	Total revenues	<u>98,729,186</u>	<u>103,079,990</u>	<u>96,598,590</u>	<u>(6,481,400)</u>
EXPENDITURES:					
Current:					
0011	Instruction	55,474,075	54,061,716	52,185,531	1,876,185
0012	Instructional resources and media services	2,001,548	2,152,164	1,935,315	216,849
0013	Curriculum and staff development	442,881	1,147,248	1,085,199	62,049
0021	Instructional leadership	1,910,375	1,920,900	1,630,889	290,011
0023	School leadership	6,450,122	6,913,182	6,258,520	654,662
0031	Guidance, counseling, and evaluation services	3,157,007	3,527,377	3,367,619	159,758
0032	Social work services		127,978	104,508	23,470
0033	Health services	968,583	1,183,178	1,114,380	68,798
0034	Student transportation	2,137,446	2,555,207	2,336,000	219,207
0036	Extracurricular activities	1,415,158	3,012,556	2,872,870	139,686
0041	General administration	2,375,926	2,562,146	2,481,214	80,932
0051	Plant maintenance and operations	11,755,639	14,397,194	13,914,703	482,491
0052	Security and monitoring services	356,590	399,311	390,926	8,385
0053	Data processing services	1,235,292	1,234,965	1,020,422	214,543
0061	Community services	66,843	76,781	65,407	11,374
0071	Principal on long-term debt	90,000	191,960	191,960	-0-
0072	Interest on long-term debt	15,675	69,245	52,892	16,353
0081	Capital outlay		220,000	185,156	34,844
0091	Contracted instructional services between public schools	7,438,209	8,338,209	7,684,853	653,356
0093	Payments related to shared services arrangements		76,897	69,849	7,048
0095	Payments to Juvenile Justice Alternative Education Programs		<u>235,000</u>	<u>212,515</u>	<u>22,485</u>
6030	Total expenditures	<u>97,291,369</u>	<u>104,403,214</u>	<u>99,160,728</u>	<u>5,242,486</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,437,817</u>	<u>(1,323,224)</u>	<u>(2,562,138)</u>	<u>(1,238,914)</u>
OTHER FINANCING SOURCES (USES):					
8911	Operating transfers out		(250,000)	(298,784)	(48,784)
8989	Non operating expenses			<u>(56,599)</u>	<u>(56,599)</u>
	Total other financing sources (uses)	<u>-0-</u>	<u>(250,000)</u>	<u>(355,383)</u>	<u>(105,383)</u>
1200	Net change in fund balances	1,437,817	(1,573,224)	(2,917,521)	(1,344,297)
0100	Fund balances – beginning	<u>8,635,031</u>	<u>8,635,031</u>	<u>8,635,031</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 10,072,848</u>	<u>\$ 7,061,807</u>	<u>\$ 5,717,510</u>	<u>\$(1,344,297)</u>

OTHER SUPPLEMENTARY INFORMATION

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2008

Data Control Codes		Special				
		204	211	212	224	225
		ESEA, Title IV, Part A - Safe and Drug Free Schools and Communities Act	ESEA, Title I Part A - Improving Basic Programs	ESEA, Title I Part C - Education of Migratory Children	IDEA - Part B, Formula	IDEA - Part B, Preschool
	ASSETS:					
1110	Cash and cash equivalents	\$	\$	\$	\$	\$
1240	Receivables from other governments	4,655	207,782	11,180	251,659	10,098
1260	Due from other funds					161
1310	Inventories					
1000	Total assets	<u>\$ 4,655</u>	<u>\$ 207,782</u>	<u>\$ 11,180</u>	<u>\$ 251,659</u>	<u>\$ 10,259</u>
	LIABILITIES AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	\$	\$ 18,380	\$ 140	\$ 19,687	\$
2160	Accrued wages payable		99,887	1,896	110,713	3,849
2170	Due to other funds	4,655	89,515	8,445	111,631	6,249
2180	Due to other governments			699	9,628	161
2300	Deferred revenues					
2000	Total liabilities	<u>4,655</u>	<u>207,782</u>	<u>11,180</u>	<u>251,659</u>	<u>10,259</u>
	Fund Balances:					
	Reserved For:					
3410	Inventory					
3450	Food service					
	Designated For:					
3590	Other purposes					
3000	Total fund balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
4000	Total liabilities and fund balances	<u>\$ 4,655</u>	<u>\$ 207,782</u>	<u>\$ 11,180</u>	<u>\$ 251,659</u>	<u>\$ 10,259</u>

