

**VICTORIA COUNTY
JUNIOR COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

AUGUST 31, 2017 and 2016

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**ANNUAL FINANCIAL REPORT
AUGUST 31, 2017**

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**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**ORGANIZATIONAL DATA
FOR THE FISCAL YEAR 2016-2017**

Board of Trustees

Officers

| | |
|------------------|------------|
| Ronald B. Walker | Chair |
| Luis A. Guerra | Vice Chair |
| V. Bland Proctor | Secretary |

Members

| | | <u>Term Expires</u> |
|-------------------|-----------------|---------------------|
| Daniel A. Cano | Victoria, Texas | 2020 |
| Luis A. Guerra | Victoria, Texas | 2018 |
| Catherine McHaney | Victoria, Texas | 2022 |
| V. Bland Proctor | Victoria, Texas | 2020 |
| Ronald B. Walker | Victoria, Texas | 2020 |
| Michelle A. Yates | Victoria, Texas | 2018 |
| John E. Zacek | Victoria, Texas | 2022 |

Principal Administrative Officers

| | |
|--|---|
| David Hinds, Ph.D. | President |
| Keith Blundell, M.B.A., C.P.A., C.G.M.A. | Vice President of Administrative Services |
| Jacquelyn Mikesh, M. Ed. | Interim Vice President of Student Services |
| Cindy Buchholz, M.A. | Interim Vice President of Instruction |
| Jennifer Yancey, M.A.I.S. | Vice President of College Advancement and External Affairs |
| Tracey Bergstrom, M.B.A., C.P.A., C.G.M.A. | Director of Finance |

FINANCIAL SECTION



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Victoria County Junior College District
Victoria, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Victoria County Junior College District, as of and for the year ended August 31, 2017, and 2016, and the related notes to the financial statements, which collectively comprise Victoria County Junior College District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Victoria County Junior College District Foundation, Inc. (the "Affiliated Organization"), which reflects total assets of \$14,696,990 and revenues of \$3,340,574. Those financial statements were audited by other auditors whose report thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Victoria County Junior College District Foundation, Inc. are based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Victoria County Junior College District, as of August 31, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and pension information on pages as listed in the table of contents to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Victoria County Junior College District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State of Texas *Uniform Grant Management Standards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and financial assistance section which includes the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State Awards, are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and financial assistance section, are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2017 on our consideration of Victoria County Junior College 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 solely 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 effectiveness of Victoria County Junior College District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Victoria County Junior College District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, C.P.A.

Brownsville, Texas
November 17, 2017

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

Management Discussion and Analysis is included to provide a narrative introduction, overview and analysis of the financial position and changes in financial position of the Victoria County Junior College District (Victoria College, District, or College) for the fiscal year ended August 31, 2017. The discussion is prepared by management and should be read in conjunction with the accompanying financial statements and notes.

The financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) and comply with reporting requirements as set by the Texas Higher Education Coordinating Board (THECB). The annual financial report is presented in a "business-type activity" format. The statements are prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided by the District and expenses and liabilities are recognized when services are provided to the District, regardless of when cash is exchanged. The notes to the financial statements are considered an integral part of the financial statements and should be read in conjunction with them. Management is responsible for both the accuracy of the data and the completeness and fairness of the presentation of the financial statements and notes.

The District's annual financial report consists of three basic financial statements: the Statement of Net Position provides a summary of assets, liabilities and net position as of August 31, 2017; the Statement of Revenues, Expenses and Changes in Net Position provides a summary of operations for the fiscal year; and the Statement of Cash Flows provides categorized information about cash inflows and outflows for the fiscal year. Fiscal years ended August 31, 2017 and 2016 are presented in the audited financial statements. The discussion and analysis is limited to the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position for the primary government and is designed to focus on current activities, the resulting change, and currently known facts.

Statement of Net Position

The Statement of Net Position presents the District's financial position at the end of the fiscal year and includes all assets, liabilities, deferred outflows and inflows of resources, and the resulting net position. The focus is to report the total net resources available to finance future services. Assets and liabilities are presented in the order of their liquidity with noncurrent defined as greater than one year. Net positions are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

Increases or decreases in net position are one indicator of whether the overall financial condition has improved or deteriorated during the year when considered with other factors such as enrollment, contact hours of instruction, and other non-financial information. The Statement of Net Position is useful in determining the assets available to continue operations as well as how much the District owes to vendors, bondholders, and other entities at the end of the year.

The following is prepared from the District's Statement of Net Position and provides a summary of its assets, liabilities, and net position for the years ended August 31:

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

Summary of Statement of Net Position - Exhibit 1

| | <u>Fiscal Year</u> | | | <u>Change</u> | |
|---|----------------------|----------------------|----------------------|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2017 to 2016</u> | <u>2016 to 2015</u> |
| Assets | | | | | |
| Cash and Investments | \$ 11,659,872 | \$ 10,095,866 | \$ 11,692,735 | \$ 1,564,006 | \$ (1,596,869) |
| Other Assets | 7,480,973 | 7,195,958 | 5,640,245 | 285,015 | 1,555,713 |
| Capital Assets, Net | <u>61,440,100</u> | <u>63,059,551</u> | <u>63,522,364</u> | <u>(1,619,451)</u> | <u>(462,813)</u> |
| Total Assets | 80,580,945 | 80,351,375 | 80,855,344 | 229,570 | (503,969) |
| Liabilities | | | | | |
| Current Liabilities | 9,275,255 | 8,803,701 | 9,552,580 | 471,554 | (748,879) |
| Long-term Liabilities | <u>34,071,020</u> | <u>36,680,683</u> | <u>37,597,240</u> | <u>(2,609,663)</u> | <u>(916,557)</u> |
| Total Liabilities | 43,346,275 | 45,484,384 | 47,149,820 | (2,138,109) | (1,665,436) |
| Net Position | | | | | |
| Invested in Capital Assets, Net of Related Debt | 32,623,802 | 31,985,378 | 30,260,315 | 638,424 | 1,725,063 |
| Unrestricted | 2,654,474 | 714,564 | (34,860) | 1,939,910 | 749,424 |
| Restricted | <u>1,956,394</u> | <u>2,167,049</u> | <u>3,480,069</u> | <u>(210,655)</u> | <u>(1,313,020)</u> |
| Total Net Position | <u>\$ 37,234,670</u> | <u>\$ 34,866,991</u> | <u>\$ 33,705,524</u> | <u>\$ 2,367,679</u> | <u>\$ 1,161,467</u> |

Highlighted information from the Statement of Net Position:

- Total assets increased by \$229,570 or 0.29%.
- Total liabilities decreased by \$2,135,109 or 4.70%.
- Total net position increased by \$2,367,679 or 6.79%.

Significant changes in assets, liabilities and net position are partially attributable to GASB 68, as amended by GASB Statement No. 71. The District reduced deferred outflows related to pensions (an asset) by \$308,710 for a total deferred outflows related to pensions of \$1,901,321 (a 13.97% decrease). Additionally, deferred inflows related to pensions (a liability) decreased by \$571,865 (25.95%) for total deferred pension inflows of \$1,631,619. The net pension liability increased by 5.28% from \$5,498,026 to \$5,788,104.

Deferred outflows on the pension plan are related to changes in actuarial assumptions that occur at the plan level, differences in expected and actual economic experience at the plan level, contributions made to the Teacher Retirement System (TRS) after the measurement date, and the difference between the employer's contributions and their proportionate share of contributions. Deferred inflows for the pension plan are related to the difference between projected and actual investment earnings and the difference between the employer's contributions and their proportionate share of contributions. The net pension of \$5,788,104 was measured at August 31, 2016 and was established per amounts recorded in TRS's *Comprehensive Annual Financial Statement* and TRS's *Audited 2016 GASB 68 Allocation Schedules*.

Information regarding the recording of deferred outflows related to pensions, deferred inflows related to pensions, and the net pension liability can be found in note 16 in the accompanying Notes to the Financial Statements.

Cash increased by \$2,137,652 (24.22%) due to the sale of property (\$1,866,570 or 87.32%) and operations (\$270,962 or 12.68%). Restricted cash decreased by \$573,647 or 45.17%, of which \$333,224 (58.09%) represented expenditures related to construction projects.

Capital assets are discussed below and in note 7 in the accompanying financial statements.

See discussion of long-term debt below and notes 8 through 13 in the accompanying financial statements.

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

At August 31, 2017, the District designated the entirety of expendable net position, restricted for unexpended bond proceeds, for the 2011-2020 master plan (\$1,075,754). \$1,359,927 of unrestricted net position is designated for the 2011-2020 master plan. These designations indicate management's anticipated future use of financial resources.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the District's results of operations for the fiscal year. The statement details how net position changed during the fiscal year and is divided into operating revenues and expenses and non-operating revenues and expenses. Operating revenues are received for providing goods and services to various customers and constituencies of the District. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the District.

Tuition and auxiliary revenues are shown net of allowances and discounts, depreciation is provided for capital assets, and a subtotal is required for net operating income or loss. This required subtotal will generally reflect a "loss" for community colleges in Texas due to the way operating and non-operating items are defined by generally accepted accounting principles. For community colleges, State appropriations, ad valorem taxes, and Federal Title IV revenues, while budgeted for operations, are non-exchange transactions and, as such, are treated as non-operating revenues for financial statement purposes.

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

The following is a summary prepared from the District's Statement of Revenues, Expenses and Changes in Net Position for the years ended August 31:

Summary of Statement of Revenues, Expenses, and Changes in Net Position - Exhibit 2

| | <u>Fiscal Year</u> | | | <u>Change</u> | |
|--|----------------------|----------------------|----------------------|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2017 to 2016</u> | <u>2016 to 2015</u> |
| Operating Revenues | | | | | |
| Tuition and Fees (net of discounts) | \$ 9,480,754 | \$ 9,440,784 | \$ 9,477,859 | \$ 39,970 | \$ (37,075) |
| Local, State and Federal Grants and Contracts | 3,336,108 | 2,890,620 | 3,990,751 | 445,488 | (1,100,131) |
| Auxiliary Enterprise | 3,041,741 | 3,403,903 | 3,190,481 | (362,162) | 213,422 |
| Other | 755,061 | 807,713 | 694,892 | (52,652) | 112,821 |
| Total Operating Revenues | 16,613,664 | 16,543,020 | 17,353,983 | 70,644 | (810,963) |
| Operating Expenses | | | | | |
| Instruction | 13,363,775 | 12,103,345 | 12,800,498 | 1,260,430 | (697,153) |
| Public Service | 253,733 | 201,425 | 264,044 | 52,308 | (62,619) |
| Academic Support | 3,486,829 | 3,366,488 | 3,082,527 | 120,341 | 283,961 |
| Student Services | 2,755,388 | 2,757,264 | 2,554,674 | (1,876) | 202,590 |
| Institutional Support | 5,848,205 | 6,187,585 | 6,408,468 | (339,380) | (220,883) |
| Operation and Maintenance of Plant | 4,054,884 | 3,745,572 | 3,657,879 | 309,312 | 87,693 |
| Scholarships and Fellowships | 9,101,274 | 9,132,715 | 9,687,398 | (31,441) | (554,683) |
| Auxiliary Enterprises | 3,688,769 | 3,408,417 | 3,412,365 | 280,352 | (3,948) |
| Depreciation | 2,675,097 | 2,128,759 | 1,982,790 | 546,338 | 145,969 |
| Total Operating Expenses | 45,227,954 | 43,031,570 | 43,850,643 | 2,196,384 | (819,073) |
| Operating Income (Loss) | (28,614,290) | (26,488,550) | (26,496,660) | (2,125,740) | 8,110 |
| Non-Operating Revenues (Expenses) | | | | | |
| State Appropriations | 7,639,476 | 7,655,944 | 7,886,241 | (16,468) | (230,297) |
| Taxes | 13,553,551 | 12,943,733 | 12,260,238 | 609,818 | 683,495 |
| Title IV | 7,534,251 | 7,574,784 | 8,027,070 | (40,533) | (452,286) |
| Gifts | 1,334,149 | 305,167 | 1,718,263 | 1,028,982 | (1,413,096) |
| Interest on Capital Related Debt | (812,612) | (886,811) | (956,249) | 74,199 | 69,438 |
| Investment Related Income | 60,623 | 57,200 | 72,356 | 3,423 | (15,156) |
| Total Non-Operating Revenues (Expenses) | 29,309,438 | 27,650,017 | 29,007,919 | 1,659,421 | (1,357,902) |
| Income Before Other Revenues, | 695,148 | 1,161,467 | 2,511,259 | (466,319) | (1,349,792) |
| Other Revenues, (Expenses), Gains, (Losses) | 1,672,531 | - | (95,044) | 1,672,531 | 95,044 |
| Increase (Decrease) in Net Position | 2,367,679 | 1,161,467 | 2,416,215 | 1,206,212 | (1,254,748) |
| Beginning Net Position, as Adjusted | 34,866,991 | 33,705,524 | 36,807,425 | 1,161,467 | (3,101,901) |
| Adjustments to Net Position | - | - | (5,518,116) | - | 5,518,116 |
| Ending Net Position | \$ 37,234,670 | \$ 34,866,991 | \$ 33,705,524 | \$ 2,367,679 | \$ 1,161,467 |

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

Highlighted information from the summary of the Statement of Revenues, Expenses, and Changes in Net Position:

- Operating revenues increased by \$70,644 or 0.43%.
- Operating expenses increased by \$2,196,384 or 5.10%.
- Operating loss was increased by \$2,125,740 or 8.03%.
- Non-operating revenue increased by \$1,585,222, while non-operating expenses decreased by \$74,199 for a net non-operating revenues (expenses) increase of \$1,659,421 or 6.00%.

