COASTAL BEND COLLEGE

ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED

AUGUST 31, 2018 AND 2017

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ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

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FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

ORANIZATIONAL DATA

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Beatriz Espinoza	President
Dr. Carry DeAtley	Vice President, Instruction and Economic Development
Ms. Shannon McCarron	Vice President, Strategic Planning & Administration
Ms. Guadalupe Ganceres	Executive Dean, Student Services

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

December 24, 2018

Board of Trustees
Coastal Bend College
Beeville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Coastal Bend College (the College) as of and for the year ended August 31, 2018 and 2017, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Coastal Bend College, as of August 31, 2018 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2. to the financial statements, the College has implemented Governmental Accounting Standards Board Statements No. 75 effective September 1, 2017. These statements require governmental employers that participate in cost-sharing multiple-employer other post-employment benefit plans (OPEB) to record the employer's proportionate share of the OPEB liability of the plan as well as the related deferred inflows and outflows. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information on pages 5 through 12, and pages 46 and 49 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 management's discussion and analysis and 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 an opinion on the financial statements that collectively comprise the College's basic financial statements. The introductory section, schedules required by the Texas Higher Education Coordinating Board, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards (Schedule E) is presented for purposes of additional analysis as required by U.S. Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State of Texas Single Audit Circular* issued by the Governor's Office of Budget and Planning and is not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2018, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Collier, Johnson & Woods

Management's Discussions & Analysis

Coastal Bend College is pleased to present its financial statements for 2018 which are in conformance with Governmental Accounting Standards Board (GASB) standards. There are three financial statements presented: (a) the Statement of Net Position, (b) the Statement of Revenues, Expenses, and Changes in Net Position, and (c) the Statement of Cash Flows. These financial statements are intended to provide both long-term and short-term financial information on the College and should be read in conjunction with the Notes to the Financial Statements. Specifically,

> **The Statement of Net Position** is equivalent to a balance sheet for a for-profit entity. It is a snapshot of the financial status of the college on a specific date.
>
> **The Statement of Revenues, Expenses, and Changes in Net Position** is equivalent to an income statement for a for-profit entity, showing the results of operations of the college for the last fiscal year.
>
> **The Statement of Cash Flows** show the change in cash and cash equivalents over the course of the last fiscal year.
>
> **The Notes to the Financial Statements** describe significant accounting policies and assumptions used by the college in preparing the other basic statements and as such serve as an integral part of the basic financial statements.

Financial Highlights

<u>Discussion of the Statement of Net Position</u>

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector organizations. Net position is the difference between assets and deferred outflows; liabilities and deferred inflows. The purpose of the Statement of Net Position is to present to the readers a financial snapshot of the College at a certain point in time. It demonstrates the amounts the College owes vendors, bondholders and lending institutions. It also provides a picture of the net assets and its availability for future operations and strategic initiatives.

The College was required to reduce beginning net position by $25.9 million as the result of the implementation of GASB No. 75, "Accounting and Financial Reporting of Post-Employment Benefits Other than Pensions" (OPEBs) (GASB 75). The restatement to beginning net position is considered a cumulative effect of a change in accounting principle.

Below is a condensed version of the institution's assets and liabilities:

Statement of Net Position
Comparison - August 31,2018, 2017 and 2016

	FY 2018	FY 2017	FY 2016	2018-2017 Variance
Current Assets	$ 9,426,154	$ 8,768,107	$ 7,641,402	$ 658,047
Non-Current Assets:				
Capital Assets, Net of Depreciation	$ 17,811,831	17,671,553	18,001,036	140,278
Other	5,053,924	4,021,258	2,863,766	1,032,666
Total Assets	32,291,909	30,460,918	28,506,204	1,830,991
Deferred Outflows	1,230,766	1,007,827	848,717	222,939
Total Assets & Deferred Outflows of Resources	33,522,674	31,468,745	29,354,921	2,053,930
Current Liabilities	8,278,750	7,703,434	7,521,015	575,316
Non - Current Liabilities	31,356,789	11,285,045	10,888,454	20,071,744
Total Liabilities	39,635,539	18,988,479	18,409,469	20,647,060
Deferred Inflows	6,040,387	544,153	646,787	5,496,234
Total Liabilities & Deferred Inflows of Resources	45,675,926	19,532,632	19,056,256	26,143,294
Net Position:				
Net Investment in Capital Assets	11,855,610	10,656,193	10,629,646	10,689,582
Restricted	1,131,675	643,919	883,937	881,948
Unrestricted	(25,140,537)	636,001	(1,214,918)	(2,655,704)
Total Net Position	(12,153,252)	$ 11,936,113	$ 10,298,665	$ 8,915,826

Changes in Assets

Total assets increased by $1,830,990 from August 31, 2017 to August 31, 2018. This change was caused by an increase in Cash, Restricted Cash & Equivalents and Investments which increased $1,418,052. This increase is the result of the College's goal to increase its investment in the College's Net Position and establishing a rainy-day fund.

Changes in Deferred Outflows

Deferred Outflows related to Pensions and other postemployment benefits (OPEB) measures the net change in the expected and actuals of retirement plans, contributions made to the Teachers Retirement System (TRS) or the Employers Retirement System (ERS) for OPEBs, and the difference between the employer's contributions and their proportionate share of retirement contributions from one fiscal year to the next. Because this applies to future reporting periods, the numbers may potentially fluctuate due to one of the following factors:

1. Differences between expected and actual economic and demographic factors.
2. Changes in actuarial assumptions.

3. Net differences between projected and actual earnings on pension and OPEB plan investments.
4. Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions related to pension or OPEB.
5. Employer contributions to pension and OPEB made subsequent to the measurement date.