Revenue Funds

240	244	255	262	263	269	280	288
Child Nutrition Fund	Vocational Education - Basic Grant	ESEA, Title II Part A - Teacher and Principal Training and Recruiting	Title II, Part D, Subtitle I, Enhancing Education Through Technology	Title III, Part A - English Language Acquisition and Language Enhancement	Title V, Part A - Innovative Programs	Smaller Learning Communities	ESL Summer Program
\$ 1,234,808	\$	\$	\$	\$	\$	\$	\$
95,843	14,989	71,599	1,463	8,320		143,309	
246,880				3,547			
147,156							
<u>\$ 1,724,687</u>	<u>\$ 14,989</u>	<u>\$ 71,599</u>	<u>\$ 1,463</u>	<u>\$ 11,867</u>	<u>\$ -0-</u>	<u>\$ 143,309</u>	<u>\$ -0-</u>
\$ 327,799	\$ 3,206	\$	\$	\$	\$	\$ 10,779	\$
47,210		11,264	985	6,154		581	
	11,783	60,335	478			131,949	
				5,713			
<u>85,667</u>							
<u>460,676</u>	<u>14,989</u>	<u>71,599</u>	<u>1,463</u>	<u>11,867</u>	<u>-0-</u>	<u>143,309</u>	<u>-0-</u>
147,156							
1,116,855							
<u>1,264,011</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 1,724,687</u>	<u>\$ 14,989</u>	<u>\$ 71,599</u>	<u>\$ 1,463</u>	<u>\$ 11,867</u>	<u>\$ -0-</u>	<u>\$ 143,309</u>	<u>\$ -0-</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2008

Data Control Codes		Special				
		385	392	393	397	401
		State Supplemental Visually Impaired (SSVI)	Non- educational Community- Based Support	Texas Successful Schools Program	Advanced Placement Incentives	State Funded Optional Extended-Year Program
	ASSETS:					
1110	Cash and cash equivalents	\$	\$	\$ 13,323	\$ 33,775	\$
1240	Receivables from other governments		4,860			43,747
1260	Due from other funds					
1310	Inventories					
1000	Total assets	\$ <u>-0-</u>	\$ <u>4,860</u>	\$ <u>13,323</u>	\$ <u>33,775</u>	\$ <u>43,747</u>
	LIABILITIES AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	\$	\$	\$	\$	\$
2160	Accrued wages payable					
2170	Due to other funds		4,860			43,747
2180	Due to other governments					
2300	Deferred revenues					
2000	Total liabilities	<u>-0-</u>	<u>4,860</u>	<u>-0-</u>	<u>-0-</u>	<u>43,747</u>
	Fund Balances:					
	Reserved For:					
3410	Inventory					
3450	Food service					
	Designated For:					
3590	Other Purposes			13,323	33,775	
3000	Total fund balances	<u>-0-</u>	<u>-0-</u>	<u>13,323</u>	<u>33,775</u>	<u>-0-</u>
4000	Total liabilities and fund balances	\$ <u>-0-</u>	\$ <u>4,860</u>	\$ <u>13,323</u>	\$ <u>33,775</u>	\$ <u>43,747</u>

Revenue Funds

404	409	411	419	427	428	429	481
Accelerated Reading Program	Texas High School Completion Success Program	Technology Allotment	Texas Now Fitness Grant	Tobacco Compliance Grant	High School Allotment	Automated External Defibrillator	John & James Knight Foundation
\$ 150,418	\$	\$ 9,743	\$ 6,552	\$ 351	\$ 83,413 28,815	\$	\$ 353
<u>\$ 150,418</u>	<u>\$ -0-</u>	<u>\$ 9,743</u>	<u>\$ 6,552</u>	<u>\$ 351</u>	<u>\$ 112,228</u>	<u>\$ -0-</u>	<u>\$ 353</u>
\$ 150,418	\$	\$ 9,743	\$ 6,552	\$ 351	\$	\$	\$
<u>150,418</u>	<u>-0-</u>	<u>9,743</u>	<u>6,552</u>	<u>351</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
					112,228		353
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>112,228</u>	<u>-0-</u>	<u>353</u>
<u>\$ 150,418</u>	<u>\$ -0-</u>	<u>\$ 9,743</u>	<u>\$ 6,552</u>	<u>\$ 351</u>	<u>\$ 112,228</u>	<u>\$ -0-</u>	<u>\$ 353</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2008

		Special Revenue				
		482	484	485	489	490
Data Control Codes		Dow Velasco Elementary	Toshiba American Fund Grant	Teacher Externship Program	Harris County Education Grant	Dow Education Grants
ASSETS:						
1110	Cash and cash equivalents	\$ 57	\$ 1,297	\$ 6,570	\$ 24	\$ 4,058
1240	Receivables from other governments					
1260	Due from other funds					
1310	Inventories					
1000	Total assets	<u>\$ 57</u>	<u>\$ 1,297</u>	<u>\$ 6,570</u>	<u>\$ 24</u>	<u>\$ 4,058</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
2110	Accounts payable	\$	\$	\$	\$	\$
2160	Accrued wages payable					
2170	Due to other funds					
2180	Due to other governments					
2300	Deferred revenues	<u>57</u>	<u>1,297</u>	<u>6,570</u>	<u>24</u>	<u>4,058</u>
2000	Total liabilities	<u>57</u>	<u>1,297</u>	<u>6,570</u>	<u>24</u>	<u>4,058</u>
Fund Balances:						
Reserved For:						
3410	Inventory					
3450	Food service					
Designated For:						
3590	Other purposes					
3000	Total fund balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
4000	Total liabilities and fund balances	<u>\$ 57</u>	<u>\$ 1,297</u>	<u>\$ 6,570</u>	<u>\$ 24</u>	<u>\$ 4,058</u>