For fiscal year ended August 31, 2017, net position from current year operations increased by \$2,367,679.

The increase in operating revenues (\$70,644 or 0.43%) was primarily attributable to a \$445,488 (15.41%) increase in local, state, and federal grants and gifts and an increase in tuition and fee revenue (\$39,970 or 0.42%). Downswings in sales and services of educational activities (\$12,255 or 2.47%), auxiliary enterprises, net of discounts (\$362,162 or 10.64%) and general operating revenues (\$40,397 or 12.95%) offset the increase in local, state and federal gifts and grants.

Operating expenses increased by \$2,196,384 (5.10%). Operating expenses were impacted by increases in expenses related to instruction (\$1,260,430 or 10.41%), public service (\$52,308 or 25.97%), academic support (\$120,341 or 3.57%), operation and maintenance of plant (\$309,312 or 8.26%), auxiliary enterprises (\$280,352 or 8.23%), and depreciation (\$546,338 or 25.66%). These increases in expenses were partially offset by decreases in expenses related to student services (\$1,876 or 0.07%), institutional support (\$339,380 or 5.48%) and scholarships and fellowships (\$31,441 or 0.34%).

Overall non-operating revenue (expenses) increased by \$1,659,421 (6.00%). Key elements in the decrease are as follows:

- Tax revenue increased by \$609,818 and is the result of an increase in the tax rate adopted by the District's Board of Trustees (\$0.2065 per \$100 valuation for fiscal year 2017 versus \$0.1925 per \$100 valuation for fiscal year 2016). The tax rate was increased to fund planned operating activities of the District.
- Title IV disbursements declined by \$40,533 (0.54%) due to reduced funding by the Department of Education.
- Non-Operating gifts increased by \$1,028,982 (337.19%) and is attributable to donations supporting programs offered by the college.
- Overall state allocations declined by \$16,468 (0.22%), which included a slight increase in education and general state support of \$8,625 (0.15%), an increase in state group insurance of \$92,225 (7.16%), and an decrease in state retirement matching of \$117,318 (19.78%). The decrease in retirement matching is due, in part, to growth limitation factors implemented by the state. State retirement matching is also impacted by amortization of deferred inflows of resources and deferred outflows of resources related to pensions (GASB 68).
- Investment income (interest) increased by \$3,423 or 5.98%. Increased cash balances due to the disposition of property attributed to the increase in investment income.
- Interest on capital related debt decreased by \$74,199 (8.37%).

Tuition and fee revenue increased by \$39,970 (0.42%) for the year ended August 31, 2017. While credit enrollment declined by 0.56%, contact hours increased by 0.51%. The District implemented differential tuition during the previous fiscal year (2016) for programs that are more costly to offer. An analysis of enrollment and contact hours is provided below.

Tuition and fee rates per semester credit hour are shown below:

| Fiscal Year | In-District Tuition | Non-Resident Tuition | Out of District Fee | General Fee | Technology Fee |
|------------------------|--------------------------------|---------------------------------|------------------------------------|------------------------|---------------------------|
| 2017 | \$ 46 | \$ 113 | \$ 47 | \$ 27 | \$ 15 |
| 2016 | \$ 46 | \$ 113 | \$ 47 | \$ 27 | \$ 15 |
| 2015 | \$ 46 | \$ 113 | \$ 47 | \$ 27 | \$ 15 |

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

| Differential Tuition by Program for Fiscal Year 2016: | Per Credit Hour |
|--|--------------------------------|
| Associate Degree Nursing | \$ 70 |
| Licensed Vocational Nursing | \$ 70 |
| Respiratory Therapy Technology | \$ 70 |
| Medical Laboratory Technology | \$ 70 |
| Physical Therapy Assistant | \$ 70 |
| Emergency Medical Services | \$ 70 |
| Fire Technology | \$ 70 |
| Process Technology | \$ 35 |
| Electronics and Instrumentation | \$ 35 |
| Welding | \$ 35 |
| Machining | \$ 35 |
| Industrial Maintenance Mechanic | \$ 35 |

Enrollment Highlights:

| Credit Students | 2016-2017 | Fall | Spring | Summer | Annual * |
|----------------------------|------------------|-------------|---------------|---------------|-----------------|
| | Enrollment | 4,039 | 3,667 | 1,532 | 5,289 |
| Contact Hours | 678,896 | 617,824 | 177,920 | 1,474,640 | |
| | | | | | |
| Credit Students | 2015-2016 | Fall | Spring | Summer | Annual * |
| | Enrollment | 4,085 | 3,638 | 1,429 | 5,319 |
| Contact Hours | 694,128 | 607,520 | 165,440 | 1,467,088 | |
| | | | | | |
| Credit Students | 2014-2015 | Fall | Spring | Summer | Annual * |
| | Enrollment | 4,165 | 3,588 | 1,515 | 5,270 |
| Contact Hours | 705,952 | 624,912 | 193,456 | 1,524,320 | |

| Non-Credit Students | 2016-2017 | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Annual * |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|-----------------|
| | Enrollment | 479 | 385 | 441 | 484 | 1,531 |
| Contact Hours | 44,716 | 34,306 | 23,887 | 18,530 | 121,439 | |
| | | | | | | |
| Non-Credit Students | 2015-2016 | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Annual * |
| | Enrollment | 748 | 570 | 491 | 585 | 2,064 |
| Contact Hours | 64,272 | 47,781 | 21,859 | 13,889 | 147,801 | |
| | | | | | | |
| Non-Credit Students | 2014-2015 | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Annual * |
| | Enrollment | 1,124 | 716 | 484 | 1,109 | 2,852 |
| Contact Hours | 60,004 | 50,815 | 19,995 | 39,079 | 169,893 | |

* Unduplicated

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management’s Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

Credit student enrollment and contact hours decreased by 1.1% and 2.2%, respectively, for the fall term. Headcount was 4,039 for the fall 2016-2017 term compared to 4,085 for the fall 2015-2016 term. Credit student enrollment and contact hours increased by 0.8% and 1.7%, respectively for the spring term. Headcount was 3,667 for the spring 2016-2017 term compared to 3,638 for the spring 2015-2016 term. The summer term posted increases in credit student enrollment and contact hours (7.2% and 7.5%, respectively). Annualized credit student enrollment decreased by 0.6%; however, annualized contact hours increased by 0.5%.

Fundable non-credit enrollment and contact hours decreased by 36.0% and 30.4%, respectively, for Quarter 1 2016-2017 term (479 enrollment; 44,716 contact hours) compared to Quarter 1 2015-2016 term (748 enrollment; 64,272 contact hours). Fundable non-credit enrollment and contact hours decreased by 32.5% and 28.2%, respectively, for Quarter 2 2016-2017 term (385 enrollment; 34,306 contact hours) compared to Quarter 2 2015-2016 term (570 enrollment; 47,781 contact hours). Quarters 3 and 4 decreased enrollment by 14.0% while contact hours increased by 18.7% (enrollment 925 and contact hours 42,417 for Quarters 3 and 4 in 2016-2017 term; enrollment 1,076 and contact hours 35,748 for Quarters 3 and 4 2015-2016 term). Annualized fundable non-credit enrollment and contact hours decreased by 25.8% and 17.8%, respectively.

Grants obtained through the Texas Workforce Commission (TWC) allow the District to offer specialized training to industry partners within its service area, thereby increasing the skill level of incumbent and new workers. Availability of funding, as well as grant begin and end dates impact enrollment and contact hours and variances in the number enrolled, and the associated contact hours, from one year to the next not unexpected. The District will continue to seek funding from the TWC in order to offer courses that enhance the quality of workers in its service area.

Certificates and Degrees Conferred:

| Fiscal Year | Associate of Arts | Associate of Science | Associate of Applied Sciences | Work Force Certificates | Total Degrees and Certificates |
|--------------------|--------------------------|-----------------------------|--------------------------------------|--------------------------------|---------------------------------------|
| 2016-2017 | 110 | 176 | 205 | 309 | 800 |
| 2015-2016 | 113 | 202 | 188 | 323 | 826 |
| 2014-2015 | 91 | 200 | 183 | 272 | 746 |

Capital Assets and Long Term Debt Administration

Capital Assets

The District’s investment in capital assets as of August 31, 2017 was \$61,440,100 (net of accumulated depreciation). This amount represents a net decrease (including additions, dispositions, and depreciation expense) of \$1,619,451 over fiscal year 2016. During the fiscal year, the District approved the sale of real property. Construction in process increased by \$284,291 due to ongoing activities related to the campus safety plan and other projects in progress. Additional information regarding the District’s capital assets can be found in note 7 to the financial statements.

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

The District's capital assets, net of accumulated depreciation, as of August 31, 2017, 2016, and 2015 are summarized below:

| | <u>Balance at 8/31/2017</u> | <u>Balance at 8/31/2016</u> | <u>Balance at 8/31/2015</u> | <u>\$ Change 2017-2016</u> | <u>\$ Change 2016-2015</u> |
|---|---------------------------------|---------------------------------|---------------------------------|--------------------------------|--------------------------------|
| Land | \$ 263,792 | \$ 460,387 | \$ 460,387 | \$ (196,595) | \$ - |
| Construction in Progress | 945,287 | 660,996 | 21,319,133 | 284,291 | (20,658,137) |
| Library Volumes and Periodicals | 510,782 | 652,845 | 856,839 | (142,063) | (203,994) |
| Buildings | 71,945,220 | 71,896,287 | 50,183,854 | 48,933 | 21,712,433 |
| Site Improvements | 6,512,778 | 6,512,778 | 6,512,778 | - | - |
| Telecommunications and Peripheral Equipment | 1,881,334 | 1,881,334 | 1,881,334 | - | - |
| Machinery, Equipment, Furniture and Vehicles | <u>7,970,090</u> | <u>7,177,679</u> | <u>6,634,193</u> | <u>792,411</u> | <u>543,486</u> |
| Totals at Historical Costs | 90,029,283 | 89,242,306 | 87,848,518 | 786,977 | 1,393,788 |
| Total Accumulated Depreciation | <u>28,589,183</u> | <u>26,182,755</u> | <u>24,326,154</u> | <u>2,406,428</u> | <u>1,856,601</u> |
| Net Capital Assets | <u>\$ 61,440,100</u> | <u>\$ 63,059,551</u> | <u>\$ 63,522,364</u> | <u>\$ (1,619,451)</u> | <u>\$ (462,813)</u> |
| | | | | <u>% Change 2017-2016</u> | <u>% Change 2016-2015</u> |
| Land | | | | -42.7% | 0.0% |
| Construction in Progress | | | | 43.0% | -96.9% |
| Library Volumes and Periodicals | | | | -21.8% | -23.8% |
| Buildings | | | | 0.1% | 43.3% |
| Site Improvements | | | | 0.0% | 0.0% |
| Telecommunications and Peripheral Equipment | | | | 0.0% | 0.0% |
| Machinery, Equipment, Furniture and Vehicles | | | | 11.0% | 8.2% |
| Totals at Historical Costs | | | | 0.9% | 1.6% |
| Total Accumulated Depreciation | | | | 9.2% | 7.6% |
| Net Capital Assets | | | | -2.6% | -0.7% |

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

Long-Term Debt

Long-term debt decreased by \$2,095,000 during the fiscal year. Additional information regarding the District's long-term debt can be found in Notes 8 through 13 to the accompanying financial statements.

The District's long-term debt outstanding at August 31, 2017, 2016, and 2015 is summarized in the following table:

| | Balance at 8/31/2017 | Balance at 8/31/2016 | Balance at 8/31/2015 | \$ Change 2017-2016 | \$ Change 2016-2015 |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------------|
| 2006 Tax Bonds Payable | \$ 130,000 | \$ 885,000 | \$ 1,605,000 | \$ (755,000) | \$ (720,000) |
| 2010 Combined Fee Revenue | | | | | |
| Refunding Bonds | 835,000 | 1,235,000 | 1,625,000 | (400,000) | (390,000) |
| 2012 Limited Tax Refunding Bonds | 7,910,000 | 8,005,000 | 8,100,000 | (95,000) | (95,000) |
| 2013 Limited Tax Bonds | <u>18,275,000</u> | <u>19,120,000</u> | <u>19,940,000</u> | <u>(845,000)</u> | <u>(820,000)</u> |
| Total Long-Term Debt | <u>\$ 27,150,000</u> | <u>\$ 29,245,000</u> | <u>\$ 31,270,000</u> | <u>\$ (2,095,000)</u> | <u>\$ (2,025,000)</u> |
| | | | | % Change 2017-2016 | % Change 2016-2015 |
| 2006 Tax Bonds Payable | | | | -85.3% | -44.9% |
| 2010 Combined Fee Revenue | | | | | |
| Refunding Bonds | | | | -32.4% | -24.0% |
| 2012 Limited Tax Refunding Bonds | | | | -1.2% | N/A |
| 2013 Limited Tax Bonds | | | | 100.0% | N/A |
| Total Long-Term Debt | | | | -7.2% | -6.5% |

The District's revenue bond rating is A+/Stable and its general obligation bond rating is AA/Stable as rated by the bond rating agency Standard & Poor's. There are no known debt limitations that could affect the financing of facilities or services.