Deferred Outflows increased by $222,939 in FY 2018 and was caused by the implementation of GASB No. 75 on September 1, 2017. GASB 75 now requires employer and governmental non-employer contributing entity (NECE) to recognize the entirety of its postemployment benefits other than pensions (OPEB).

Changes in Liabilities

Although the College's Net Pension Liability decreased by $1.1 Million in FY 2017-18, the additional reporting required for OPEB Liabilities from the GASB No. 75 implementation increased by $22 Million for a net increase in Liabilities of $20.1 Million. As of August 31, 2018, Accounts Payable was higher than August 31, 2017 and this is primarily due to timing issues relating to the ongoing implementation of Colleague (ERP), the College's new computer system.

Changes in Deferred Inflows

Deferred Inflows measures the net change in revenues of future pensions and other postemployment benefits. The increase of $5,496,234 is related to the College's proportionate share of pension costs and OPEB now required to be recognized in current reporting period(s). Because this will also affect future reporting periods, the numbers may potentially fluctuate due to one of the following factors:

1. Differences between expected and actual economic and demographic factors.
2. Changes in actuarial assumptions.
3. Net differences between projected and actual earnings on pension and OPEB plan investments.
4. Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions related to pension or OPEB.
5. Employer contributions to pension or OPEB made subsequent to the measurement date.

Changes in Net Position

Net Position, the difference between assets, deferred outflows and deferred inflows and liabilities was a negative $12,153,252 which represents a decrease of $24,089,365 from August 31, 2017. The primary factor causing this decrease was the College's implementation of GASB Statement No. 75. However, the College also wrote $1 Million off to uncollectible Accounts Receivable. These all contributed to the decrease of Net Position compared to prior years.

Discussion of the Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the College as well as the non-operating revenues and expenses. For this statement, the category Operating Revenues includes:

- Tuition and fees (net of discounts)
- Federal/State/Local grants not related to Title IV
- Non-governmental grants and contracts
- Sales and services of educational activities
- Auxiliary enterprises (net of discounts)
- Other operating revenues

The category of non-operating revenue includes state appropriations, ad valorem taxes, gifts, investment income, interest on capital related debt, and grants for Title IV and other non-operating revenues.

Summary of Revenues, Expenses and Changes in Net Position follows:

	Year Ended August 31			2018-2017
	FY 2018	**FY 2017**	**FY 2016**	**Variance**
Operating Revenues	$ 7,946,370	$ 9,236,224	$ 9,430,920	$ (1,289,854)
Non-Operating Revenues	17,879,500	17,502,920	18,019,933	376,580
Total Revenues	$ 25,825,870	26,739,144	27,450,853	(913,274)
Operating Expenses	23,783,631	24,661,923	25,807,468	(878,292)
Non-Operating Expenses	233,048	439,773	260,546	(206,725)
Total Expenses	24,016,679	25,101,696	26,068,014	(1,085,017)
Increase in Net Position	1,809,191	1,637,448	1,382,839	171,743
Net Position Beginning of Year	11,936,113	-	-	11,936,113
Cumulative Effect of Change in Accounting Principle	(25,898,556)	-	-	(25,898,556)
Net Position Beginning of Year, restated	(13,962,443)	10,298,665	8,915,826	(24,261,108)
Net Position End of Year	(12,153,252)	11,936,113	10,298,665	(24,089,365)