<u>Funds</u>			
<u>492</u>	<u>493</u>	<u>499</u>	
University of Houston Mentor Program	Nasa Grant M. Griffith	Wal-Mart Literacy Grant	Total Nonmajor Governmental (See C-1)
\$ 2,663	\$ 1,912	\$ 280	\$ 1,382,884
			1,065,032
			250,588
			147,156
<u>\$ 2,663</u>	<u>\$ 1,912</u>	<u>\$ 280</u>	<u>\$ 2,845,660</u>
\$	\$ 1,379	\$	\$ 381,370
			282,539
			640,360
			16,201
<u>2,663</u>	<u>533</u>		<u>101,220</u>
<u>2,663</u>	<u>1,912</u>	<u>-0-</u>	<u>1,421,690</u>
			147,156
			1,116,855
		<u>280</u>	<u>159,959</u>
<u>-0-</u>	<u>-0-</u>	<u>280</u>	<u>1,423,970</u>
<u>\$ 2,663</u>	<u>\$ 1,912</u>	<u>\$ 280</u>	<u>\$ 2,845,660</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2008

Data Control Codes		Special				
		204	211	212	224	225
		ESEA, Title IV, Part A - Safe and Drug Free Schools and Communities Act	ESEA, Title I Part A - Improving Basic Programs	ESEA, Title I Part C - Education of Migratory Children	IDEA - Part B, Formula	IDEA - Part B, Preschool
	REVENUES:					
5700	Local and intermediate sources	\$	\$	\$	\$	\$
5800	State program revenues					
5900	Federal program revenues	48,156	2,926,806	121,849	3,471,372	92,434
5020	Total revenues	<u>48,156</u>	<u>2,926,806</u>	<u>121,849</u>	<u>3,471,372</u>	<u>92,434</u>
	EXPENDITURES:					
	Current:					
0011	Instruction	33,891	2,376,417	4,053	2,735,452	88,979
0012	Instructional resources and media services		83,108			
0013	Curriculum and staff development	2,632	92,333	440	65,516	3,318
0021	Instructional leadership	3,582	159,554	99,500	82,295	
0023	School leadership		838			
0031	Guidance, counseling and evaluation services		60,710		534,424	137
0032	Social work services		58,527	881	50,676	
0033	Health services					
0034	Student (pupil) services				1,063	
0035	Food services					
0036	Extracurricular activities					
0041	General administration				1,488	
0052	Security and monitoring services	8,051				
0053	Data processing services		4,230			
0061	Community services		91,089	16,975	458	
6030	Total expenditures	<u>48,156</u>	<u>2,926,806</u>	<u>121,849</u>	<u>3,471,372</u>	<u>92,434</u>
1100	Excess (deficiency) of revenues over expenditures	-0-	-0-	-0-	-0-	-0-
	OTHER FINANCING SOURCES (USES):					
	Total other financing sources and (uses)					
1200	Net changes in fund balances	-0-	-0-	-0-	-0-	-0-
0100	Fund balances - beginning					
3000	Fund balances - ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Revenue Funds							
240	244	255	262	263	269	280	288
Child Nutrition Fund	Vocational Education - Basic Grant	ESEA, Title II Part A - Teacher and Principal Training and Recruiting	Title II, Part D, Subtitle I, Enhancing Education Through Technology	Title III, Part A - English Language Acquisition and Language Enhancement	Title V, Part A - Innovative Programs	Smaller Learning Communities	ESL Summer Program
\$ 2,581,284	\$	\$	\$	\$	\$	\$	\$
167,120							
<u>3,757,921</u>	<u>145,872</u>	<u>770,636</u>	<u>2,826</u>	<u>186,411</u>	<u>26,037</u>	<u>155,538</u>	<u>8,090</u>
<u>6,506,325</u>	<u>145,872</u>	<u>770,636</u>	<u>2,826</u>	<u>186,411</u>	<u>26,037</u>	<u>155,538</u>	<u>8,090</u>
	5,030	470,002		171,016	2,060	19,555	8,090
				3,933	23,977		
	30,582	224,361	1,841	3,375		36,386	
	170	75,624		8,087		97,991	
	110,090						
7,035,794							
		649					
			985			1,606	
<u>7,035,794</u>	<u>145,872</u>	<u>770,636</u>	<u>2,826</u>	<u>186,411</u>	<u>26,037</u>	<u>155,538</u>	<u>8,090</u>
(529,469)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
(529,469)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<u>1,793,480</u>							
<u>\$ 1,264,011</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2008

Data Control Codes		Special				
		385	392	393	397	401
		State Supplemental Visually Impaired (SSVI)	Non- educational Community- Based Support	Texas Successful Schools Program	Advanced Placement Incentives	State Funded Optional Extended-Year Program
	REVENUES:					
5700	Local and intermediate sources	\$	\$	\$	\$	\$
5800	State program revenues	7,258	13,860		12,676	51,492
5900	Federal program revenues					
5020	Total revenues	<u>7,258</u>	<u>13,860</u>	<u>-0-</u>	<u>12,676</u>	<u>51,492</u>
	EXPENDITURES:					
	Current:					
0011	Instruction			604	14,389	50,052
0012	Instructional resources and media services					
0013	Curriculum and staff development					
0021	Instructional leadership					
0023	School leadership					1,440
0031	Guidance, counseling and evaluation services	7,258	13,860			
0032	Social work services					
0033	Health services					
0034	Student (pupil) transportation					
0035	Food services					
0036	Extracurricular activities					
0041	General administration					
0052	Security and monitoring services					
0053	Data processing services					
0061	Community services					
6030	Total expenditures	<u>7,258</u>	<u>13,860</u>	<u>604</u>	<u>14,389</u>	<u>51,492</u>
1100	Excess (deficiency) of revenues over expenditures	-0-	-0-	(604)	(1,713)	-0-
	OTHER FINANCING SOURCES (USES):					
	Total other financing sources and (uses)					
1200	Net changes in fund balances	-0-	-0-	(604)	(1,713)	-0-
0100	Fund balances - beginning			13,927	35,488	
3000	Fund balances - ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 13,323</u>	<u>\$ 33,775</u>	<u>\$ -0-</u>