Strategic and Operational Planning

Victoria College is committed to an institution-wide focus on strategic and operational planning. Completion of the second year of the 2015-2020 Strategic Plan saw great progress towards achieving the goals. Results indicated the activities were successful in improving processes and opportunities, making significant progress towards improving student success, meeting the needs of the service area and furthering the mission of the College. The overall goals of the College's Strategic Plan are:

Student Success- Victoria College students will demonstrate increasing student engagement and will exceed comparative college benchmarks on student performance indicators, such as completion of coursework, attainment of educational transfer and career goals, marketable skills and manageable debt.

Community Needs - Through strategic partnerships, Victoria College will provide: an appropriately trained and skilled workforce to meet growing economic demand; seamless transitions; increased educational attainment; and cultural enrichment opportunities.

Institutional Excellence - Victoria College will ensure high performance and high levels of student, employee and community satisfaction as indicated by appropriate benchmarking.

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

To further facilitate the achievement of strategic goals, the Board of Trustees approved the new 2016-2025 Facilities Master Plan. The development of the plan included a six-month process of bringing together students, administrators, faculty, staff and community members to assess the current facilities and establish needs for the next decade. Included in the plan is a Comprehensive Student Center which will bring together all student services, including such things as library services, advising, tutoring, testing, financial aid and social wrap-around services. In addition, the plan includes refurbishment of existing facilities to meet training and educational needs necessary for student success and to meet employer demands for an educated workforce.

Resource Management & Development

Victoria College remains committed to maintaining the affordability of higher education and works diligently to manage its resources in order to balance the needs of its students with the needs, requirements and expectations of governing agencies, taxpayers, community members, and business and industry. As State financial support continues to decrease and the cost of doing business continues to increase, achieving this balance becomes progressively more difficult. Administration, faculty and staff are careful to control expenses while not sacrificing quality instructional delivery and student support services. State appropriations contribute less than 17% to the annual operating budget. The remainder comes mostly from ad valorem taxes and student tuition and fees. No change in the tuition rate was made during 2016-2017, but the Board of Trustees did approve a slight change to the tax rate from \$0.2065 to \$0.2170, per \$100 valuation.

Victoria College strategically and aggressively seeks external support through donations and grants to help offset the cost of new program development, enable the granting of student financial support, and to provide necessary funds for expansion and growth. The College strives to secure, for all area students seeking postsecondary education and training, the resources necessary to facilitate college enrollment and successful completion without accumulation of excessive financial debt. Generous community support and a strategic focus on investment management allowed the VC Foundation to award nearly \$700,000 in student scholarships and inject nearly \$1.2 million to enhance College programs, facilities, and initiatives during the 2016-2017 academic year. In addition, numerous State and Federal grants, totaling \$2.3 million, were awarded to Victoria College during the year to support students' financial needs and programs aimed at increasing student success.

College Recognition & Accomplishments

The steadfast commitment to institutional excellence, quality educational opportunities and meeting community needs continues to result in Victoria College being recognized nationwide. The Community College Survey of Student Engagement (CCSSE) was administered to students in spring 2017. This survey is a national survey used by community colleges to understand student perceptions of active learning, student effort, academic challenge, student/faculty interaction, and overall learner support. All of these have been associated with improved learning outcomes and increased student success. The CCSSE puts Victoria College in competition with other colleges in a peer group, and for the first time, all five measures place the college in the top half of its peer group. Of particular note: these gains happened even as student perception of academic rigor increased over 3%.

Victoria College experienced gains in student persistence and success in 2016-2017, in direct alignment with the student perceptions on the CCSSE. First Time in College (FTIC) students enrolling in fall 2016 experienced Fall-to-Spring persistence increases of 4.3%. Fall-to-Fall persistence rates for these students also increased by almost 2%. Student success rates (grades of ABC) were up over 1%. The ABC metric is used to understand success of all students officially enrolled in courses for the semester. These success measures are important, because they are a direct indication of continuing successful enrollment to completion.

This year, VC was recognized as a 2017 "Great Colleges to Work For" institution by the Chronicle of Higher Education. Over 230 institutions nationwide, including 77 two-year institutions, participated in the survey conducted by Modern Think LLC. Victoria College was one of 22 community colleges recognized in the country and one of three community colleges recognized in Texas.

The Chronicle of Higher Education identified Victoria College as excelling in the following four categories: Overall Job Satisfaction; Supervisor or Department Chair Relationship; Facilities, Workplace and Security; and Confidence in Senior Leadership. Victoria College was recognized as one of the top four colleges in each category within its peer group, which consisted of 36 colleges of similar size from across the country.

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
(Unaudited)
Year Ended August 31, 2017**

New Initiatives

In an effort to provide a more solid framework for improving the student experience and student success, Victoria College has joined a nationwide effort and adopted the Pathways Model. This well-researched model is widely accepted as a means to formulate communications and processes to ensure students make informed decisions to enter an educational pathway, keep on the path and successfully reach their goal of completion, workforce, and/or transfer. Participation in Pathways has received broad input and support from the college community and it is on track for implementation in 2018.

Hurricane Harvey Relief and Recovery Efforts

The Victoria region was heavily affected by Hurricane Harvey in August 2017. Just days after the fall semester began, the college was forced to close due to damages. But college officials worked diligently to resume operations as quickly as possible and find ways to assist students and employees who were most affected by the storm. Nearly 200 volunteers came together to help remove debris and repair the infrastructure. Through emergency financial assistance of nearly \$53,000 and the opening of a food, supply and clothing pantry, hundreds of VC students, employees and their families were able to resume classes and begin to rebuild their lives. The ultimate goal was to help students stay on track to completion of their educational journey. The college saw only a 1% decrease in the original fall enrollment numbers due to the storm.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances and demonstrate the District's accountability for the money it receives. Questions concerning any information provided in the report or requests for additional financial information should be addressed to the Victoria County Junior College District, 2200 East Red River, Victoria, Texas 77901.

BASIC FINANCIAL STATEMENTS

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Statement of Net Position
August 31, 2017 and 2016

| | Current Year | Prior Year |
|---|---------------|---------------|
| ASSETS | | |
| Current Assets | | |
| Cash & cash equivalents | \$ 10,963,138 | \$ 8,825,486 |
| Restricted cash and cash equivalents | 696,284 | 1,269,931 |
| Short-term investments | 214 | 214 |
| Restricted short-term investments | 236 | 235 |
| Due from component unit | 168,018 | 16,629 |
| Accounts receivable (net) | 3,831,490 | 3,546,476 |
| Restricted accounts receivable | 777,773 | 589,700 |
| Inventories | 729,963 | 756,444 |
| Prepaid expenses | 72,408 | 76,678 |
| Total Current Assets | 17,239,524 | 15,081,793 |
| Noncurrent Assets | | |
| Construction in progress | 945,287 | 660,996 |
| Investments in real estate | 263,792 | 460,387 |
| Capital assets (net) (See note 7) | 60,231,021 | 61,938,168 |
| Total Noncurrent Assets | 61,440,100 | 63,059,551 |
| Total Assets | 78,679,624 | 78,141,344 |
| Deferred Outflow of Resources | | |
| Deferred outflows related to pensions | 1,901,321 | 2,210,031 |
| Total Noncurrent Assets | 1,901,321 | 2,210,031 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 1,228,939 | 1,159,080 |
| Accrued liabilities | 769,610 | 723,220 |
| Funds held for others | 156,909 | 156,410 |
| Unearned revenues | 4,954,797 | 4,669,991 |
| Bonds payable - current portion | 2,165,000 | 2,095,000 |
| Total Current Liabilities | 9,275,255 | 8,803,701 |
| Noncurrent Liabilities | | |
| Bonds payable | 24,985,000 | 27,150,000 |
| Net pension liability | 5,788,104 | 5,498,026 |
| Total Noncurrent Liabilities | 30,773,104 | 32,648,026 |
| Total Liabilities | 40,048,359 | 41,451,727 |
| Deferred Inflows of Resources | | |
| Unamortized premiums on bonds | 1,666,297 | 1,829,173 |
| Deferred inflows related to pensions | 1,631,619 | 2,203,484 |
| Total Deferred Inflows of Resources | 3,297,916 | 4,032,657 |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 32,623,802 | 31,985,378 |
| Restricted for | | |
| Expendable | | |
| Student aid | 485,205 | 373,869 |
| Unexpended bond proceeds | - | - |
| designated for campus safety project | - | 197,371 |
| designated for 2011-2020 master plan | 1,075,754 | 1,212,676 |
| Debt service | 395,435 | 383,133 |
| Unrestricted - designated for 2011-2020 master plan | 2,359,927 | 689,953 |
| Unrestricted | 294,547 | 24,611 |
| Total Net Position (Schedule D) | \$ 37,234,670 | \$ 34,866,991 |

The accompanying notes are an integral part of these financial statements.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Affiliated Organization
Statement of Net Position
August 31, 2017 and 2016

| | Current Year | Prior Year |
|---|---------------|---------------|
| ASSETS | | |
| Current Assets | | |
| Cash & cash equivalents | \$ 3,000,987 | \$ 2,296,477 |
| Pledges receivable | 35,220 | 34,970 |
| Other current assets | 150 | 200 |
| Total Current Assets | 3,036,357 | 2,331,647 |
| Other Assets | | |
| Endowment investments - money market funds | 113,207 | 113,948 |
| Endowment investments - mutual funds | 7,449,216 | 7,321,238 |
| Total Investments - Permanently Restricted | 7,562,423 | 7,435,186 |
| Endowment investments - temporarily restricted mutual funds | 4,098,210 | 3,532,431 |
| Total Other Assets | 11,660,633 | 10,967,617 |
| Total Assets | 14,696,990 | 13,299,264 |
| LIABILITIES | | |
| Current Liabilities | | |
| Due to Victoria College | 168,018 | 16,629 |
| Total Liabilities | 168,018 | 16,629 |
| NET POSITION | | |
| Permanently restricted for | | |
| Non-expendable endowments | 7,562,423 | 7,435,186 |
| Temporarily restricted for | | |
| Scholarships, fellowships, and operations | 6,801,178 | 5,710,263 |
| Unrestricted | 165,371 | 137,186 |
| Total Net Position | \$ 14,528,972 | \$ 13,282,635 |

The accompanying notes are an integral part of these financial statements.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Statement of Revenues, Expenses and
Changes in Net Position
For The Year Ended August 31, 2017 and 2016

| | Current Year | Prior Year |
|--|----------------------|----------------------|
| OPERATING REVENUES | | |
| Tuition and fees (net) | \$ 9,480,754 | \$ 9,440,784 |
| Federal grants and contracts | 1,216,998 | 1,205,407 |
| State grants and contracts | 1,131,219 | 735,385 |
| Local grants and contracts | 10,074 | 40,305 |
| Non-governmental grants and contracts | 977,817 | 909,523 |
| Sales and services of educational activities | 483,546 | 495,801 |
| Auxiliary enterprises (net) | 3,041,741 | 3,403,903 |
| General operating revenues | <u>271,515</u> | <u>311,912</u> |
| Total Operating Revenues (Schedule A) | <u>16,613,664</u> | <u>16,543,020</u> |
| OPERATING EXPENSES | | |
| Instruction | 13,363,775 | 12,103,345 |
| Public service | 253,733 | 201,425 |
| Academic support | 3,486,829 | 3,366,488 |
| Student services | 2,755,388 | 2,757,264 |
| Institutional support | 5,848,205 | 6,187,585 |
| Operation and maintenance of plant | 4,054,884 | 3,745,572 |
| Scholarships and fellowships | 9,101,274 | 9,132,715 |
| Auxiliary enterprises | 3,688,769 | 3,408,417 |
| Depreciation | <u>2,675,097</u> | <u>2,128,759</u> |
| Total Operating Expenses (Schedule B) | <u>45,227,954</u> | <u>43,031,570</u> |
| Operating (Loss) | <u>(28,614,290)</u> | <u>(26,488,550)</u> |
| Non-Operating Revenues (Expenses) | | |
| State allocations | 7,639,476 | 7,655,944 |
| Title IV | 7,534,251 | 7,574,784 |
| Ad valorem taxes | | |
| Taxes for maintenance and operations | 10,470,761 | 9,864,352 |
| Taxes for debt service | 3,082,790 | 3,079,381 |
| Gifts | 1,334,149 | 305,167 |
| Investment income (net of investment expenses) | 60,623 | 57,200 |
| Interest on capital related debt | <u>(812,612)</u> | <u>(886,811)</u> |
| Total Non-Operating Revenues (Expenses) (Schedule C) | <u>29,309,438</u> | <u>27,650,017</u> |
| Income Before Other Revenues, (Expenses), Gains and (Losses) | <u>695,148</u> | <u>1,161,467</u> |
| Other Revenues, (Expenses), Gains | | |
| Gain on disposal of capital assets | <u>1,672,531</u> | <u>-</u> |
| Total Other Revenues, (Expenses), Gains | <u>1,672,531</u> | <u>-</u> |
| Increase in Net Position | 2,367,679 | 1,161,467 |
| NET POSITION | | |
| Net Position - Beginning of Year | <u>34,866,991</u> | <u>33,705,524</u> |
| Net Position - End of Year | <u>\$ 37,234,670</u> | <u>\$ 34,866,991</u> |