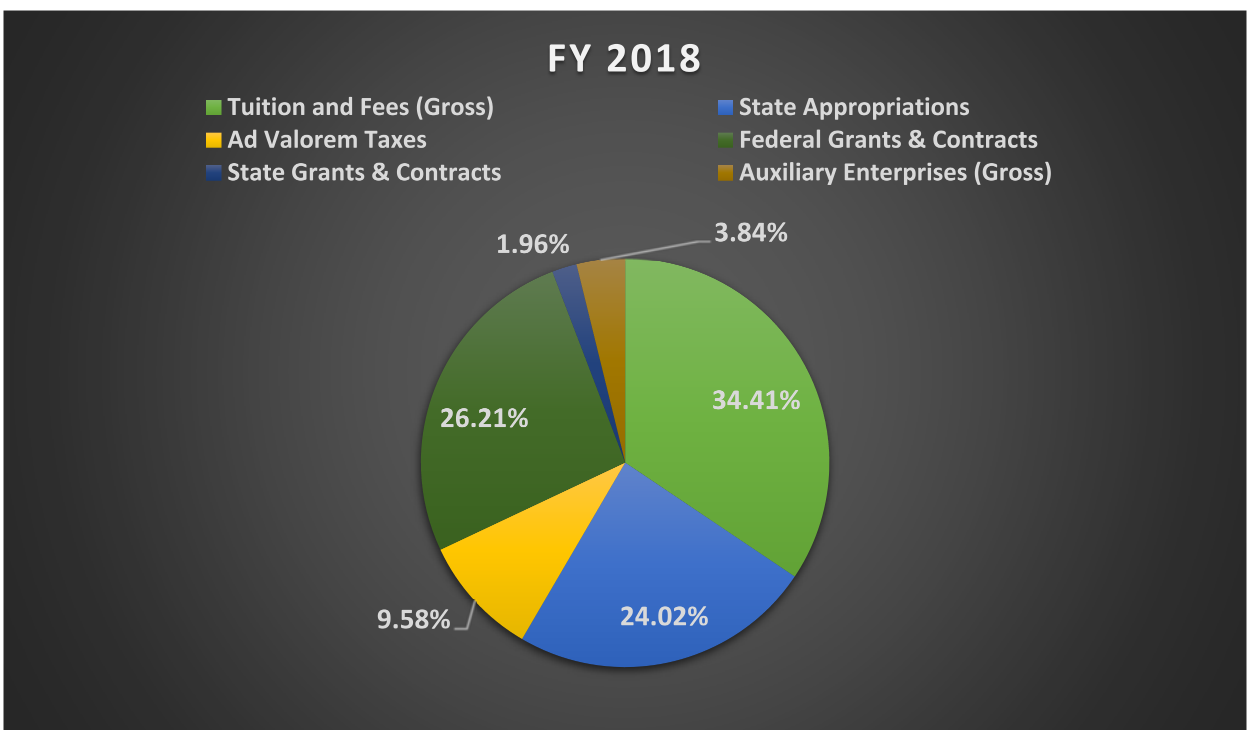
Operating Revenues

The two major sources of operating revenues are tuition (net of discounts) and various grants and contracts, which decreased by approximately $450k. Although Net Tuition did decrease, overall Gross Tuition also increased at a higher rate. Discounts just increased at a larger pace. Essentially, this means more students received more financial aid compared to FY 2017. Additionally, included in allowances and discounts which is netted against operating revenue is the write off of $1,000,000 for receivables which management has determined are not collectible.

Non- Operating Revenues and Expenses

The increase in Non-Operating Revenue was primarily caused by higher state allocations and Title IV funds (Pell). The 85th Legislature increased College appropriations by $754,820 in FY2017-18. Title IV funds increased by $599,821. These increases were partially offset by lower contributions by the State for Insurance and Retirement. The chart below reflects operating revenues for all sources, before discounting. The five primary sources of operating revenue for the institution continue to be: a) gifts, grants and contracts; (b) state appropriations; (c) tuition and fees, (d) ad valorem taxes; and (e) auxiliary enterprises. A chart of the major components of revenue (operating and non-operating combined) follows:

	Year Ended August 31			2018-2017
	FY 2018	FY 2017	FY 2016	Variance
Major-Revenue Components:				
Tuition and Fees (Gross)	$ 11,233,472	$ 10,737,481	$ 10,535,763	$ 495,991
State Appropriations	7,840,447	7,735,598	8,008,893	104,849
Ad-Valorem Taxes	3,126,668	3,188,125	3,057,743	(61,457)
Gifts, Grants & Contracts:				
Federal	8,555,472	8,063,669	8,785,013	491,803
State	639,519	657,560	239,327	(18,041)
Private (Operating & Non-Operating)	-	248,904	283,332	(248,904)
Total Gifts, Grants & Contracts	9,194,991	8,970,133	9,307,672	224,858
Auxiliary Enterprises (Gross)	1,252,250	1,258,781	1,131,129	(6,531)
Total	10,447,241	10,228,914	10,438,801	218,327



Operating Expenses

The College, as a public institution groups expenses according to the purpose for which they were incurred. Costs are allocated and reported using a consistent methodology that aligns with other public institutions of higher education. The three-year history is presented as the following:

	Year Ended August 31			2018-2017
	FY 2018	**FY 2017**	**FY 2016**	**Variance**
Functional Classifications:				
Instruction	$ 8,335,874	$ 7,431,924	$ 8,246,327	$ 903,950
Public Service	35,033	27,915	18,907	7,118
Academic Support	1,080,230	1,952,452	2,400,522	(872,222)
Student Services	1,583,409	2,792,116	2,745,872	(1,208,707)
Institutional Support	4,776,370	4,582,642	4,442,002	193,728
Operation and Maintenance of Plant	2,836,541	2,540,307	2,736,894	296,234
Scholarships and Fellowships	1,863,476	2,314,165	2,353,074	(450,689)
Auxiliary Enterprises	1,675,617	1,486,245	1,237,918	189,372
Depreciation	1,597,081	1,534,157	1,625,952	62,924
Total Operating Expenses	$ 23,783,631	$ 24,661,923	$ 25,807,468	$ (878,292)

FY 2018 Operating Expenses decreased by $878,292. A decrease in salaries and benefits of $1,001,855 is due to attrition and difficulty in securing proper staffing. This is offset by an increase in other expenses of $123,563 which includes additional expenses related to the implementation of the new computer system.

Discussion of the Statement of Cash Flows

The Statement of Cash Flows provides information about the change in cash flow from one year to the next. This statement presents cash flows from four sources: (a) operating activities, (b) non-capital financing activities, (c) capital financing activities, and (d) investing activities.

A summary of the Statement of Cash Flows follows:

	Year Ended August 31		
	FY 2018	**FY 2017**	**FY 2016**
Operating Activities	$ (11,399,910)	$ (13,074,093)	$ (12,983,878)
Noncapital Financing Activities	15,801,094	15,693,947	16,597,504
Capital and Related Financing Activities	(3,030,246)	(1,810,289)	(2,945,175)
Investing Activities	(976,074)	(1,186,513)	(1,160,946)
Changes in Cash and Cash Equivalents	$ 394,863	$ (376,948)	$ (492,495)

The primary cash flows from operating activities include cash receipts from students and other customers (e.g., tuition, housing, board) and grant and contract revenue. Cash outlays include payments to suppliers (supplies), employees (wages, benefits), and students (scholarships). State appropriations and ad valorem taxes were the primary sources of non-capital financing.

Current Conditions & Projected Priorities

Coastal Bend College's credit enrollment remains strong with a Fall 2017 unduplicated headcount of 4,485. Although this is a slight decrease compared to Fall 2016, it is very minimal considering the ongoing hardships the region continues to encounter resulting from Hurricane Harvey's landfall in late August 2017. Overall, the College's enrollment is up by nearly 20% over the past five years. This is a strong indicator that bodes well for the College, considering community colleges throughout the state are struggling with flat or declining enrollment, with a state average decline of 0.7% since 2012.