Revenue Funds							
404	409	411	419	427	428	429	481
Accelerated Reading Program	Texas High School Completion Success Program	Technology Allotment	Texas Now Fitness Grant	Tobacco Compliance Grant	High School Allotment	Automated External Defibrillator	John & James Knight Foundation
\$ 291,472	\$ 23,046	\$ 356,494	\$ 30,546	\$	\$ 973,195	\$ 8,816	\$
<u>291,472</u>	<u>23,046</u>	<u>356,494</u>	<u>30,546</u>	<u>-0-</u>	<u>973,195</u>	<u>8,816</u>	<u>-0-</u>
276,486	3,585	41,575	30,127		1,044,417		
14,266	19,461		419				
					4,972		
						5,877	
						2,939	
720		314,919					
<u>291,472</u>	<u>23,046</u>	<u>356,494</u>	<u>30,546</u>	<u>-0-</u>	<u>1,049,389</u>	<u>8,816</u>	<u>-0-</u>
-0-	-0-	-0-	-0-	-0-	(76,194)	-0-	
-0-	-0-	-0-	-0-	-0-	(76,194)	-0-	-0-
					188,422		353
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 112,228</u>	<u>\$ -0-</u>	<u>\$ 353</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2008

		Special Revenue				
		482	484	485	489	490
Data Control Codes		Dow Velasco Elementary	Toshiba American Fund Grant	Teacher Externship Program	Harris County Education Grant	Dow Education Grants
REVENUES:						
5700	Local and intermediate sources	\$ 29,943	\$ 583	\$ 8,430	\$ 476	\$ 19,509
5800	State program revenues					
5900	Federal program revenues					
5020	Total revenues	<u>29,943</u>	<u>583</u>	<u>8,430</u>	<u>476</u>	<u>19,509</u>
EXPENDITURES:						
Current:						
0011	Instruction	29,943	583		476	19,509
0012	Instructional resources and media services					
0013	Curriculum and staff development			8,430		
0021	Instructional leadership					
0023	School leadership					
0031	Guidance, counseling and evaluation services					
0032	Social work services					
0033	Health services					
0034	Student (pupil) transportation					
0035	Food services					
0036	Extracurricular activities					
0041	General administration					
0052	Security and monitoring services					
0053	Data processing services					
0061	Community services					
6030	Total expenditures	<u>29,943</u>	<u>583</u>	<u>8,430</u>	<u>476</u>	<u>19,509</u>
1100	Excess (deficiency) of revenues over expenditures	-0-	-0-	-0-	-0-	-0-
OTHER FINANCING SOURCES (USES):						
Total other financing sources and (uses)						
1200	Net changes in fund balances	-0-	-0-	-0-	-0-	-0-
0100	Fund balances - beginning					
3000	Fund balances - ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

<u>Funds</u>			
492	493	499	
University of Houston Mentor Program	Nasa Grant M. Griffith	Wal-Mart Literacy Grant	Total Nonmajor Governmental (See C-1)
\$ 4,432	\$ 4,467	\$ -	\$ 2,644,692
			1,940,407
			<u>11,713,948</u>
<u>4,432</u>	<u>4,467</u>	<u>-0-</u>	<u>16,299,047</u>
4,375	4,467		7,435,133
57			111,018
			503,417
			526,803
			7,250
			726,479
			110,084
			5,877
			1,063
			7,035,794
			2,939
			2,137
			8,771
			320,134
			<u>110,128</u>
<u>4,432</u>	<u>4,467</u>	<u>-0-</u>	<u>16,907,027</u>
-0-	-0-	-0-	(607,980)
			<u>-0-</u>
-0-	-0-	-0-	(607,980)
		<u>280</u>	<u>2,031,950</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 280</u>	<u>\$ 1,423,970</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
AUGUST 31, 2008

Exhibit H-3
Page 1 of 1

<u>Data Control Codes</u>		<u>Medical Plan</u>	<u>Worker's Compensation</u>	<u>Total (See D-1)</u>
	ASSETS:			
	Current Assets:			
1110	Cash and cash equivalents	\$ 574,904	\$ 775,130	\$ 1,350,034
1290	Due from others	<u>192,888</u>	<u> </u>	<u>192,888</u>
	Total current assets	767,792	775,130	1,542,922
	Noncurrent Assets:			
	Total noncurrent assets	<u> </u>	<u> </u>	<u>-0-</u>
	Total assets	<u>767,792</u>	<u>775,130</u>	<u>1,542,922</u>
	LIABILITIES:			
	Current Liabilities:			
2165	Accrued expenses payable	1,117,099	1,117,086	2,234,185
2170	Due to other funds	<u>710,016</u>	<u> </u>	<u>710,016</u>
	Total current liabilities	1,827,115	1,117,086	2,944,201
	Noncurrent Liabilities:			
	Total noncurrent liabilities	<u> </u>	<u> </u>	<u>-0-</u>
	Total liabilities	<u>1,827,115</u>	<u>1,117,086</u>	<u>2,944,201</u>
	NET ASSETS:			
3900	Unrestricted net assets	<u>(1,059,323)</u>	<u>(341,956)</u>	<u>(1,401,279)</u>
	Total net assets	<u>\$(1,059,323)</u>	<u>\$(341,956)</u>	<u>\$(1,401,279)</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
YEAR ENDED AUGUST 31, 2008