The accompanying notes are an integral part of these financial statements.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Affiliated Organization
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended August 31, 2017 and 2016

| | <u>Total Current Year</u> | <u>Total Prior Year</u> |
|---------------------------------|-------------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Grants and contributions | \$ 2,185,895 | \$ 2,108,439 |
| In-kind donations | 209,752 | 201,044 |
| Other changes in net assets | <u>-</u> | <u>103</u> |
| Total Revenue and Support | <u>2,395,647</u> | <u>2,309,586</u> |
| OPERATING EXPENSES | | |
| Institutional support | 1,824,723 | 866,411 |
| Administration and collection | 62,427 | 60,540 |
| Other | <u>207,087</u> | <u>202,432</u> |
| Total Expenses | <u>2,094,237</u> | <u>1,129,383</u> |
| NON-OPERATING REVENUES | | |
| Investment income | <u>944,927</u> | <u>737,505</u> |
| Change in Net Position | 1,246,337 | 1,917,708 |
| NET ASSETS | | |
| Net Position, Beginning of Year | <u>13,282,635</u> | <u>11,364,927</u> |
| Net Position, End of Year | <u>\$ 14,528,972</u> | <u>\$ 13,282,635</u> |

The accompanying notes are an integral part of these financial statements.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Statement of Cash Flows
For The Year Ended August 31, 2017 and 2016

| | Current Year | Prior Year |
|---|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from students and other customers | \$ 13,290,847 | \$ 13,083,012 |
| Receipts from grants and contracts | 2,863,021 | 2,768,379 |
| Other receipts | 120,126 | 297,161 |
| Payments to suppliers for goods or services | (7,896,776) | (7,991,008) |
| Payments to or on behalf of employees | (24,027,542) | (23,104,830) |
| Payments of scholarships and fellowships | (9,101,274) | (9,132,715) |
| Net cash provided (used) by operating activities | (24,751,598) | (24,080,001) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Receipts from state allocations | 6,259,211 | 6,367,904 |
| Receipts from federal (Title IV) allocations | 7,534,251 | 7,574,784 |
| Receipts from ad valorem tax revenues | 10,470,761 | 9,864,352 |
| Gifts and grants (other than capital) | 1,334,149 | 305,167 |
| Deferred inflows/outflows net | (263,155) | (642,500) |
| Net pensions | 290,078 | 627,687 |
| Student organization and other agency transactions | 499 | (10,210) |
| Net cash provided by non-capital financing activities | 25,625,794 | 24,087,184 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Receipts from ad valorem tax revenues | 3,082,790 | 3,079,381 |
| Purchases of capital assets | (1,252,241) | (1,665,946) |
| Proceeds from disposal of capital assets | 196,595 | - |
| (Gain) loss on disposal of capital assets | 1,672,531 | - |
| Bond premium amortization | (162,876) | (162,876) |
| Payments on capital debt - principal | (2,095,000) | (2,025,000) |
| Payments on capital debt - interest | (812,612) | (886,811) |
| Net cash provided (used) by capital and related finan | 629,187 | (1,661,252) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment earnings | 60,622 | 57,201 |
| Net cash provided (used) by investing activities | 60,622 | 57,201 |
| Increase (decrease) in cash and cash equivalents | 1,564,005 | (1,596,868) |
| Cash and cash equivalents - September 1 | 10,095,417 | 11,692,285 |
| Cash and cash equivalents - August 31 | \$ 11,659,422 | \$ 10,095,417 |
| Cash & cash equivalents | \$ 10,963,138 | \$ 8,825,486 |
| Restricted cash and cash equivalents | 696,284 | 1,269,931 |
| Total cash and cash equivalents | \$ 11,659,422 | \$ 10,095,417 |

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Statement of Cash Flows
For The Year Ended August 31, 2017 and 2016
(Continued)

| | Current Year | Prior Year |
|--|-----------------|-----------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating (loss) | \$ (28,614,290) | \$ (26,488,550) |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities: | | |
| Depreciation expense | 2,675,097 | 2,128,759 |
| State group insurance | 1,380,265 | 1,288,040 |
| Changes in assets and liabilities: | | |
| Receivables (net) | (473,087) | (122,241) |
| Due from component unit | (151,389) | (14,751) |
| Inventories | 26,481 | (18,238) |
| Prepaid expenses | 4,270 | (44,351) |
| Accounts payable | 69,859 | (573,005) |
| Accrued liabilities | 46,390 | 21,812 |
| Unearned revenue | 284,806 | (257,476) |
| Net cash provided (used) by operating activities | \$ (24,751,598) | \$ (24,080,001) |

The accompanying notes are an integral part of these financial statements.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Notes to the Financial Statements
August 31, 2017

1. Reporting Entity

Victoria County Junior College District (the “District”) was created by a vote of the electorate of Victoria County, Texas, at an election held on December 2, 1947, in accordance with the laws of the State of Texas to serve the educational needs of Victoria County and the surrounding communities. The Board of Trustees (the “Board”), a seven-member group, is the level of government which has governing responsibilities over all activities related to public junior colleges within the jurisdiction of the District. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters, including taxing authority. The District is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*. While the District receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity. Furthermore, all activities and organizations over which the Board exercises oversight responsibility have been included in the basic financial statements.

2. Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants (TPEG). Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the TPEG, is shown with tuition and fee revenue amounts as a separate set aside amount (TEC §56.033). When the award is used by the student for tuition and fees, the college records the amount as tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act (HEA) Program Funds. Certain Title IV HEA Program funds are received by the District to pass through to the student. These funds are initially received by the college and recorded as revenue. When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

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

Basis of Accounting

The financial statements of the District have been prepared on the accrual basis, whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Budgetary Data

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

Cash and Cash Equivalents

The District considers cash and cash equivalents as cash-on-hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Deferred Outflows

In addition to assets, the District is aware that the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are permitted only to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on refunding debt.

Investments

In accordance with GASB 31 *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, the District reports investments at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. (The governing board has designated public funds investment pools comprised of \$450 and \$449 at August 31, 2017, and 2016, respectively, to be short-term investments). Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories

Inventories consist of consumable office supplies, physical plant supplies, concession supplies, and bookstore stock. Inventories are valued at cost on a first in, first out basis for supplies and at retail method for bookstore stock. Inventories are charged to expense as consumed.

Capital Assets

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment, and five years for telecommunications and peripheral equipment.

Pensions

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

Unearned Revenues

Tuition and fees of \$4,489,628 and \$4,261,248, federal, state and local grants of \$325,204 and \$207,579, and other revenues of \$139,965 and \$201,164 have been reported as unearned revenues at August 31, 2017 and 2016, respectively.

Deferred Inflows

In addition to liabilities, the District is aware that the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so is not recognized as an inflow of resources (revenue) until that time. Governments are permitted only to report deferred inflows in circumstances specifically authorized by the GASB.

Estimates

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

Operating and Non-Operating Revenue and Expense Policy

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a BTA (business type activity) and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Income Taxes

The District is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income tax under Internal Revenue Code Section 511 (a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc., Organizations*. The District had no unrelated business income tax liability for the years ended August 31, 2017 and 2016.

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 its fiscal year ended August 31, 2017, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past year.

3. Authorized Investments

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

4. Deposits and Investments

Cash and Deposits included on Exhibit 1, Statement of Net Position, consist of the items reported below:

| | <u>8/31/2017</u> | <u>8/31/2016</u> |
|---------------------------|----------------------|----------------------|
| Bank Deposits | | |
| Demand Deposits | \$ 11,601,768 | \$ 10,006,569 |
| | 11,601,768 | 10,006,569 |
| Cash and Cash Equivalents | | |
| Cash on Hand | 57,654 | 88,848 |
| | <u>57,654</u> | <u>88,848</u> |
| Total Cash and Deposits | <u>\$ 11,659,422</u> | <u>\$ 10,095,417</u> |

Reconciliation of Cash, Deposits and Investments to Exhibit 1

| Type of Security | Market Value | |
|---------------------------------------|---------------|---------------|
| | 8/31/2017 | 8/31/2016 |
| Tex Pool | \$ 450 | \$ 449 |
| Total Investments | \$ 450 | \$ 449 |
| Total Cash and Deposits | \$ 11,659,422 | \$ 10,095,417 |
| Total Investments | 450 | 449 |
| Total Deposits and Investments | \$ 11,659,872 | \$ 10,095,866 |
| Cash and Cash Equivalents (Exhibit 1) | \$ 11,659,422 | \$ 10,095,417 |
| Investments (Exhibit 1) | 450 | 449 |
| Total Deposits and Investments | \$ 11,659,872 | \$ 10,095,866 |

As of August 31, 2017 the District had the following investments and maturities:

| Investment Type | 2017 Fair Value | Investment Maturities (in Years) | | | S&P Rating |
|---------------------------------|--------------------|----------------------------------|--------|--------|------------|
| | | Maturity Less than 1 | 1 to 2 | 2 to 3 | |
| Uncategorized Investments | | | | | |
| Tex Pool | \$ 450 | \$ 450 | \$ - | \$ - | AAAm |
| Total Uncategorized Investments | \$ 450 | \$ 450 | \$ - | \$ - | |

Interest Rate Risk – In accordance with state law and District investment policy, the District does not purchase any investments with maturities greater than 10 years.

Credit Risk – In accordance with state law and the District’s investment policy, investments in mutual funds and investment pools must be rated at least AAA; commercial paper must be rated at least A-1 or P-1; and investments in obligations from other states, municipalities, counties, etc. must be rated at least A as well.

Concentration of Credit Risk – The District does not place a limit on the amount the District may invest in any one issuer.

5. Derivatives

The District did not invest in derivative investment products or repurchase agreements during the fiscal year ended August 31, 2017.

6. Disaggregation of Receivables and Payables Balances

Accounts receivable consist of the following at August 31:

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|---------------------|---------------------|
| Student receivables | \$ 4,699,354 | \$ 4,414,675 |
| Third-party contractor receivables | 601,296 | 482,482 |
| Ad valorem taxes receivables | 1,123,907 | 980,879 |
| Federal grant receivables | 248,942 | 434,090 |
| State grant receivables | 504,540 | 112,598 |
| Local grant receivables | 24,291 | 21,786 |
| Other receivables | <u>270,421</u> | <u>306,649</u> |
| Total accounts receivable | 7,472,751 | 6,753,159 |
| Allowance for doubtful accounts | <u>(2,863,488)</u> | <u>(2,616,983)</u> |
| Accounts receivable (net) | <u>\$ 4,609,263</u> | <u>\$ 4,136,176</u> |
| | | |
| Accounts receivable (net) | \$ 3,831,490 | \$ 3,546,476 |
| Restricted accounts receivable | <u>777,773</u> | <u>589,700</u> |
| | <u>\$ 4,609,263</u> | <u>\$ 4,136,176</u> |

Accounts payable and accrued liabilities consist of the following at August 31:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Accounts payable: | | |
| Vendor payables | \$ 906,584 | \$ 937,800 |
| Other payables | <u>322,355</u> | <u>221,280</u> |
| Total accounts payable | <u>1,228,939</u> | <u>1,159,080</u> |
| Accrued liabilities: | | |
| Accrued payroll | 219,585 | 203,352 |
| Employee benefits payable | 492,275 | 442,316 |
| Sales tax payable | <u>57,750</u> | <u>77,552</u> |
| Total accrued liabilities | <u>769,610</u> | <u>723,220</u> |
| | | |
| Total accounts payable and accrued liabilities | <u>\$ 1,998,549</u> | <u>\$ 1,882,300</u> |