Dual enrollment students continue to comprise nearly half of the College's student population, despite the shift in focus emerging from the Texas Higher Education Coordinating Board's 60x30TX Initiative. 60x30TX emphasizes increasing access to underserved populations equally with completion efforts. The primary goal of this initiative is to ensure that at least 60% of Texas ages 25-34 years old will have a higher education certificate and/or degree by 2030. To recruit these students, College faculty continue outreach with Workforce Solutions of Alamo and Coastal Bend, Housing Authority offices in four counties, the Community Action Center of South Texas and related agencies. Continued investment in distance learning methodologies and technology, dedicated advising, and the fully integrated workforce trailers are other efforts specifically designed to bridge the completion gap. One example of the College's multiple initiatives to improve completion is the continued development of marketable skills awards as the entry level achievement for the applied degree.

Despite the lingering effects of Hurricane Harvey, property values not only remained stable in 2018, they even managed to increase slightly predominantly due to new property and commercial property improvements. This stability is projected to continue over the next few years. College Administration is pleased to have kept tuition and fees flat for another year without compromising the institution's financial well-being.

Program Review continues to be an integral part of the College's planning and decision-making processes. The annual Strategic Planning process is now aligned with budget development and implementation. The program review process cycle changed from its initial four-year rotation to an annual comprehensive review for reporting total cost of ownership (TCO) and return on investment (ROI) for each instructional program and administrative support service. Every instructional discipline/ program is measured according to contact hour generation, course completion rates (A, B, and C's only), and grade point averages. All units are evaluated based on their success in achieving the Vision 2020 Strategic Plan as approved by the Board of Trustees.

Vision 2020 Strategic Plan

Goal 1: Coastal Bend College will offer a quality educational experience for all students.

Goal 2: Coastal Bend College will provide comprehensive student services to increase overall student success.

Goal 3: Coastal Bend College will engage students and staff in support of our communities.

Goal 4: Coastal Bend College will effectively and efficiently use resources to benefit our students.

Long-Term Goals (2018-2023)

- Successful completion of the 5th year interim SACSCOC report.
- Reach a full-time 6-year graduation rate of 50% in 5-8 years.
- Establish a college dashboard to ensure focus on student success.
- Continue to strengthen the financial stability of the College by reviewing programs and services from a ROI perspective.
- Expand online learning by developing a guaranteed 2-year degree end formalized recruitment plan.
- Develop plan to enhance the College's leadership and climate by engaging the external community and employee groups.
- Conduct an annual employee climate survey.
- Create & develop community partnerships.

Economic Outlook

Going forward, the adjournment of the 85th Legislative Session in 2017 resulted in an overall increase in state appropriations of $752k, mostly due to higher funding for core operation and formula funding. In the previous biennium, the Texas Legislature restructured State Appropriations, by setting aside 10% of Appropriations for Student Success Points, which are based on various student success outcomes. Gains in Student Success Points from the 85th Legislature, were modest at best, with the overall increase being slightly less than $8,000. It's too early to project the impact of the 86th Legislative Session will have on the College, but no large-scale changes are foreseen at this point.

Contacting Financial Management

Questions about this report or additional financial information can be obtained from the Coastal Bend College business office via an email request to busoffice@coastalbend.edu.

Beatriz T. Espinoza, Ph.D.
President

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

COASTAL BEND COLLEGE
STATEMENT OF NET POSITION
August 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash & cash equivalents	$ 1,638,796	$ 1,253,410
Accounts receivable (net)	6,750,980	6,656,408
Prepaid expenses	1,036,378	858,289
Total Current Assets	9,426,154	8,768,107
Noncurrent Assets		
Restricted cash and equivalents	551,920	542,443
Investments	4,502,004	3,478,815
Capital assets (net)	17,811,831	17,671,553
Total Noncurrent Assets	22,865,755	21,692,811
Total Assets	32,291,908	30,460,918
Deferred Outflows		
Deferred outflows related to pensions	564,197	1,007,827
Deferred outflows related to post employment benefits	666,569	-
Total Defered Outflows	1,230,766	1,007,827
Total Assets and Deferred Outflows	33,522,674	31,468,745
LIABILITIES		
Current Liabilities		
Accounts payable	1,519,312	896,847
Funds held for others	337,790	126,611
Unearned revenues	5,324,003	5,613,146
Notes payable - current portion	693,645	687,830
Bonds payable - current portion	404,000	379,000
Total Current Liabilities	8,278,750	7,703,434
Noncurrent Liabilities		
Accrued compensable absences - noncurrent portion	790,148	700,863
Notes payable - long term portion	3,171,576	3,870,530
Bonds payable - long term portion	1,687,000	2,078,000
Net pension liability	3,521,208	4,635,652
Net OPEB liability	22,186,857	-
Total Noncurrent Liabilities	31,356,789	11,285,045
Total Liabilities	39,635,539	18,988,479
Deferred Inflows of Resources		
Deferred inflows related to pensions	1,134,765	544,153
Deferred inflows related to post employment	4,905,622	-
Total Deferred Inflows	6,040,387	544,153
Total Liabilities & Deferred Inflows of Resources	45,675,926	19,532,632
NET POSITION, AS RESTATED		
Invested in capital assets, net of related debt	11,855,610	10,656,193
Restricted for		
Nonexpendable		
Endowments	551,920	542,443
Expendable		
Student Aid	84,412	99,955
Parking lot repairs	141,074	-
Debt service	354,268	1,521
Unrestricted	(25,140,536)	636,001
Total Net Position (Schedule D)	(12,153,252)	11,936,113