Exhibit H-4
Page 1 of 1

	<u>Medical Plan</u>	<u>Worker's Compensation</u>	<u>Total (See D-2)</u>
Operating Revenues:			
Charges for services	\$ 10,304,883	\$ 552,708	\$ 10,857,591
Total operating revenues	<u>10,304,883</u>	<u>552,708</u>	<u>10,857,591</u>
Operating Expenses:			
Insurance claims and expenses	<u>9,176,510</u>	<u>335,150</u>	<u>9,511,660</u>
Total operating expenses	<u>9,176,510</u>	<u>335,150</u>	<u>9,511,660</u>
Operating income (loss)	<u>1,128,373</u>	<u>217,558</u>	<u>1,345,931</u>
Nonoperating Revenues (Expenses):			
Interest and investment revenue	<u>14,291</u>	<u>15,687</u>	<u>29,978</u>
Total nonoperating revenues (expenses)	<u>14,291</u>	<u>15,687</u>	<u>29,978</u>
Income (loss) before contributions and transfers	1,142,664	233,245	1,375,909
Contributions and transfers	<u> </u>	<u> </u>	<u>-0-</u>
Change in net assets	1,142,664	233,245	1,375,909
Net assets – beginning	(2,201,987)	(575,201)	(2,777,188)
Net assets – ending	<u>\$ (1,059,323)</u>	<u>\$ (341,956)</u>	<u>\$ (1,401,279)</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOW
INTERNAL SERVICE FUNDS
YEAR ENDED AUGUST 31, 2008

Exhibit H-5
Page 1 of 1

	<u>Medical Plan</u>	<u>Worker's Compensation</u>	<u>Total (See D-3)</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 10,217,750	\$ 552,708	\$ 10,770,458
Payments to other funds	(1,140,843)	(28,732)	(1,169,575)
Payments to suppliers	(915,280)	(60,150)	(975,430)
Claims paid	(8,085,005)	(286,958)	(8,371,963)
Net cash provided (used) by operating activities	<u>76,622</u>	<u>176,868</u>	<u>253,490</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net cash provided (used) by noncapital financing activities	<u> </u>	<u> </u>	<u>-0-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Net cash provided (used) by capital and related financing activities	<u> </u>	<u> </u>	<u>-0-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>14,291</u>	<u>15,687</u>	<u>29,978</u>
Net cash provided by investing activities	<u>14,291</u>	<u>15,687</u>	<u>29,978</u>
Net increase (decrease) in cash and cash equivalents	90,913	192,555	283,468
Balances – beginning of the year	<u>483,991</u>	<u>582,575</u>	<u>1,066,566</u>
Balances – end of the year	<u>\$ 574,904</u>	<u>\$ 775,130</u>	<u>\$ 1,350,034</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,128,373	\$ 217,558	\$ 1,345,931
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Changes in Assets and Liabilities:			
Accounts receivable	(87,133)		(87,133)
Accrued expenses payable	176,225	(11,958)	164,267
Due to other funds	(1,140,843)	(28,732)	(1,169,575)
Net cash provided (used) by operating activities	<u>\$ 76,622</u>	<u>\$ 176,868</u>	<u>\$ 253,490</u>

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BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED AUGUST 31, 2008

Last Ten Years Ended August 31,	1		2		3		10	
	Tax Rates				Assessed/Appraised Value for School Tax Purposes		Beginning Balance September 1, 2007	
	Maintenance	Debt Service						
1999 and Prior	\$ Various	\$ Various	\$	Various	\$	Various	\$	329,948
2000	1.301655	0.071145			5,332,218,969			57,640
2001	1.306440	0.066360			5,683,950,830			52,407
2002	1.360600	0.062200			5,709,660,005			56,084
2003	1.362600	0.423110			5,830,878,487			81,485
2004	1.362600	0.110200			5,942,025,104			104,506
2005	1.362600	0.160200			5,946,464,855			134,954
2006	1.362600	0.210200			6,167,488,798			244,951
2007	1.228200	0.195500			6,422,002,991			703,304
2008 (School Year Under Audit)	.948400	0.185500			6,843,169,794			
1000 Totals							\$	<u>1,765,279</u>

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance August 31, 2008
\$	\$ 14,591	\$ 813	\$(98,832)	\$ 215,712
	2,024	110	(2,730)	52,776
	3,762	191	(2,576)	45,878
	3,168	145	(2,124)	50,647
	7,026	310	(1,014)	73,135
	13,967	1,130	(199)	89,210
	30,615	3,599	199	100,939
	(379,520)	(58,522)	(531,020)	151,973
	326,353	51,948	(66,046)	258,957
<u>76,537,232</u>	<u>64,814,357</u>	<u>12,677,207</u>	<u>1,540,396</u>	<u>586,064</u>
<u>\$ 76,537,232</u>	<u>\$ 64,836,343</u>	<u>\$ 12,676,931</u>	<u>\$ 836,054</u>	<u>\$ 1,625,291</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COST FOR 2008-2009
GENERAL AND SPECIAL REVENUE FUNDS
YEAR ENDED AUGUST 31, 2008