7. **Capital Assets Activity**

Capital asset activity for the years ended August 31, 2017, was as follows:

| | 2017 | | | |
|---|----------------------|-------------------------|---------------------|----------------------|
| | Balance | Changes During the Year | | Balance |
| | September 1, 2016 | Additions | Deletions | August 31, 2017 |
| <u>Not Depreciated:</u> | | | | |
| Land | \$ 460,387 | \$ - | \$ (196,595) | \$ 263,792 |
| Construction in Progress | 660,996 | 333,224 | (48,933) | 945,287 |
| Subtotal | <u>1,121,383</u> | <u>333,224</u> | <u>(245,528)</u> | <u>1,209,079</u> |
| Other Capital Assets: | | | | |
| Library Volumes and Periodicals | 652,845 | 36,961 | (179,024) | 510,782 |
| Buildings | 71,896,287 | 48,933 | - | 71,945,220 |
| Site Improvements | 6,512,778 | - | - | 6,512,778 |
| Telecommunications and Peripheral Equipment | 1,881,334 | - | - | 1,881,334 |
| Machinery, Equipment, Furniture and Vehicles | 7,177,679 | 882,056 | (89,645) | 7,970,090 |
| Subtotal | <u>88,120,923</u> | <u>967,950</u> | <u>(268,669)</u> | <u>88,820,204</u> |
| Accumulated Depreciations: | | | | |
| Library Volumes and Periodicals | 267,546 | 39,121 | (179,024) | 127,643 |
| Buildings | 16,509,443 | 1,527,788 | - | 18,037,231 |
| Site Improvements | 4,367,393 | 183,949 | - | 4,551,342 |
| Telecommunications and Peripheral Equipment | 1,499,512 | 137,101 | - | 1,636,613 |
| Machinery, Equipment, Furniture and Vehicles | 3,538,861 | 787,138 | (89,645) | 4,236,354 |
| Subtotal | <u>26,182,755</u> | <u>2,675,097</u> | <u>(268,669)</u> | <u>28,589,183</u> |
| Net Other Capital Assets | <u>61,938,168</u> | <u>(1,707,147)</u> | <u>-</u> | <u>60,231,021</u> |
| Net Capital Assets | <u>\$ 63,059,551</u> | <u>\$ (1,373,923)</u> | <u>\$ (245,528)</u> | <u>\$ 61,440,100</u> |

| | 2016 | | | |
|-----------------------------------|----------------------|-------------------------|------------------------|----------------------|
| | Balance | Changes During the Year | | Balance |
| | September 1, 2015 | Additions | Deletions | August 31, 2016 |
| Not Depreciated: | | | | |
| Land | \$ 460,387 | \$ - | \$ - | \$ 460,387 |
| Construction in Progress | 21,319,133 | 1,131,079 | (21,789,216) | 660,996 |
| Subtotal | <u>21,779,520</u> | <u>1,131,079</u> | <u>(21,789,216)</u> | <u>1,121,383</u> |
| Other Capital Assets: | | | | |
| Library Volumes and | | | | |
| Periodicals | 856,839 | 60,667 | (264,661) | 652,845 |
| Buildings | 50,183,854 | 21,712,433 | - | 71,896,287 |
| Site Improvements | 6,512,778 | - | - | 6,512,778 |
| Telecommunications and | | | | |
| Peripheral Equipment | 1,881,334 | - | - | 1,881,334 |
| Machinery, Equipment, | | | | |
| Furniture and Vehicles | 6,634,193 | 550,983 | (7,497) | 7,177,679 |
| Subtotal | <u>66,068,998</u> | <u>22,324,083</u> | <u>(272,158)</u> | <u>88,120,923</u> |
| Accumulated Depreciations: | | | | |
| Library Volumes and | | | | |
| Periodicals | 484,480 | 47,727 | (264,661) | 267,546 |
| Buildings | 15,497,217 | 1,012,226 | - | 16,509,443 |
| Site Improvements | 4,183,444 | 183,949 | - | 4,367,393 |
| Telecommunications and | | | | |
| Peripheral Equipment | 1,324,287 | 175,225 | - | 1,499,512 |
| Machinery, Equipment, | | | | |
| Furniture and Vehicles | 2,836,726 | 709,632 | (7,497) | 3,538,861 |
| Subtotal | <u>24,326,154</u> | <u>2,128,759</u> | <u>(272,158)</u> | <u>26,182,755</u> |
| Net Other Capital Assets | <u>41,742,844</u> | <u>20,195,324</u> | <u>-</u> | <u>61,938,168</u> |
| Net Capital Assets | <u>\$ 63,522,364</u> | <u>\$ 21,326,403</u> | <u>\$ (21,789,216)</u> | <u>\$ 63,059,551</u> |

8. Non-Current Liabilities

Long-term liability activity for the years ended August 31:

| | 2017 | | | | |
|-----------------------------|----------------------|-------------------|---------------------|----------------------|---------------------|
| | Balance | Additions | Reductions | Balance | Current Portion |
| | September 1, 2016 | | | August 31, 2017 | |
| Bonds | | | | | |
| General obligation bonds | \$ 885,000 | \$ - | \$ 755,000 | \$ 130,000 | \$ 130,000 |
| Revenue refunding bonds | 1,235,000 | - | 400,000 | 835,000 | 410,000 |
| Limited tax refunding bonds | 8,005,000 | - | 95,000 | 7,910,000 | 755,000 |
| Limited tax bonds | 19,120,000 | - | 845,000 | 18,275,000 | 870,000 |
| Subtotal | <u>29,245,000</u> | <u>-</u> | <u>2,095,000</u> | <u>27,150,000</u> | <u>2,165,000</u> |
| Net pension liability | 5,498,026 | 290,078 | - | 5,788,104 | - |
| | <u>\$ 34,743,026</u> | <u>\$ 290,078</u> | <u>\$ 2,095,000</u> | <u>\$ 32,938,104</u> | <u>\$ 2,165,000</u> |

| | 2016 | | | | |
|-----------------------------|---------------------------------|-------------------|---------------------|-------------------------------|---------------------|
| | Balance September 1, 2015 | Additions | Reductions | Balance August 31, 2016 | Current Portion |
| Bonds | | | | | |
| General obligation bonds | \$ 1,605,000 | \$ - | \$ 720,000 | \$ 885,000 | \$ 755,000 |
| Revenue refunding bonds | 1,625,000 | - | 390,000 | 1,235,000 | 400,000 |
| Limited tax refunding bonds | 8,100,000 | - | 95,000 | 8,005,000 | 95,000 |
| Limited tax bonds | 19,940,000 | - | 820,000 | 19,120,000 | 845,000 |
| Subtotal | 31,270,000 | - | 2,025,000 | 29,245,000 | 2,095,000 |
| Net pension liability | 4,870,339 | 627,687 | - | 5,498,026 | - |
| | <u>\$ 36,140,339</u> | <u>\$ 627,687</u> | <u>\$ 2,025,000</u> | <u>\$ 34,743,026</u> | <u>\$ 2,095,000</u> |

9. **Bonds Payable**

General information related to bonds payable is summarized below:

Limited Tax Bonds, Series 2006

- Issued to construct Health Sciences Center, remodel existing Allied Health Building and associated improvements
- Issued August 1, 2006
- Amount authorized and issued - \$14,500,000
- Source of revenue for debt service – ad valorem taxes

Combined Fee Revenue Refunding Bonds, Series 2010

- Issued to refund Combined Fee Revenue Bonds, Series 1999 that were issued to construct General Services and Technology Buildings and associated improvements
- Issued October 29, 2010
- Amount authorized and issued - \$3,455,000
- Source of revenue for debt service – Tuition, general fee and general fund interest

Limited Tax Refunding Bonds, Series 2012

- Issued to refund a portion of Limited Tax Bonds, Series 2006 that were issued to construct Health Sciences Center, remodel existing Allied Health Building and associated improvements
- Issued May 9, 2012
- Amount authorized and issued - \$8,480,000
- Source of revenue for debt service – ad valorem taxes

Limited Tax Bonds, Series 2013

- Issued to construct Emerging Technology Complex
- Issued February 15, 2013
- Amount authorized and issued - \$21,200,000
- Source of revenue for debt service – ad valorem taxes

Bonds payable are due in annual installments varying from \$80,000 to \$1,425,000 with interest rates from 2.00% to 5.00% with the final installment due in 2033.

Debt Service for the 2010 Combined Fee Revenue Refunding Bonds was \$428,134 for the year ended August 31, 2017. Revenues totaling \$2,045,161 were available to meet this obligation.

10. Refunding Bonds

In previous years, the District issued refunding bonds to defease certain bond issues. The refunded obligations represent a legal defeasance and are no longer a liability of the District; therefore, they are not included in the District's financial statements.

Combined Fee Revenue Refunding Bonds, Series 2010

On October 29, 2010, the District issued \$3,455,000 of Combined Fee Revenue Refunding Bonds, Series 2010. The bonds mature serially through August 2019. The interest rates range from 2.0% to 4.0%. The bonds are to refund the Combined Fee Revenue Bonds, Series 1999. The par value of the refunding bonds was \$3,455,000 with a premium of \$137,395.

The total cash flows required to service the refunded bonds as of the effective date of the refunding were \$3,984,488. The aggregate debt service payments of the refunded bonds of \$4,284,479 is \$299,991 less than the aggregate debt service payments of the refunding bonds of \$3,984,488.

Limited Tax Refunding Bonds, Series 2012

On May 9, 2012, the District issued \$8,480,000 of Limited Tax Refunding Bonds, Series 2012. The bonds mature serially through August 2026. The interest rates range from 2.0% to 3.5%. The bonds are to refund a portion of the Limited Tax Bonds, Series 2006. The par value of the refunding bonds was \$8,480,000 with a premium of \$1,445,958.

The total cash flows required to service the refunded bonds as of the effective date of the refunding were \$12,269,117. The aggregate debt service payments of the refunded bonds of \$12,992,314 is \$723,197 less than the aggregate debt service payments of the refunding bonds of \$12,269,117.

11. Defeased Bonds Outstanding

The proceeds of the Districts Limited Tax Refunding Bonds, Series 2012 were placed in an escrow fund to provide for the future debt service payments on the old bonds. Accordingly, the trust account assets and defeased bonds are not included in the District's financial statements.

For the fiscal years ended August 31, the District had the following defeased bonds outstanding:

| <u>Bond Issue</u> | <u>Year Refunded</u> | <u>Par Value Outstanding</u> | |
|--------------------------------|----------------------|------------------------------|----------------------------|
| | | <u>2017</u> | <u>2016</u> |
| Limited Tax Bonds, Series 2006 | 2012 | <u>\$ 8,480,000</u> | <u>\$ 8,480,000</u> |
| Total | | <u><u>\$ 8,480,000</u></u> | <u><u>\$ 8,480,000</u></u> |

12. Short Term Debt

The District used no short-term debt for the year ended August 31, 2017.

13. Debt and Lease Obligation

Debt service requirements at August 31, 2017 were as follows:

| Fiscal Year Ended August 31, | General Obligation Bonds 2006 Limited Tax Bonds | | | General Obligation Bonds 2012 Limited Tax Refunding Bonds | | |
|---------------------------------|--|-----------------|-------------------|--|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | \$ 130,000 | \$ 6,175 | \$ 136,175 | \$ 755,000 | \$ 261,950 | \$ 1,016,950 |
| 2019 | - | - | - | 80,000 | 243,075 | 323,075 |
| 2020 | - | - | - | 910,000 | 243,075 | 1,153,075 |
| 2021 | - | - | - | 940,000 | 215,775 | 1,155,775 |
| 2022 | - | - | - | 970,000 | 182,875 | 1,152,875 |
| 2023-2027 | - | - | - | 4,255,000 | 378,700 | 4,633,700 |
| 2028-2031 | - | - | - | - | - | - |
| Totals | <u>\$ 130,000</u> | <u>\$ 6,175</u> | <u>\$ 136,175</u> | <u>\$ 7,910,000</u> | <u>\$ 1,525,450</u> | <u>\$ 9,435,450</u> |

| Fiscal Year Ended August 31, | General Obligation Bonds 2013 Limited Tax Bonds | | | Revenue Bonds 2010 Combined Fee Revenue Refunding | | |
|---------------------------------|--|---------------------|----------------------|--|------------------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | \$ 870,000 | \$ 598,963 | \$ 1,468,963 | \$ 410,000 | \$ 33,400 | \$ 443,400 |
| 2019 | 895,000 | 572,862 | 1,467,862 | 425,000 | 17,000 | 442,000 |
| 2020 | 930,000 | 537,062 | 1,467,062 | - | - | - |
| 2021 | 970,000 | 499,863 | 1,469,863 | - | - | - |
| 2022 | 1,010,000 | 461,062 | 1,471,062 | - | - | - |
| 2023-2027 | 5,640,000 | 1,713,013 | 7,353,013 | - | - | - |
| 2028-2032 | 6,535,000 | 810,213 | 7,345,213 | - | - | - |
| 2033 | 1,425,000 | 42,750 | 1,467,750 | - | - | - |
| Totals | <u>\$ 18,275,000</u> | <u>\$ 5,235,788</u> | <u>\$ 23,510,788</u> | <u>\$ 835,000</u> | <u>\$ 50,400</u> | <u>\$ 885,400</u> |

| Fiscal Year Ended August 31, | Total Bonds | | |
|---------------------------------|----------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2018 | \$ 2,165,000 | \$ 900,488 | \$ 3,065,488 |
| 2019 | 1,400,000 | 832,937 | 2,232,937 |
| 2020 | 1,840,000 | 780,137 | 2,620,137 |
| 2021 | 1,910,000 | 715,638 | 2,625,638 |
| 2022 | 1,980,000 | 643,937 | 2,623,937 |
| 2023-2027 | 9,895,000 | 2,091,713 | 11,986,713 |
| 2028-2032 | 6,535,000 | 810,213 | 7,345,213 |
| 2033 | 1,425,000 | 42,750 | 1,467,750 |
| Totals | <u>\$ 27,150,000</u> | <u>\$ 6,817,813</u> | <u>\$ 33,967,813</u> |

The District had no capital lease obligations at August 31, 2017.

14. Net Position Designations

At August 31, 2017, the District designated the entirety of expendable net position, restricted for unexpended bond proceeds, for the 2011-2020 master plan (\$1,075,754). \$2,359,927 of unrestricted net position is designated for the 2011-2020 master plan. These designations indicate management’s anticipated future use of financial resources.

15. Rental Agreement and Operating Lease Commitments

Operating Lease Commitments

The District negotiated a non-cancellable operating lease contract for copiers beginning January 21, 2016 and ending January 20, 2019.

The future minimum lease payments are as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|-------------------|
| 2018 | \$ 85,731 |
| 2019 | <u>28,577</u> |
| | <u>\$ 114,308</u> |

Rental expense paid for the years ended August 31, 2017 and 2016 for operating leases totaled \$160,003 and \$172,317, respectively.