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

COASTAL BEND COLLEGE
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended August 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Tuition and fees (net of discounts of $7,272,920 &		
$5,019,995 respectively)	$ 3,960,552	$ 5,306,353
Federal grants and contracts	1,696,248	1,804,266
State grants and contracts	639,519	657,610
Sales and services of educational activities	41,404	202,732
Miscellaneous governmental receipts	104,266	53,256
Auxiliary enterprises (net of discounts of $106,617 &		
$134,657, respectively)	1,145,633	1,127,246
General operating revenues	358,747	84,761
Total Operating Revenues (Schedule A)	7,946,370	9,236,224
OPERATING EXPENSES		
Instruction	8,335,874	7,431,924
Public service	35,033	27,915
Academic support	1,080,230	1,952,452
Student services	1,583,409	2,792,116
Institutional support	4,776,370	4,582,642
Operation and maintenance of plant	2,836,541	2,540,307
Scholarships and fellowships	1,863,476	2,314,165
Auxiliary enterprises	1,675,617	1,486,245
Depreciation	1,597,081	1,534,157
Total Operating Expenses (Schedule B)	23,783,631	24,661,923
Operating (Loss)	(15,837,261)	(15,425,699)
Non-Operating Revenues (Expenses)		
State allocations	7,840,447	7,735,598
Title IV	6,859,224	6,259,403
Ad valorem taxes		
Taxes for maintenance and operations	2,307,155	2,534,136
Taxes for debt service	819,513	653,989
Gifts	-	248,904
Investment income (net of investment expenses)	46,412	70,890
Other income (expense)	6,750	(191,251)
Interest on capital related debt	(233,048)	(248,522)
Total Non-Operating Revenues (Expenses) (Schedule C)	17,646,452	17,063,147
Increase in Net Position	1,809,191	1,637,448
NET POSITION		
Net Position - Beginning of Year	11,936,113	10,298,665
Cumulative Effect of Change in Accounting Principle (Note 2)	(25,898,556)	-
Net Position - End of Year	$ (12,153,252)	$ 11,936,113

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

EXHIBIT 3

COASTAL BEND COLLEGE
Statement of Cash Flows
For the Fiscal Years Ended August 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	$ 4,868,140	$ 6,267,785
Receipts from grants and contracts	2,335,768	2,515,132
Payments to suppliers for goods or services	(6,019,376)	(6,997,541)
Payments to or on behalf of employees	(11,202,275)	(12,860,800)
Payments of scholarships and fellowships	(1,740,914)	(2,286,162)
Other receipts	358,747	287,493
Net cash provided (used) by operating activities	(11,399,910)	(13,074,093)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	5,597,273	6,229,311
Receipts from ad valorem taxes	3,126,668	3,188,125
Receipts from Non Operating Federal Revenue	6,859,224	6,259,403
Gifts	-	248,904
Payments for collection of taxes	-	(30,923)
Payments to student organizations and other agency transactions	211,179	(9,622)
Other receipts	6,750	-
Other payments	-	(191,251)
Net cash provided by non-capital financing activities	15,801,094	15,693,947
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(1,737,359)	(1,204,674)
Proceeds on issuance of capital debt	-	584,803
Payments on capital debt - principal	(1,059,839)	(940,833)
Payments on capital debt - interest	(233,048)	(249,585)
Net cash provided (used) by capital and related financing activities	(3,030,246)	(1,810,289)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	668,825	48,249
Purchase of investments	(1,691,311)	(1,305,652)
Interest on investments	46,412	70,890
Net cash provided (used) by investing activities	(976,074)	(1,186,513)
Increase (decrease) in cash and cash equivalents	394,863	(376,948)
Cash and cash equivalents - September 1	1,795,853	2,172,801
Cash and cash equivalents - August 31	$ 2,190,716	$ 1,795,853
Cash & cash equivalents	$ 1,638,796	$ 1,253,410
Restricted cash & cash equivalents	551,920	542,443
Total cash and cash equivalents	$ 2,190,716	$ 1,795,853

COASTAL BEND COLLEGE
Statement of Cash Flows
For the Fiscal Years Ended August 31, 2018 and 2017

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating (loss)	$ (15,837,261)	$ (15,425,699)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation expense	1,597,081	1,534,157
Bad Debt expense	1,000,000	-
Payments made directly by state for benefits	2,243,174	1,506,287
Tax Collection fee	-	30,923
Changes in assets and liabilities:		
Receivables (net)	(1,094,572)	(766,413)
Prepaid expenses	(178,089)	(637,329)
Accounts payable	622,462	(533,268)
Unearned revenue	(289,143)	600,599
Compensated Absences	89,285	465,954
Net pension liability	(1,114,444)	412,440
Net OPEB liability	(4,321,720)	-
Deferred outflows of resources	387,082	(159,110)
Deferred inflows of resources	5,496,234	(102,634)
Net cash provided (used) by operating activities	$ (11,399,911)	$ (13,074,093)

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

1. **Reporting Entity**

Coastal Bend College (the "College") was established in 1965, in accordance with the laws of the state of Texas, to serve the educational needs of Bee County and the surrounding communities. The College is classified as a special purpose, primary government engaged in business type activities. While the College 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.

Component Unit

The Coastal Bend College Foundation (the "Foundation") is a nonprofit organization with the purpose of supporting the educational and other activities of the College. The Foundation solicits donations and acts as coordinator of gifts made by other parties. Under Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units, the Foundation is considered a blended component unit of the College, as the Foundation is fiscally dependent on the College and provides services exclusively, or almost exclusively, for the benefit of the College. The financial statements of the Foundation are not material to the financial statements of the College and have not been included in the basic financial statements.

Complete financial statements for the Foundation may be obtained from the Coastal Bend College Office of Business Services, 3800 Charco Rd., Beeville, Texas 78102.

2. **Summary of Significant Accounting Policies**

Reporting Guidelines

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

Basis of Accounting

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

Cash and Cash Equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments consist of balances in privately managed public funds investment pools and investments in Corporate and Municipal Bonds and U.S. Agency securities. The College reports all investments at fair value, except for investment pools. The College's investment pools are valued and reported at amortized cost, which approximates fair value. The College's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*. 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. Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories

Inventories consist of consumable office and physical plant supplies. They are valued at cost under the "first-in, first-out" method and are charged to expense as consumed.