Exhibit J-2
Page 1 of 1

Account Number	Account Name	1 (702) School Board	2 (703) Tax Office	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Costs	6 (Other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$	\$	\$ 208,638	\$ 1,037,481	\$	\$	\$ 1,246,119
6149	Fringe benefits (unused leave for separating employees in function 41 and related 53)							-0-
6149	Fringe benefits (unused leave for separating employees in all functions except 41 and related 53)							-0-
6211	Legal services	177,000						177,000
6212	Audit services				43,764			43,764
6213	Tax appraisal & collection		574,965					574,965
621X	Other professional services			973	90,380			91,353
6220	Tuition & transfer payments							-0-
6230	Education service centers							-0-
6240	Contract maintenance & repair							-0-
6250	Utilities							-0-
6260	Rentals				7,361			7,361
6290	Miscellaneous contract				87,152		9,386	96,538
6320	Textbooks & reading							-0-
6330	Testing materials							-0-
63XX	Other supplies/materials			4,843	69,291			74,134
6410	Travel, subsistence, stipends	2,755		24,288	22,979			50,022
6420	Ins. & bonding costs							-0-
6430	Election costs	81						81
6490	Miscellaneous operating	19,874		54,140	57,386			131,400
6500	Debt service							-0-
6600	Capital outlay							-0-
TOTAL		<u>\$ 199,710</u>	<u>\$ 574,965</u>	<u>\$ 292,882</u>	<u>\$ 1,415,794</u>	<u>\$ -0-</u>	<u>\$ 9,386</u>	<u>\$ 2,492,737</u>

Total expenditures for General and Special Revenue Funds (9) \$ 116,067,755
FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 861,465
Total Debt & Lease (6500)	(11) 244,852
Plant Maintenance (Function 51, 6100-6400)	(12) 13,871,470
Food (Function 35, 6341 and 6499)	(13) 2,779,963
Stipends (6413)	(14) -0-
Column 4 (above) - Total Indirect Cost	<u>1,415,794</u>

Subtotal 19,173,544
Net Allowed Direct Cost \$ 96,894,211

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 181,378,674
Historical Cost of Buildings over 50 years old	(16) \$ -0-
Amount of Federal Money in Building Cost (Net of Above)	(17) \$ -0-
Total Cost of Furniture and Equipment before Depreciation (1530 & 1540)	(18) \$ 11,688,271
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ 1,606,937
Amount of Federal Money in Furniture & Equipment (Net of Above)	(20) \$ 4,278,100

Note A- \$ 9,386 in Function 53 expenditures are included in this report on administrative costs.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND
AUGUST 31, 2008
UNAUDITED

Exhibit J-3
Page 1 of 1

Data Control Code	Explanation	Amount
1	Total General Fund Balance as of 08/31/08 (Exhibit C-1 object 3000 for the General Fund only)	\$ <u>5,717,510</u>
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	1,434,243
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	1,969,049
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds representing deferred revenues)	3,800,821
5	Estimate of one month's average cash disbursements during the regular school session (9/1/08 - 5/31/09)	7,456,346
6	Estimate of delayed payments from state sources (58XX) including August payment delays	
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
8	Estimate of delayed payments from federal sources (59XX)	
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	
10	Optimum fund balance and cash flow (2+3+4+5+6+7+8+9)	<u>14,660,459</u>
11	Excess (deficit) undesignated unreserved General Fund fund balance (1- 10)	\$(<u>8,942,949</u>)

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - FOOD SERVICE SPECIAL REVENUE FUND
YEAR ENDED AUGUST 31, 2008*

Data Control Codes		Food Service Special Revenue Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 2,150,000	\$ 2,150,000	\$ 2,581,284	\$ 431,284
5800	State program revenues	209,786	209,786	167,120	(42,666)
5900	Federal program revenues	<u>4,008,500</u>	<u>4,008,500</u>	<u>3,757,921</u>	<u>(250,579)</u>
5020	Total revenues	<u>6,368,286</u>	<u>6,368,286</u>	<u>6,506,325</u>	<u>138,039</u>
	EXPENDITURES:				
	Current:				
0035	Food service	<u>6,867,076</u>	<u>6,867,076</u>	<u>7,035,794</u>	<u>(168,718)</u>
6030	Total expenditures	<u>6,867,076</u>	<u>6,867,076</u>	<u>7,035,794</u>	<u>(168,718)</u>
1100	Excess (deficiency) of revenues over expenditures	(498,790)	(498,790)	(529,469)	(30,679)
	OTHER FINANCING SOURCES (USES):				
	Total other financing sources (uses)				<u>-0-</u>
1200	Net change in fund balances	(498,790)	(498,790)	(529,469)	(30,679)
0100	Fund balances – beginning	<u>1,793,480</u>	<u>1,793,480</u>	<u>1,793,480</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 1,294,690</u>	<u>\$ 1,294,690</u>	<u>\$ 1,264,011</u>	<u>\$(30,679)</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED AUGUST 31, 2008