16. Employees’ Retirement Plan

Defined Benefit Pension Plan

The State of Texas has joint contributory retirement plans for almost all its employees.

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.state.tx.gov/TRS%20Documents/cafr_2016.pdf; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

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

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

| Contribution Rates | | |
|--|------------|-------|
| | 2015 | 2016 |
| Member | 6.70% | 7.20% |
| Non-Employer contribution Entity (State) | 6.80% | 6.80% |
| Employers | 6.80% | 6.80% |
| | | |
| FY 2016 District Contributions | \$ 486,663 | |
| FY 2016 State of Texas On-behalf Contributions | \$ 313,693 | |

The District's contribution to the TRS pension plan in FY 2016 were \$486,663 as reported in the Schedule of District Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for FY 2016 were \$313,693.

- As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers.

Public junior colleges or junior college districts are required to pay the employer contribution rate in the following instances:

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

Actuarial Assumptions. The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Assumptions:

| | |
|---|-----------------------------|
| Valuation Date | August 31, 2016 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Single Discount Rate | 8.00% |
| Long-term Expected Investment Rate of Return | 8.00% |
| Municipal Bond Rate* | |
| Last year ending August 31 in the 2016 to 2115 projection period (100 years) | 2115 |
| Inflation | 2.5% |
| Salary Increases Including Inflation | 3.5% - 9.5% |
| Benefit Changes During the Year | None |
| Ad hoc Post-Employment Benefit Changes | None |

**If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the bond buyer index of general obligation bonds with 20 years to maturity and an average AA credit rating.*

Actuarial methods and assumptions were updated based on a study of actual experience for the four-year period ending August 31, 2014, and adopted on September 24, 2015, by the TRS Board of Trustees, who have sole authority to determine the actuarial assumptions used for the plan. There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period.

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

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the systems target asset allocation as of August 31, 2016, are summarized below:

| Asset Class | Target Allocation | Long-Term Expected Geometric Real Rate of Return | Expected Contribution to Long-Term Portfolio Returns* |
|------------------------------|-------------------|--|---|
| Global Equity | | | |
| U.S. | 18.00% | 4.60% | 1.00% |
| Non-U.S. Developed | 13.00% | 5.10% | 0.80% |
| Emerging Markets | 9.00% | 5.90% | 0.70% |
| Directional Hedge Funds | 4.00% | 3.20% | 0.10% |
| Private Equity | 13.00% | 7.00% | 1.10% |
| Stable Value | | | |
| U.S. Treasuries | 11.00% | 0.70% | 0.10% |
| Absolute Return | 0.00% | 1.80% | 0.00% |
| Stable Value Hedge Funds | 4.00% | 3.00% | 0.10% |
| Cash | 1.00% | -0.20% | 0.00% |
| Real Return | | | |
| Global Inflation Lined Bonds | 3.00% | 0.90% | 0.00% |
| Real Assets | 16.00% | 5.10% | 1.10% |
| Energy and Natural Resources | 3.00% | 6.60% | 0.20% |
| Commodities | 0.00% | 1.20% | 0.00% |
| Risk Parity | | | |
| Risk Parity | 5.00% | 6.70% | 0.30% |
| Inflation Expectation | | | 2.20% |
| Alpha | | | 1.00% |
| Total | <u>100.00%</u> | | <u>8.70%</u> |

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

Source: Teacher Retirement System of Texas 2016 Comprehensive Annual Financial Report

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

| | 1% Decrease in Discount Rate (7.0%) | Discount Rate (8.0%) | 1% Increase in Discount Rate (9.0%) |
|---|--|----------------------|--|
| District proportionate share of the net pension liability: | \$ 8,958,035 | \$ 5,788,104 | \$ 3,099,361 |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, the District reported a liability of \$5,788,104 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|--|---------------------|
| District's proportionate share of the collective net pension liability | \$ 5,788,104 |
| State's proportionate share that is associated with District | <u>3,723,484</u> |
| Total | <u>\$ 9,511,588</u> |

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 thru August 31, 2016.

At the measurement date of August 31, 2016 the employer's proportion of the collective net pension liability was .0153%, which was a decrease of 1.9% from its proportion measured as of August 31, 2015.

For the year ended August 31, 2017, the District recognized pension expense of \$386,409 and revenue of \$386,409 for support provided by the State.

At August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual economic experience | \$ 90,756 | \$ 172,829 |
| Changes in actuarial assumptions | 176,411 | 160,439 |
| Difference between projected and actual investment earnings | 1,115,376 | 625,251 |
| Changes in proportion and difference between in the employers contributions and the proportionate share of contributions | - | 673,100 |
| Contributions paid to TRS subsequent to the measurement date | <u>518,778</u> | <u>-</u> |
| Total | <u>\$ 1,901,321</u> | <u>\$ 1,631,619</u> |

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

| <u>For the Year Ended August 31,</u> | <u>Pension Expense Amount</u> |
|--------------------------------------|---------------------------------------|
| 2018 | \$ (86,849) |
| 2019 | (86,849) |
| 2020 | 225,777 |
| 2021 | (110,863) |
| 2022 | (174,938) |
| Thereafter | (15,353) |

See the Required Supplementary Information section for the Schedule of District's Share of Net Pension Liability and the Schedule of District's Contributions.

Optional Retirement Plan – Defined Contribution Plan

Plan Description. Participation in the Optional Retirement Plan is in lieu of participation in the TRS. The optional retirement program provides for the purchase of annuity contracts and operates under the provision of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentage of participant salaries currently contributed by the state and each participant are 6.6% and 6.65%, respectively. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. SB 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense to the state for the District was \$89,317 and \$80,841 for the fiscal years ended August 31, 2017 and 2016, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the District.

The total payroll for all District employees was \$17,604,155 and \$16,762,026 for the fiscal years ended August 31, 2017 and 2016, respectively. The total payroll of employees covered by the state for ORP was \$3,103,086 and \$2,802,708 for the fiscal years ended August 31, 2017 and 2016, respectively.

17. Deferred Compensation Program

District employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001.

At August 31, 2017 and 2016, the District had no employees electing to defer compensation.

18. Compensable Absences

Full-time employees of the District may accrue up to 640 hours of sick leave based on the length of their contract. No employee will receive compensation for sick leave upon termination of employment with the District. Since the District has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Administrative, clerical, and maintenance personnel receive vacation time based on length of employment. Vacation must be taken by August 31; however, carry-over up to 40 hours of vacation time is permitted. In the opinion of the administration, the liability for compensable absences is not material to the basic financial statements of the District; therefore, no accrual for vacation leave has been made.

19. Pending Lawsuits and Claims

The District may, on occasion, become party to litigation and claims arising in the normal course of operations. At August 31, 2017, the District is not involved in any litigation.

20. Funds Held in Trust by Others

No funds are held in trust by others on behalf of the District.

21. Contract and Grant Award

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants (AICPA audit and accounting guide, *State and Local Governments*, 8.99). For Federal Contract and Grant Awards, funds expended but not collected are reported as restricted accounts receivable on Exhibit 1. Non-federal contract and grant awards for which funds are expended but not collected are reported as restricted accounts receivable on Exhibit 1. Contract and grant awards that are not yet funded, and for which the District has not yet performed services, are not included in the financial statements. Contract and grant awards funds already committed, e.g. multi-year awards, or funds awarded during fiscal year August 31, 2017, and 2016, for which monies have not been received nor funds expended totaled \$1,730,603 and \$1,489,040, respectively. Of these amounts \$1,626,808 and \$1,170,681 were from Federal Contracts and Grant Awards; \$89,545 and \$304,226 were from State Contracts and Grant Awards; and \$14,250 and \$14,133 were from Local Contracts and Grant Awards at August 31, 2017 and 2016, respectively.

22. Self-Insured Plans

The District has self-insured arrangements for coverage of workers' compensation and unemployment compensation. Workers' compensation and unemployment compensation plans are on a pay-as-you-go basis, in which no assets are set aside. Accrued liabilities generally are based on actuarial valuations and represent the present value of unpaid expected claims. Estimated future payments for incurred claims are charged to current operations.

23. Health Care and Life Insurance Benefits

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing their benefits by expending the annual insurance premiums. The state’s contribution per full-time employee was \$617 per month for the year ended August 31, 2017 (\$577 per month for fiscal year 2016) and totaled \$816,994 for the year ended August 31, 2017 (\$772,236 for the year ended August 31, 2016). The cost of providing those benefits for 144 retirees in the year ended August 31, 2017 was \$563,270 (retiree benefits for 141 retirees cost \$515,804 in fiscal year 2016). For 293 active employees, the cost of providing benefits was \$2,530,795 for the year ended August 31, 2017 (active employee benefits for 293 employees cost \$2,322,765 for the year ended August 31, 2016). SB 1812, effective September 1, 2013, limits the amount of the state’s contribution to 50 percent of eligible employees in the reporting district.

24. Postemployment Benefits Other than Pensions

Plan Description. In addition to providing pension benefits, the state provides certain healthcare and life insurance benefits for retired employees. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the state. The District contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit post-employment healthcare plan administered by the Employees Retirement System of Texas (ERS). SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Texas Legislature.

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

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

The employer’s share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy and is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS Board of Trustees set the employer contribution rate based on the implicit rate subsidy, which is actuarially determined in accordance with the parameters of GASB Statement 45.

The employer contribution rate represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years.

Beginning September 1, 2013, SB 1812 limited the state’s contribution to 50 percent of eligible employees for community colleges.

The District’s contributions to SRHP for the years ending August 31, 2017, 2016, and 2015 were \$56,097, \$54,698 and \$55,310, respectively, which equaled the required contributions each year.

25. Ad Valorem Tax

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

At August 31:

| | <u>2017</u> | <u>2016</u> |
|--|-------------------------|-------------------------|
| Assessed Valuation of the District: | \$ 7,677,245,245 | \$ 7,870,361,221 |
| Less: Exemptions | <u>(748,517,575)</u> | <u>(797,455,602)</u> |
| Net Assessed Valuation of the District | <u>\$ 6,928,727,670</u> | <u>\$ 7,072,905,619</u> |

| | 2017 | | | 2016 | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Current Operations | Debt Service | Total | Current Operations | Debt Service | Total |
| Authorized Tax Rate per \$100 Valuation | <u>\$ 0.500000</u> | <u>\$ 0.500000</u> | <u>\$ 1.000000</u> | <u>\$ 0.500000</u> | <u>\$ 0.500000</u> | <u>\$ 1.000000</u> |
| Assessed Tax Rate per \$100 Valuation | <u>\$ 0.166300</u> | <u>\$ 0.040200</u> | <u>\$ 0.206500</u> | <u>\$ 0.153300</u> | <u>\$ 0.039200</u> | <u>\$ 0.192500</u> |

Taxes levied for the years ended August 31, 2017 and 2016 were \$13,495,394 and \$12,957,259, respectively. Penalties and interest are not assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Tax collections for the years ended August 31, 2017 and 2016 were 97.39% and 97.55%, respectively, of current tax levy. Allowances for uncollected taxes are fully reserved at August 31. The use of tax proceeds is restricted to maintenance and operations and/or general obligation debt service.

| <u>Taxes Collected</u> | 2017 | | | 2016 | | |
|----------------------------------|----------------------|---------------------|----------------------|---------------------|---------------------|----------------------|
| | Current Operations | Debt Service | Total | Current Operations | Debt Service | Total |
| Current Taxes Collected | \$ 8,427,194 | \$ 2,586,706 | \$ 11,013,900 | \$ 7,791,839 | \$ 2,550,272 | \$ 10,342,111 |
| Delinquent Taxes Collected | 1,943,176 | 471,331 | 2,414,507 | 1,959,729 | 500,393 | 2,460,122 |
| Penalties and Interest Collected | 100,967 | 24,938 | 125,905 | 111,518 | 28,353 | 139,871 |
| Less Discounts and Commissions | <u>(576)</u> | <u>(185)</u> | <u>(761)</u> | <u>1,266</u> | <u>363</u> | <u>1,629</u> |
| Total Collections | <u>\$ 10,470,761</u> | <u>\$ 3,082,790</u> | <u>\$ 13,553,551</u> | <u>\$ 9,864,352</u> | <u>\$ 3,079,381</u> | <u>\$ 12,943,733</u> |

26. Tax Abatement

GASB Statement 77, *Tax Abatement Disclosures*, defines a tax abatement as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the government or the citizens of those governments.

At August 31, 2017, the District has not entered into tax abatement agreements with any individuals or entities that reduce tax revenues to which the college is entitled. At August 31, 2017 no other governments have tax abatement agreements that impact the tax revenues to which the college is entitled.

27. Discrete Component Unit

Victoria College Foundation, Inc. (the “Foundation”) was established as a separate nonprofit organization in 1978, to raise funds to provide student scholarships and assistance in the development and growth of the District. Under Governmental Accounting Standards Board (GASB) Statement 39 *Determining Whether Certain Organizations are Component Units*, an organization should report as a discretely presented component unit those organization that raise and hold economic resources for the direct benefit of a government unit.

Accordingly, the Foundation financial statements are included in the District’s annual report as a discrete component unit (see table of contents). Complete financial statements of the Victoria College Foundation, Inc. can be obtained from the administrative office of the Foundation and/or the District.