Capital Assets

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

The College reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

Buildings and Improvements	20-50 years
Furniture, Machinery, Vehicles and Other Equipment	10 Years
Telecommunications and Peripheral Equipment	5 years
Library Books	15 years

Unearned Revenues

Tuition and fees of $5,324,003 and $5,613,146 were reported as unearned revenues at August 31, 2018 and 2017, respectively.

Tuition Discounting

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

Title IV, Higher Education Act Program Funds – Certain Title IV HEA Program funds are received by the college to pass through to the student. These funds are initially received by the college and recorded as restricted revenue. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Other tuition discounts– The College awards tuition and fee scholarships from institutional funds to students who qualify when these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount as recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

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

Operating and Non-Operating Revenue and Expense Policy
The College distinguishes operating revenues and expenses from non-operating items. The College reports as a business type activity and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations, Federal Pell grants, all Title IV student financial aid grants, and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Other Post-Employment Benefits
The fiduciary net position of the Employees Retirement System of Texas (ERS) State Retiree Health Plan (SRHP) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits; OPEB expense; and information about assets, liabilities, and additions to/deductions from SRHP's fiduciary net position. Benefit net payments are recognized when due and are payable in accordance with the benefit terms.

Pensions
The College participates in the Teacher's 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 purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense and information about assets, liabilities, and additions to/deductions from TRS's fiduciary

net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Prior Year Restatement

GASB 75 Restatement

Effective for the 2017-18 fiscal year, Coastal Bend College implemented GASB Statement No. 75, *Accounting for Postemployment Benefits Other Than Pensions (OPEB).* Accordingly, a restatement to beginning net position was required for the recording of beginning net OPEB liability and for the recording of deferred outflows of resources related to OPEB for contributions made to ERS subsequent to the original measurement date.

Because audited beginning balances cannot be obtained for all of the deferred inflows and outflows of resources related to OPEB, the College recorded a restatement to beginning net position in the fiscal year 2018 financial statements as a cumulative effect of a change in accounting principle. Beginning net position as of September 1, 2017 has been restated as follows for the implementation of GASB No. 75:

Beginning Net Postion		$ 11,936,113
Beginning Net OPEB liability (08/31/17 Measurement Date)	26,508,577	
Deferred outflows for employer contributions to ERS during the year ended August 31, 2017	(610,021)	(25,898,556)
Beginning net position as restated		$ (13,962,443)

3. **Authorized Investments**

The College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code) and is permitted to invest in the following:

a) Obligations of, or guaranteed by governmental entities.
b) Certificates of deposit that are fully guaranteed or insured by the FDIC to one or more depository institutions.
c) Repurchase Agreements that are fully collateralized.
d) Mutual Funds
e) Public Funds Investment Pools
f) Cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501 (f), Internal Revenue Code of 1986 (26 U.S.C Section 501(f)).
g) Corporate bonds, debentures or similar debt obligations rated by a nationally recognized investment firm in one of the two highest long-term rating categories.

4. **Deposits and Investments**

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

Cash and Equivalents

	Year Ended August 31 2018	2017
Demand Deposits	$ 1,635,515	$ 1,249,238
Tex Pool	1,155	1,140
Texas Class	551,920	542,443
Petty Cash on Hand	2,126	3,032
Total Cash and Equivalents	$ 2,190,716	$ 1,795,853
Current Assets	$ 1,638,796	1,253,410
Noncurrent Assets	551,920	542,443
	$ 2,190,716	$ 1,795,853

During the year ended August 31, 2018 and 2017 deposits were entirely covered by FDIC insurance or by pledged collateral held by the College's agent bank in the College's name.

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Fair Value 8/31/2018	Fair Value 8/31/2017
Investments		
U.S. Agencies	$ 1,657	$ 83,133
Bonds	4,500,347	3,395,682
Total Investments	$ 4,502,004	3,478,815
Total Investments	4,502,004	3,478,815
Total Cash and Equivalents	2,190,716	1,795,853
Total Cash and Investments	6,692,720	$ 5,274,668

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

Credit Risk **–** In accordance with state law and the College's investment policy, investments in mutual funds and investment pools must be rated at least AAA, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A. The College's investments in investment pools were rated AAA.

Concentration of Credit Risk – The College does not place a limit on the amount the College may invest in any other issuer. As of August 31, 2018, 89% of the College's investments are held in Fixed Income Securities.

GASB 72

GASB 72, *Fair Value Measurement and Application*, for financial reporting purposes provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three different levels of fair value hierarchy are described as follows:

Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan can access.

Level 2 - inputs to the valuation methodology include: quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - inputs to the valuation methodology are inputs that are unobservable and significant to the fair value measurement.