Exhibit J-5
Page 1 of 1

Data Control Codes		Debt Service Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 13,138,672	\$ 13,138,672	\$ 13,135,767	\$(2,905)
5020	Total revenues	13,138,672	13,138,672	13,135,767	(2,905)
	EXPENDITURES:				
	Current:				
0071	Principal on long-term debt	5,917,647	5,917,647	6,070,000	(152,353)
0072	Interest on long-term debt	6,943,609	6,943,609	6,007,485	936,124
0073	Bond issuance costs and fees	277,416	277,416	157,668	119,748
6030	Total expenditures	13,138,672	13,138,672	12,235,153	903,519
1100	Excess (deficiency) of revenues over expenditures	-0-	-0-	900,614	900,614
	OTHER FINANCING SOURCES (USES):				
7911	Proceeds from bonds			9,692,271	9,692,271
7916	Premium on issuance of bonds			48,253	48,253
8949	Payments to escrow agent			(9,585,091)	(9,585,091)
	Total other financing sources and (uses)	-0-	-0-	155,433	155,433
1200	Net change in fund balances	-0-	-0-	1,056,047	1,056,047
0100	Fund balances – beginning	3,661,083	3,661,083	3,661,083	-0-
3000	Fund balances – ending	\$ 3,661,083	\$ 3,661,083	\$ 4,717,130	\$ 1,056,047

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FEDERAL AWARDS SECTION

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KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
(979) 297-4075 Fax: (979) 297-6648
(800) 399-4075

Houston Office:
10850 Richmond Avenue, Suite 250
Houston, Texas 77042
(713) 974-3030 Fax: (713) 974-3513

Independent Auditor's Report

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

January 5, 2009

Board of Trustees
Brazosport Independent School District
Freeport, Texas 77541

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brazosport Independent School District (the "District") as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 5, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Board of Trustees
Brazosport Independent School District
January 5, 2009
Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District, in a separate letter dated January 5, 2009.

This report is intended solely for the information and use of management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kennemer, Masters & Hunford, LLC

KENNEMER, MASTERS & LUNSFORD

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(713) 974-3030 Fax: (713) 974-3513

Independent Auditor's Report

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

January 5, 2009

Board of Trustees
Brazosport Independent School District
Freeport, Texas 77541

Compliance

We have audited the compliance of Brazosport Independent School District (the "District"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2008.

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

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies, as defined above.

This report is intended solely for the information and use of management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kennemer, Masters & Hargford, LLC

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2008

Page 1 of 2

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None
4. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unqualified.
6. Did the audit disclose findings, which are required to be reported under Sec. 510(a): No.
7. Major programs include:
 - Cluster Programs:
 - 10.553 National School Breakfast
 - 10.555 National School Lunch
 - 10.555 U.S.D.A. Commodities
 - Other Programs:
 - 84.010A Title I, Part A, Improving Basic Programs
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 355,894.
9. Low risk auditee: No.

II. Findings related to the financial statements

The audit disclosed no findings required to be reported.

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

The audit disclosed no findings required to be reported.

PRIOR YEAR'S FINDING/NONCOMPLIANCE

Schedule reference number 07-1: Purchasing Bid Requirements. The District failed to obtain competitive bids in three different circumstances as follows: 1) the District contracted the same vendor for three different jobs (consistently the same in nature) totaling \$ 57,746, although the District acquired quotes for each job they failed to realize that the total for the jobs required competitive bidding; 2) the District acquired \$ 66,450 in parts (consistently the same in nature) from one vendor, that had not been under a bid contract since the fiscal year 2003-04; and 3) the District purchased \$ 127,563 of office furniture and office supplies from one vendor.

Corrective action taken: The District has modified procedures to review vendor activity levels to ensure that all vendors with cumulative expenditures exceeding \$ 25,000 for each category of purchase have been properly procured.

Schedule Reference Number 07-2: Unallowable Expenditures for Federal Financial Assistance Programs. Various expenditures were made that did not qualify under the federal program application as follows: expenditures for refreshments for meetings, expenditures in excess of \$ 85 per night hotel stays, gas reimbursements for individuals that received travel allowances, expenditures for individual not associated with the program, unspecified expenditure for homeless family, a meal reimbursement, Christmas specialty packs, door prizes for open house, two travel advances, reimbursement for textbooks for those attending college courses where the books were not returned to the District, and a reimbursement of a three year work extension visa that could not be specifically tied to the application. These expenditures were made to the following federal financial assistance programs: ESEA, Title I, Part A – Improving Basic Programs \$ 648.81; ESEA, Title II, Part A – Teacher and Principal Training and Recruitment \$ 2,266.11, and Title III, Part A – English Language Acquisition and language Enhancement \$ 53.00.

Corrective action taken: After an internal investigation, the District followed the recommendation of the Texas Education Agency hearing officer involved and dismissed the previous director over federal programs due to among other things, failure to meet acceptable standards of ethical conduct. A new director was moved to the position along with centralizing the purchasing related to federal programs to ensure that expenditures are in compliance with federal guidelines. In addition, the District hired an outside consulting firm, Statewide Educational Consulting and Counseling Associates, Inc (“SECCA”) to assist the District in training of staff and to provide overall guidance over the operations of the federal programs.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2008

Page 1 of 1

None.