28. Subsequent Events

The District’s administration has determined that no subsequent events require disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of the District's Share of Net Pension Liability
For the Year Ended August 31, 2017

| Fiscal year ending August 31 * | 2016 ** | 2015 ** | 2014 ** |
|---|--------------------------|--------------------------|--------------------------|
| Total TRS pension liability | \$ 171,797,150,487 | \$ 163,887,375,172 | \$ 159,496,075,886 |
| TRS net position | (134,008,637,473) | (128,538,706,212) | (132,779,243,085) |
| TRS net position liability | <u>\$ 37,788,513,014</u> | <u>\$ 35,348,668,960</u> | <u>\$ 26,716,832,801</u> |
| TRS net position as percentage of total pension liability | 78.00% | 78.43% | 83.25% |
| District's proportionate share of collective net pension liability | 0.0153% | 0.0156% | 0.0182% |
| District's proportionate share of collective net pension liability | \$ 5,788,104 | \$ 5,498,026 | \$ 4,870,339 |
| Portion of NECE's ⁽¹⁾ total proportionate share of NPL ⁽²⁾ associated with District | <u>3,723,484</u> | <u>3,594,810</u> | <u>3,206,990</u> |
| Total | <u>\$ 9,511,588</u> | <u>\$ 9,092,836</u> | <u>\$ 8,077,329</u> |
| District's covered payroll amount | \$ 11,705,727 | \$ 11,176,424 | \$ 11,218,245 |
| Ratio of employer proportionate share of collective NPL / ER's ⁽³⁾ covered payroll amount | 49.4468% | 49.1931% | 43.4144% |

* The amounts presented above are as of the measurement date of the collective net pension liability.

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(1) Non-Employer Contributing Entity

(2) Net Pension Liability

(3) Employer

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of the District's Contributions to TRS Pension Plan
For the Year Ended August 31, 2017

| Fiscal year ending August 31 * | 2016 ** | 2015 ** | 2014 ** |
|---|----------------|----------------|----------------|
| Legally required contributions | \$ 486,663 | \$ 460,552 | \$ 462,000 |
| Actual contributions | 486,663 | 460,552 | 462,000 |
| Contributions deficiency (excess) | \$ - | \$ - | \$ - |
| District's covered payroll amount | \$ 11,705,727 | \$ 11,176,424 | \$ 11,192,750 |
| Ratio of employer proportionate share of collective NPL / ER's covered payroll amount | 4.16% | 4.12% | 4.13% |

* The amounts presented above are as of the District's most recent fiscal year-end.

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Notes to the Required Supplementary Information
August 31, 2017

1. Changes of Benefit Terms include:

The District transitioned to a new pay scale beginning September 1, 2016 that is based upon steps, which is impacted by employee-specific length of employment and time in position. The scales include a 1.5% inflation factor.

2. Changes in Assumptions

There were no changes of assumptions for the year ended August 31, 2017.

**SUPPLEMENTAL INFORMATION
AND
FINANCIAL ASSISTANCE SECTION**

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Operating Revenues
For the Year Ended August 31, 2017 and 2016

| | Unrestricted | Restricted | Total Educational Activities | Auxiliary Enterprises | Current Year | Prior Year |
|--|----------------------|---------------------|------------------------------------|--------------------------|----------------------|----------------------|
| Tuition: | | | | | | |
| State funded credit courses | | | | | | |
| In-district resident tuition | \$ 3,952,629 | \$ - | \$ 3,952,629 | \$ - | \$ 3,952,629 | \$ 3,962,140 |
| Out-of-district resident tuition | 2,006,430 | - | 2,006,430 | - | 2,006,430 | 1,972,103 |
| Non-resident tuition | 84,826 | - | 84,826 | - | 84,826 | 90,712 |
| TPEG set aside (set aside)* | 247,115 | - | 247,115 | - | 247,115 | 244,024 |
| State funded continuing education | 1,412,062 | - | 1,412,062 | - | 1,412,062 | 1,368,753 |
| Non-state funded continuing education | 297,164 | - | 297,164 | - | 297,164 | 206,023 |
| Total Tuition | <u>8,000,226</u> | <u>-</u> | <u>8,000,226</u> | <u>-</u> | <u>8,000,226</u> | <u>7,843,755</u> |
| Fees: | | | | | | |
| General fee | 3,033,913 | - | 3,033,913 | - | 3,033,913 | 3,012,348 |
| Technology fee | 1,685,508 | - | 1,685,508 | - | 1,685,508 | 1,673,522 |
| Out-of-district fees | 2,154,271 | - | 2,154,271 | - | 2,154,271 | 2,128,033 |
| Laboratory fee | 232,636 | - | 232,636 | - | 232,636 | 225,176 |
| Course fees | 233,527 | - | 233,527 | - | 233,527 | 283,442 |
| Total Fees | <u>7,339,855</u> | <u>-</u> | <u>7,339,855</u> | <u>-</u> | <u>7,339,855</u> | <u>7,322,521</u> |
| Scholarship Allowances and Discounts: | | | | | | |
| Remissions and exemptions - state | (310,381) | - | (310,381) | - | (310,381) | (298,528) |
| Title IV federal grants | (4,340,292) | - | (4,340,292) | - | (4,340,292) | (4,274,738) |
| TPEG awards | (98,256) | - | (98,256) | - | (98,256) | (51,816) |
| Other state grants | (286,685) | - | (286,685) | - | (286,685) | (324,840) |
| Other local scholarships | (823,713) | - | (823,713) | - | (823,713) | (775,570) |
| Total Scholarship Allowances | <u>(5,859,327)</u> | <u>-</u> | <u>(5,859,327)</u> | <u>-</u> | <u>(5,859,327)</u> | <u>(5,725,492)</u> |
| Total Net Tuition and Fees | <u>9,480,754</u> | <u>-</u> | <u>9,480,754</u> | <u>-</u> | <u>9,480,754</u> | <u>9,440,784</u> |
| Additional Operating Revenues: | | | | | | |
| Federal grants and contracts | 25,421 | 1,191,577 | 1,216,998 | - | 1,216,998 | 1,205,407 |
| State grants and contracts | 4,317 | 1,126,902 | 1,131,219 | - | 1,131,219 | 735,385 |
| Local grants and contracts | - | 10,074 | 10,074 | - | 10,074 | 40,305 |
| Nongovernmental grants and contracts | 664,512 | 313,305 | 977,817 | - | 977,817 | 909,523 |
| Sales and services of educational activities | 483,546 | - | 483,546 | - | 483,546 | 495,801 |
| General operating revenues | 271,515 | - | 271,515 | - | 271,515 | 311,912 |
| Total Additional Operating Revenues | <u>1,449,311</u> | <u>2,641,858</u> | <u>4,091,169</u> | <u>-</u> | <u>4,091,169</u> | <u>3,698,333</u> |
| Auxiliary Enterprises: | | | | | | |
| Bookstore | - | - | - | 2,947,466 | 2,947,466 | 3,324,964 |
| Title IV federal grants | - | - | - | (525,330) | (525,330) | (539,823) |
| TPEG awards | - | - | - | (11,893) | (11,893) | (6,543) |
| Other state grants | - | - | - | (34,699) | (34,699) | (41,022) |
| Other local scholarships | - | - | - | (99,699) | (99,699) | (97,940) |
| Net Bookstore | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,275,845</u> | <u>2,275,845</u> | <u>2,639,636</u> |
| Conference & Education Center | - | - | - | 403,314 | 403,314 | 368,145 |
| Facilities rentals | - | - | - | 3,149 | 3,149 | 1,677 |
| Food Service | - | - | - | 223,294 | 223,294 | 229,903 |
| Leo J. Welder Center for Performing Arts | - | - | - | 136,139 | 136,139 | 164,542 |
| Total Net Auxiliary Enterprises | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,041,741</u> | <u>3,041,741</u> | <u>3,403,903</u> |
| Total Operating Revenues | <u>\$ 10,930,065</u> | <u>\$ 2,641,858</u> | <u>\$ 13,571,923</u> | <u>\$ 3,041,741</u> | <u>\$ 16,613,664</u> | <u>\$ 16,543,020</u> |
| | | | | | (Exhibit 2) | (Exhibit 2) |

* In accordance with Education Code 56.003, \$247,115 and \$244,024 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended August 31, 2017 and 2016, respectively.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Operating Expenses by Object
For the Year Ended August 31, 2017 and 2016

| | Operating Expenses | | | | Current Year Total | Prior Year Total |
|--|-----------------------|---------------------|---------------------|----------------------|-------------------------------------|-------------------------------------|
| | Salaries and Wages | State Benefits | Local Benefits | Other Expenses | | |
| Unrestricted - Educational Activities | | | | | | |
| Instruction | \$ 8,065,870 | \$ - | \$ 1,746,881 | \$ 1,359,302 | \$ 11,172,053 | \$ 10,118,891 |
| Public service | 29,409 | - | 3,733 | 219,229 | 252,371 | 199,888 |
| Academic support | 2,033,355 | - | 504,827 | 678,097 | 3,216,279 | 3,071,370 |
| Student services | 1,566,762 | - | 414,314 | 260,884 | 2,241,960 | 2,050,808 |
| Institutional support | 2,811,358 | - | 761,444 | 1,826,842 | 5,399,644 | 5,701,329 |
| Operation and maintenance of plant | 1,339,487 | - | 546,922 | 2,168,475 | 4,054,884 | 3,745,572 |
| Scholarships and fellowships | 117,742 | - | - | 664,512 | 782,254 | 668,566 |
| Total Unrestricted Educational Activities | 15,963,983 | - | 3,978,121 | 7,177,341 | 27,119,445 | 25,556,424 |
| Restricted - Educational Activities | | | | | | |
| Instruction | 772,425 | 957,970 | 215,456 | 245,871 | 2,191,722 | 1,984,454 |
| Public service | - | 1,362 | - | - | 1,362 | 1,537 |
| Academic support | - | 270,483 | - | 67 | 270,550 | 295,118 |
| Student services | 214,764 | 217,816 | 56,689 | 24,159 | 513,428 | 706,456 |
| Institutional support | 7,144 | 408,360 | 547 | 32,510 | 448,561 | 486,256 |
| Scholarships and fellowships | 96,999 | - | - | 8,222,021 | 8,319,020 | 8,464,149 |
| Total Restricted Educational Activities | 1,091,332 | 1,855,991 | 272,692 | 8,524,628 | 11,744,643 | 11,937,970 |
| Total Educational Activities | 17,055,315 | 1,855,991 | 4,250,813 | 15,701,969 | 38,864,088 | 37,494,394 |
| Auxiliary Enterprises | 548,840 | - | 194,403 | 2,945,526 | 3,688,769 | 3,408,417 |
| Depreciation Expense | | | | | | |
| Buildings and other real estate improvements | - | - | - | 1,711,737 | 1,711,737 | 1,196,175 |
| Equipment and furniture | - | - | - | 924,239 | 924,239 | 884,857 |
| Library volumes and periodicals | - | - | - | 39,121 | 39,121 | 47,727 |
| Total Operating Expenses | \$ 17,604,155 | \$ 1,855,991 | \$ 4,445,216 | \$ 21,322,592 | \$ 45,227,954 (Exhibit 2) | \$ 43,031,570 (Exhibit 2) |

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Non-Operating Revenues and Expenses
For the Year Ended August 31, 2017 and 2016

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Auxiliary Enterprises</u> | <u>Current Year</u> | <u>Prior Year</u> |
|--------------------------------------|----------------------|----------------------|----------------------------------|-------------------------------------|-------------------------------------|
| Non-Operating Revenues | | | | | |
| State Allocations: | | | | | |
| Education and general state support | \$ 5,783,485 | \$ - | \$ - | \$ 5,783,485 | \$ 5,774,860 |
| State group insurance | - | 1,380,265 | - | 1,380,265 | 1,288,040 |
| State retirement matching | - | 475,726 | - | 475,726 | 593,044 |
| Total State Allocations | <u>5,783,485</u> | <u>1,855,991</u> | <u>-</u> | <u>7,639,476</u> | <u>7,655,944</u> |
| Ad valorem taxes: | | | | | |
| Taxes for maintenance and operations | 10,470,761 | - | - | 10,470,761 | 9,864,352 |
| Taxes for debt service | - | 3,082,790 | - | 3,082,790 | 3,079,381 |
| Title IV | - | 7,534,251 | - | 7,534,251 | 7,574,784 |
| Gifts | 1,171,221 | 113,737 | 49,191 | 1,334,149 | 305,167 |
| Investment income | 54,296 | 6,086 | 241 | 60,623 | 57,200 |
| Total Non-Operating Revenues | <u>17,479,763</u> | <u>12,592,855</u> | <u>49,432</u> | <u>30,122,050</u> | <u>28,536,828</u> |
| Non-Operating Expenses | | | | | |
| Interest on capital related debt | - | 812,612 | - | 812,612 | 886,811 |
| Total Non-Operating Expenses | <u>-</u> | <u>812,612</u> | <u>-</u> | <u>812,612</u> | <u>886,811</u> |
| Net Non-Operating Revenues | <u>\$ 17,479,763</u> | <u>\$ 11,780,243</u> | <u>\$ 49,432</u> | <u>\$ 29,309,438</u> (Exhibit 2) | <u>\$ 27,650,017</u> (Exhibit 2) |