August 31, 2018		Fair Value Measurement	
Investment Type	Total Fair Value	Level 1	Level 2
U.S. Agencies	$ 1,657	$ 1,657	$ -
Municipal	4,500,347	-	4,500,347
Total Fair Value	$ 4,502,004	$ 1,657	$ 4,500,347

August 31, 2017		Fair Value Measurement	
Investment Type	Total Fair Value	Level 1	Level 2
U.S. Agencies	$ 83,133	$ 83,133	$ -
Bonds:			
Corporate	210,249	-	210,249
Municipal	3,130,654	-	3,130,654
Foreign Markets	54,779	-	54,779
Total Fair Value	$ 3,478,815	$ 83,133	$ 3,395,682

5. Capital Assets

Capital asset activity for the year ended August 31, 2018 is follows:

	Balance August 31, 2017	Increases	Decreases	Balance August 31, 2018
Not Depreciated:				
Land	$ 476,889	$ -	$ -	$ 476,889
Buildings and Other Capital Assets				
Buildings and Building Improvements	28,161,168	624,999	(2,503)	28,783,664
Library Books	1,329,740	-	-	1,329,740
Telecommunications and Peripheral Equipment	5,813,826	768,396	-	6,582,222
Furniture, machinery, and equipment	4,979,898	343,964	(319,372)	5,004,489
Subtotal	12,123,464	1,112,360	(319,372)	12,916,451
Total Buildings and Other Capital Assets	40,284,632	1,737,359	(321,875)	41,700,115
Accumulated Depreciation:				
Buildings and Building Improvements	(14,141,846)	(816,626)	2,503	(14,955,969)
Library Books	(1,221,082)	(27,908)	-	(1,248,990)
Telecommunications and Peripheral Equipment	(4,536,679)	(398,896)	-	(4,935,575)
Furniture, machinery and equipment	(3,190,361)	(353,650)	319,372	(3,224,639)
Subtotal	(8,948,122)	(780,454)	319,372	(9,409,204)
Total Accumulated Depreciation	(23,089,968)	(1,597,080)	321,875	(24,365,173)
Net Capital Assets	$ 17,671,553	$ 140,278	$ -	$ 17,811,831

Capital assets activity for the year ended August 31, 2017 is as follows:

	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017
Not Depreciated:				
Land	$ 476,889	$ -	$ -	$ 476,889
Buildings and Other Capital Assets				
Buildings and Building Improvements	27,754,627	459,507	(52,966)	28,161,168
Library Books	1,329,740	-	-	1,329,740
Telecommunications and Peripheral Equipment	5,220,317	593,509	-	5,813,826
Furniture, machinery, and equipment	4,828,920	150,978	-	4,979,898
Subtotal	11,378,977	744,487	-	12,123,464
Total Buildings and Other Capital Assets	39,133,604	1,203,994	(52,966)	40,284,632
Accumulated Depreciation:				
Buildings and Building Improvements	(13,353,051)	(842,441)	53,646	(14,141,846)
Library Books	(1,192,107)	(28,975)	-	(1,221,082)
Telecommunications and Peripheral Equipment	(4,192,589)	(344,090)	-	(4,536,679)
Furniture, machinery and equipment	(2,871,710)	(318,651)	-	(3,190,361)
Subtotal	(8,256,406)	(691,716)	-	(8,948,122)
Total Accumulated Depreciation	(21,609,457)	(1,534,157)	53,646	(23,089,968)
Net Other Capital Assets	17,524,147	(330,163)	680	17,194,664
Net Capital Assets	$18,001,036	$ (330,163)	$ 680	$17,671,553

6. Noncurrent Liabilities

General Information related to notes payable is summarized below:

Heavy Duty Truck Note

On July 6, 2015, the College agreed to an unsecured promissory note in the amount of $59,577 for the purchase of a heavy-duty truck for hauling mobile simulation labs. The note carries an interest rate of 3.5% and was paid in three annual installments beginning July 2016 and ending July 2018.

Enterprise Resource Planning Software

On January 27, 2017 the College agreed to an unsecured promissory note in the amount of $540,006 to provide partial funding of costs associated with the implementation of a new Enterprise Resource Planning (ERP) system, Ellucian's Colleague. This note carries an interest rate of 5% and is scheduled to be paid in six installments beginning in July 27, 2017 and ending March 27, 2020.

2016 Buick Enclave

On October 28, 2016, the College agreed to an unsecured promissory note in the amount of $44,796 for a 2017 Buick Enclave. The note carries an interest rate of 4.5% and will be paid in 3 annual installments beginning December 1, 2017 and ending December 1, 2019.

General Information related to the Tax Maintenance Notes is summarized below:

Note Issue Name: Coastal Bend College Maintenance Tax Notes, Series 2011

- Purpose of Issuance: College wide HVAC improvements
- Issue Date: March 29, 2011
- Original Amount of Issue: $2,585,000
- Interest Rates: 3.780%
- Source of Revenue for note payments: Pledged registration fees, out of district fees, student service fees and course fees.

Note Issue Name: Coastal Bend College Maintenance Tax Notes, Series 2013

- Purpose of Issuance: College wide infrastructure investment
- Issue Date: August 1, 2013
- Original Amount of Issue: $1,800,000
- Interest Rates: 1.530% - 3.860%
- Source of Revenue for note payments: Pledged registration fees, out of district fees, student service fees and course fees.

Note Issue Name: Coastal Bend College Maintenance Tax Notes, Series 2014

- Purpose of Issuance: Joe Hunter Baseball field upgrades
- Issue Date: August 13, 2014
- Original Amount of Issue: $1,500,000
- Interest Rates: 2.510%
- Source of Revenue for note payments: Pledged registration fees, out of district fees, student service fees and course fees.