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2008

EXHIBIT K-1
PAGE 1 OF 3

(1)	(2)	(2A)	(3)
Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures Indirect Costs or Award Amount
<u>U.S. Department of Education</u>			
Direct:			
Smaller Learning Communities	84.215L	S215L060214	\$ 147,718
Smaller Learning Communities	84.215L	S215L080612	<u>7,820</u>
			<u>155,538</u>
Passed Through State Department of Education:			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	08610101020905	2,789,894
ESEA, Title I, Part A - Improving Basic Programs	84.010A	09610101020905	<u>171,294</u>
			<u>2,961,188</u>
ESEA, Title I, Part C - Education of Migratory Children	84.011	08615001020905	112,108
ESEA, Title I, Part C - Education of Migratory Children	84.011	09615024020905	<u>11,180</u>
			<u>123,288</u>
IDEA - Part B, Formula	84.027	086600010209056600	3,219,713
IDEA - Part B, Formula	84.027	096600010209056600	<u>251,659</u>
			<u>3,471,372</u>
Vocational Education - Basic Grant	84.048	0842000602090504	130,883
Vocational Education - Basic Grant	84.048	0942000602090504	<u>14,989</u>
			<u>145,872</u>
IDEA - Part B, Preschool	84.173	086610010209056610	78,182
IDEA - Part B, Preschool	84.173	086610010209056610	<u>3,849</u>
			<u>82,031</u>
ESEA, Title IV, Part A - Safe and Drug-Free Schools and Communities Act	84.186A	08691001020905	43,501
ESEA, Title IV, Part A - Safe and Drug-Free Schools and Communities Act	84.186A	09691001020905	<u>4,655</u>
			<u>48,156</u>
Title V, Part A - Innovative Programs	84.298A	08685001020905	<u>26,037</u>
Title II, Part D, Subtitle 1 - Enhancing Education Through Technology	84.318X	08630001020905	1,363
Title II, Part D, Subtitle 1 - Enhancing Education Through Technology	84.318X	09630001020905	<u>1,463</u>
			<u>2,826</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2008

EXHIBIT K-1
PAGE 2 OF 3

(1)	(2)	(2A)	(3)
Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures Indirect Costs or Award Amount
<u>U.S. Department of Education - Continued</u>			
Passed Through State Department of Education - Continued			
ESEA, Title II, Part A - Teacher/Principal Training and Recruiting	84.367A	08694501020905	\$ 741,849
ESEA, Title II, Part A - Teacher/Principal Training and Recruiting	84.367A	09694501020905	<u>38,636</u>
			<u>780,485</u>
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	08671001020905	178,091
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	09671001020905	<u>8,320</u>
			<u>186,411</u>
English Second Language (ESL) - Summer School Program	84.369A	069550702	<u>8,090</u>
Passed Through Region IV Education Service Center: IDEA - Part B, Preschool - L.R.E.	84.173	086102271204	<u>10,403</u>
TOTAL DEPARTMENT OF EDUCATION			\$ <u>8,001,697</u>
<u>U.S. Department of Agriculture</u>			
Direct Program:			
Commodity Supplement Program *	10.555	20905	\$ <u>269,723</u>
Passed Through State Department of Education:			
School Breakfast Program *	10.553	71400801	825,958
National School Lunch Program *	10.555	71300801	<u>2,662,240</u>
			<u>3,488,198</u>
TOTAL DEPARTMENT OF AGRICULTURE			\$ <u>3,757,921</u>
<u>U.S. Department of Defense</u>			
Direct Programs:			
ROTC	12.000	-	\$ <u>65,471</u>
TOTAL DEPARTMENT OF DEFENSE			\$ <u>65,471</u>

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2008

EXHIBIT K-1
PAGE 3 OF 3

(1)	(2)	(2A)	(3)
Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures Indirect Costs or Award Amount
<u>U.S. Environmental Protection Agency</u>			
Direct Programs:			
Clean School Bus Grant	66.036	SB-96639101-0	\$ <u>28,800</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			\$ <u>28,800</u>
<u>U.S. Department of Health & Human Services</u>			
Passed Through State Department of Human Services:			
Medicaid Administrative Claiming Program – MAC	93.778	-	\$ <u>9,229</u>
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES			\$ <u>9,229</u>
TOTAL FEDERAL ASSISTANCE			\$ <u>11,863,118</u>
* - Cluster Program			
RECONCILIATION:			
Federal Program Revenues (Exhibit C-2)			\$ 12,033,581
Less: School Health and Related Services (SHARS) not considered federal revenue for the Schedule of Federal Awards			(<u>170,463</u>)
Total federal financial assistance (Schedule of expenditures of Federal Awards)			\$ <u>11,863,118</u>

See notes to supplemental Schedule of Expenditures of Federal Awards

BRAZOSPORT INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2008

1. The District utilizes the fund types specified in the Resource Guide.

Special Revenue Funds - are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest on general long-term debt, which is recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. Commodity Supplement (CFDA 10.555) received like kind goods and no grant revenue received was reported on the schedule for the monetary value of these goods. The monetary value of these goods received was \$ 199,038, while the monetary value of goods used and recognized as income and expenditures was \$ 269,723.
4. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H. Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement.

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