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
 VICTORIA, TEXAS
 Schedule of Net Position by Source and Availability
 For the Year Ended August 31, 2017 and 2016

| | Detail by Source | | | Capital Assets Net of Depreciation and Related Debt | Current Year Total |
|---|---------------------|--------------------------|----------------|---|------------------------------------|
| | Unrestricted | Restricted Expendable | Non-Expendable | | |
| Current | | | | | |
| Unrestricted | \$ 2,654,474 | \$ - | \$ - | \$ - | \$ 2,654,474 |
| Restricted for: | | | | | |
| Expendable: | | | | | |
| Student aid | - | 485,205 | - | - | 485,205 |
| Unexpended bond proceeds | - | - | - | 1,075,754 | 1,075,754 |
| Auxiliary enterprises | - | - | - | - | - |
| Plant | | | | | |
| Debt service | - | 395,435 | - | - | 395,435 |
| Investment in plant | - | - | - | 32,623,802 | 32,623,802 |
| Total Net Position, August 31, 2017 | <u>2,654,474</u> | <u>880,640</u> | <u>-</u> | <u>33,699,556</u> | <u>37,234,670</u> (Exhibit 1) |
| Total Net Position, August 31, 2016 | <u>714,564</u> | <u>757,002</u> | <u>-</u> | <u>33,395,425</u> | <u>34,866,991</u> (Exhibit 1) |
| Net Increase (Decrease) in Net Position | <u>\$ 1,939,910</u> | <u>\$ 123,638</u> | <u>\$ -</u> | <u>\$ 304,131</u> | <u>\$ 2,367,679</u> (Exhibit 2) |

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Net Position by Source and Availability
For the Year Ended August 31, 2017 and 2016
(continued)

| | Available for Current Operations | | Prior Year Total | Available for Current Operations | |
|---|----------------------------------|-------------------|------------------------------------|----------------------------------|-------------------|
| | Yes | No | | Yes | No |
| Current | | | | | |
| Unrestricted | \$ 2,654,474 | \$ - | \$ 714,564 | \$ 714,564 | \$ - |
| Restricted for: | | | | | |
| Expendable: | | | | | |
| Student aid | - | 485,205 | 373,869 | - | 373,869 |
| Unexpended bond proceeds | - | 1,075,754 | 1,410,047 | - | 1,410,047 |
| Auxiliary enterprises | - | - | - | - | - |
| Plant | | | | | |
| Debt service | - | 395,435 | 383,133 | - | 383,133 |
| Investment in plant | - | 32,623,802 | 31,985,378 | - | 31,985,378 |
| Total Net Position, August 31, 2017 | <u>2,654,474</u> | <u>34,580,196</u> | <u>34,866,991</u> (Exhibit 1) | <u>714,564</u> | <u>34,152,427</u> |
| Total Net Position, August 31, 2016 | <u>714,564</u> | <u>34,152,427</u> | <u>33,705,524</u> (Exhibit 2) | <u>(34,860)</u> | <u>33,740,384</u> |
| Net Increase (Decrease) in Net Position | <u>\$ 1,939,910</u> | <u>\$ 427,769</u> | <u>\$ 1,161,467</u> (Exhibit 2) | <u>\$ 749,424</u> | <u>\$ 412,043</u> |

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
 VICTORIA, TEXAS
 Schedule of Expenditures of Federal Awards
 For the Year Ended August 31, 2017

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | | Pass-Through Grantor's Number | Pass-Through Disbursements and Expenditures |
|--|---------------------------|---|-------------------------------------|---|
| U.S. DEPARTMENT OF EDUCATION | | | | |
| <i>Direct Programs:</i> | | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | * | P007A167874 | \$ 104,016 |
| Federal Work-Study Program | 84.033 | * | P033A167874 | 85,228 |
| TRIO - Student Support Services | 84.042 | | P042A151187 | 249,649 |
| Federal Pell Grant Program | 84.063 | * | P063P162339 | 4,761,606 |
| Federal Pell Grant Program | 84.063 | * | P063Q162339 | 8,110 |
| Federal Direct PLUS Loans | 84.268 | * | P268K172339 | 32,001 |
| Federal Direct Student Loans - Subsidized | 84.268 | * | P268K172339 | 1,086,271 |
| Federal Direct Student Loans - Unsubsidized | 84.268 | * | P268K172339 | <u>1,465,129</u> |
| Total Direct Programs | | | | <u>7,792,010</u> |
| <i>Pass Through From Texas Workforce Commission:</i> | | | | |
| Adult Education - Basic Grants to States | 84.002 | | 1916AELB02 | 430,813 |
| Adult Education - Basic Grants to States | 84.002 | | 1916AELB02 | 53,380 |
| Adult Education - Basic Grants to States | 84.002 | | 1916AEL001 | 37,745 |
| Adult Education - Basic Grants to States | 84.002 | | 1916AEL000 | 93,194 |
| Adult Education - Basic Grants to States | 84.002 | | 1917PQI000 | <u>2,966</u> |
| Total Texas Workforce Commission | | | | <u>618,098</u> |
| <i>Pass Through From Texas Higher Education Coordinating Board:</i> | | | | |
| Career and Technical Education - Basic Grants to States | 84.048A | | 174266 | 151,960 |
| Career and Technical Education - Basic Grants to States | 84.048A | | 171112 | <u>39,725</u> |
| Total Texas Higher Education Coordinating Board | | | | <u>191,685</u> |
| Total U.S. Department of Education | | | | <u>8,601,793</u> |
| U.S. DEPARTMENT OF HUMAN SERVICES | | | | |
| <i>Pass Through Texas Workforce Commission:</i> | | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | | 1916AEL002 | 14,487 |
| Temporary Assistance for Needy Families (TANF) | 93.558 | | 1916AELB02 | 2,270 |
| Temporary Assistance for Needy Families (TANF) | 93.558 | | 1917SMP000 | <u>46,809</u> |
| Total TANF | | | | <u>63,566</u> |
| <i>Passed through UTMB:</i> | | | | |
| Area Health Education Centers Point of Service Maintenance and Enhancement Awards | 93.107 | | 5U77HP01066-14-00 | <u>94,000</u> |
| Total UTMB | | | | <u>94,000</u> |
| Total U.S. Department of Health and Human Services | | | | <u>157,566</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | <u>\$ 8,759,359</u> |

* Direct Student Financial Aid Cluster

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2017**

Note 1: Federal Assistance Reconciliation

| Federal Assistance Reconciliation | |
|---|---------------------|
| Direct federal grants and contracts revenue per Schedule A | \$ 1,216,998 |
| Direct federal revenue, non-operating - Schedule C | 7,534,251 |
| Administration cost recovery (included in other revenue) | <u>8,110</u> |
| Total Federal Expenditures per Schedule of Expenditures of Federal Awards | <u>\$ 8,759,359</u> |

Note 2: Significant Accounting Policies Used in Preparing the Schedule

See Note 2 of the notes to the basic financial statements for the District's significant accounting policies. The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the District for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 3: Expenditures not Subject to Federal Single Audit

All expenditures are subject to Federal Single Audit.

Note 4: Student Loans Processed and Administrative Costs Recovered - Included in Schedule

| Federal Grantor/ CFDA Number/ Program Name | New Loans Processed | Administrative Costs Recovered | Total Loans Processed & Admin. Costs Recovered |
|--|------------------------|--------------------------------------|--|
| Department of Education 84.268 Federal Direct Student Loans (includes PLUS, subsidized and unsubsidized) | <u>\$ 2,583,401</u> | <u>\$ -</u> | <u>\$ 2,583,401</u> |

Note 5: Nonmonetary Federal Assistance Received

No nonmonetary federal assistance was received.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
 VICTORIA, TEXAS
 Schedule of Expenditures of State Awards
 For the Year Ended August 31, 2017

| Grantor Agency/ Program Title | Grant Contract Number | Expenditures |
|---|-----------------------------|---------------------|
| TEXAS HIGHER EDUCATION COORDINATING BOARD | | |
| <i>Direct funding:</i> | | |
| College Work-study Program | - | \$ 11,771 |
| Texas Educational Opportunity Grant Program | - | 246,384 |
| Texas Public Education Grant Program | - | 135,779 |
| Texas-Science, Technology, Engineering, and Math (T-STEM) Program | - | 25,000 |
| Law Enforcement Officer Standards & Education | - | 2,367 |
| TG Charley Wootan Scholarship Grant | - | 50,000 |
| Accelerate TX CC Grants | 15134 | 38,847 |
| Nursing & Allied Health - Building Simulation & Skills Lab Capacity | 18035 | 178,609 |
| Certified Educational Aide Program | - | 2,597 |
| Total Direct Funding | | <u>691,354</u> |
| Total Texas Higher Education Coordinating Board | | <u>691,354</u> |
| UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON | | |
| Pecan Valley Area Health Education Center | UTMBG 0000664663 | 110,000 |
| Total Texas Medical Branch at Galveston | | <u>110,000</u> |
| DEPARTMENT OF STATE HEALTH SERVICES | | |
| <i>Passed through Victoria County via Community Mother and Child Health Center:</i> | | |
| EXEC/PPH Potentially Preventable Hospitalizations Initiative | 2016-049340-001 | 65,520 |
| Texas Healthy Communities (TXHX) Priority Indicators | - | 25,942 |
| Total passed through Victoria County via CMCHC | | <u>91,462</u> |
| <i>Passed through Texas Workforce Commission:</i> | | |
| GR - Adult Ed | 1916AEL002 | 67,770 |
| GR - Adult Ed | 1916AELB02 | 6,306 |
| Total Passed Through Texas Workforce Commission | | <u>74,076</u> |
| Total Department of State Health Services | | <u>165,538</u> |
| TEXAS EDUCATION AGENCY | | |
| <i>Direct:</i> | | |
| CTE Career Exploration Website | 3602 | 35,000 |
| | | <u>35,000</u> |
| TEXAS WORKFORCE COMMISSION | | |
| <i>Direct:</i> | | |
| Jobs and Education for Texans | 1917JET000 | 265,106 |
| Total Texas Workforce Commission | | <u>265,106</u> |
| TOTAL STATE FINANCIAL ASSISTANCE | | <u>\$ 1,266,998</u> |

Notes to the Schedule on the following page.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Notes to Schedule of Expenditures of State Awards
For the Year Ended August 31, 2017

Note 1: State Assistance Reconciliation

| | |
|--|---------------------|
| State Assistance Reconciliation | |
| per Schedule of Expenditures of State Awards | <u>\$ 1,266,998</u> |
| Less: TPEG (included in "Tuition" section) | <u>(135,779)</u> |
| Total included in "Tuition and Fees" | <u>(135,779)</u> |
| Total State Revenues per Schedule A | <u>\$ 1,131,219</u> |

Note 2: Significant Accounting Policies Used in Preparing the Schedule

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

**OVERALL COMPLIANCE AND
INTERNAL CONTROLS SECTION**



PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
Victoria County Junior College District
Victoria, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Victoria County Junior College District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Victoria County Junior College District's basic financial statements, and have issued our report thereon dated November 17, 2017.

Internal Control Over Financial Reporting

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

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

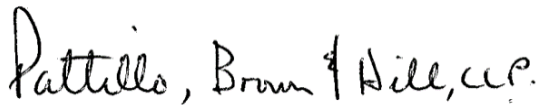
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during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

Compliance and Other Matters

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

Purpose of this Report

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



Brownsville, Texas
November 17, 2017



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND STATE OF TEXAS UNIFORM
GRANT MANAGEMENT STANDARDS**

To the Board of Trustees of
Victoria County Junior College District
Victoria, Texas

Report on Compliance for Each Major Federal Program

We have audited Victoria County Junior College District's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement and State of Texas Uniform Grants Management Standards* that could have a direct and material effect on each of Victoria County Junior College District's major federal programs for the year ended August 31, 2017. Victoria County Junior College District's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal and State Program

In our opinion, Victoria County Junior College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2017.

Report on Internal Control over Compliance

Management of Victoria County Junior College District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Victoria County Junior College District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and UGMS, 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 Victoria County Junior College District's internal control over compliance.

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

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

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



Brownsville, Texas
November 17, 2017

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2017**

I. Summary of Auditors' Results

| | |
|--|--|
| Type of auditors' report on financial statements: | Unmodified. |
| Internal control over financial reporting: Material weakness(es) identified? | No. |
| Significant deficiencies identified that are not considered to be material weakness(es)? | None reported. |
| Internal control over major programs: Material weakness(es) identified? | No. |
| Significant deficiencies identified that are not considered to be material weakness(es)? | None reported. |
| Noncompliance which is material to the basic financial statements | No. |
| Type of auditors' report on compliance with major programs | Unmodified. |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) and the State Uniform Grant Management Standards | No. |
| Dollar threshold considered between Type A and Type B federal programs | \$750,000 |
| Dollar threshold considered between Type A and Type B state programs | \$300,000 |
| Low risk auditee statement | Yes |
| Major federal programs | The Student Financial Aid Cluster (CFDA 84.007, 84.033, 84.063, and 84.268) Adult Education-Basic Grants to States |
| Major state programs | Jobs and Education for Texans Texas-Science, Technology, Engineering, and Math (T-Stem) Program |

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

The audit disclosed no finding required to be reported.

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2017

III. Findings and Questioned Costs for Federal Awards

None reported.

IV. Findings and Questioned Costs for State Awards

None reported.

(Last page.)