Noncurrent liability activity for the year ended August 31, 2018 is as follows:

	Balance August 31, 2017	Increases	Decreases	Balance August 31, 2018	Current Portion
Bonds and Notes					
Revenue Bonds	$2,457,000	$ -	$ 366,000	$ 2,091,000	$ 404,000
Maintenance Tax Notes	3,953,000	-	485,000	3,468,000	499,000
Heavy Duty Truck	20,557	-	20,557	-	-
ERP Software Note	540,006	-	173,435	366,571	179,634
Buick Enclave	44,797	-	14,147	30,650	15,011
Subtotal	7,015,360	-	1,059,139	5,956,221	1,097,645
Other Liabilities					
Accrued Compensable Absences	700,863	89,285	-	790,148	112,173
Net pension liability	4,635,652	-	1,114,443	3,521,209	-
Net OPEB liability	-	22,186,156	-	22,186,856	-
Subtotal	5,336,515	22,275,441	1,114,443	26,498,213	112,173
Total Noncurrent liabilities	12,351,875	$ 22,275,441	$ 2,173,582	$ 32,454,434	$ 1,209,818

Noncurrent liability activity for the year ended August 31, 2017 is as follows:

	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017	Current Portion
Bonds and Notes					
Revenue Bonds	$2,823,000	$ -	$ 366,000	$ 2,457,000	$ 379,000
Maintenance Tax Notes	4,426,000		473,000	3,953,000	485,000
Campus Signage Note	82,672		82,672	-	-
Heavy Duty Truck Note	39,718		19,161	20,557	20,557
ERP Software Note	-	540,006	-	540,006	168,126
Buick Enclave	-	44,797	-	44,797	14,147
Subtotal	7,371,390	584,803	940,833	7,015,360	1,066,830
Other Liabilities					
Net Pension Liability	4,223,212	412,440	-	3,521,208	-
Compensated Absences	234,909	701,436	235,482	700,863	-
Subtotal	4,458,121	1,113,876	235,482	4,222,071	-
Total noncurrent liabilities	$11,829,511	$ 1,698,679	$ 1,176,315	$ 11,237,431	$ 1,066,830

7. Debt Obligations

Debt service obligations at August 31, 2018 for bonds and notes are as follows:

For the year Ending	Maintenance Tax Notes			Revenue Bonds		
August 31	Principal	Interest	Total	Principal	Interest	Total
2019	499,000	114,975	613,975	404,000	65,041	469,041
2020	515,000	99,908	614,908	401,000	52,803	453,803
2021	529,000	83,696	612,696	418,000	40,252	458,252
2022	547,000	64,462	611,462	429,000	27,168	456,168
2023	566,000	48,060	614,060	439,000	13,741	452,741
2024-2026	812,000	53,559	865,559	-	-	-
	$ 3,468,000	$ 464,660	$ 3,932,660	$ 2,091,000	$ 199,005	$ 2,290,005

For the year Ending	ERP Software			2016 Buick Enclave		
August 31	Principal	Interest	Total	Principal	Interest	Total
2019	179,634	18,263	197,897	15,011	1,363	16,374
2020	186,937	7,310	194,247	15,639	714	16,353
	$ 366,571	$ 25,573	$ 392,144	$ 30,650	$ 2,077	$ 32,727

8. Bonds Payable

General information related to bonds payable is summarized below:

- Bond Issue Name: Coastal Bend College Combined Fee Revenue Bonds, Series 2013
- Purpose of Bonds Issue: To purchase and improve a facility previously leased by the College.
- Issue Date: August 1, 2013
- Original Amount of Issue; Amount Authorized: $3,865,000
- Interest Rates: 3.13%
- Source of revenue for debt service – Pledged registration fees, out of district fees, student service fees and course fees

9. Employees' Retirement Plan

Defined Benefit Pension Plan

Plan Description

The College participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contributions 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.texas.gov/TRS%20Documents/cafr2017.pdf or 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 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, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan description 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 2018 and 2017.

	2018	2017
Member	7.7%	7.7%
Non-Employer Contribution Entity	6.8%	6.8%
Employers	6.8%	6.8%
College Contributions	360,926	360,926
Member Contributions	650,159	634,625
State of Texas on behalf Contributions	199,718	205,285

Contribution to the plan include member, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with the state statutes and the General Appropriations Act (GAA). As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate, times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year, reduced by the amounts described below which are paid by the employers. Public junior colleges of 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 of all 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

(Source: Teacher Retirement System of Texas 2017 Comprehensive Annual Financial Report)

The total pension liability in the actuarial valuation was determined using the following actuarial assumptions:

Actuarial Methods:	
Valuation Date	8/31/2017
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%
Last Year Ending August 31	
Projection Period (100 Years)	2116
Inflation	2.50%
Salary increases (including inflation)	3.50% to 9.50%
Ad-hoc post employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience on a four-year period ending August 31, 2014 and was adopted in September 2015. The results of the actuarial valuation are dependent on the assumptions used. There were no changes to the actuarial assumptions used for the plan. There were also no changed to benefit terms that affected measurement of total pension liability during the measurement period.

Discount Rate

A single discount rate of 8% was used to measure the total pension liability. There was no change in the discount rate since the prior fiscal year. This single discount rate was based on the expected rate of return on pension Plan investments as 8%. The long term expected rate of return on pension plan investments is also 8%, which 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.

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	14.0%	5.1%	1.1%
Energy and Natural Resources	5.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Volatility Drag			1.0%
Total	100.0%		8.8%

*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 2017 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% lower (7%) and 1% higher (9%) than the current rate.

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
Coastal Bend College's share of net pension liability	$ 5,936,063	$ 3,521,208	$ 1,510,452

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2018 and 2017, the College reported a liability of $3,521,209 and $4,635,652, respectively, for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College were as follows:

Fiscal Year Ended August 31, 2018:

College's share of the collective net pension liability	$	3,521,208
State's share associated with College		1,952,551
Total	$	5,473,759

Fiscal Year Ended August 31, 2017:

College's share of the collective net pension liability	$	4,635,652
State's share associated with College		2,436,696
Total	$	7,072,348

The net pension liability was measured as of August 31, 2018 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, 2017 thru August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net pension liability was .000110125158% which is a decrease of .000012548414 from its proportion measured as of August 31, 2017 of .0001226735373%.

Changes Since the Prior Actuarial Valuation

There were no changes to the actuarial assumptions or other inputs that affected 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.

For the year ended August 31, 2018 the College recognized pension expense of $237,991 and revenue of $148,933 for support provided by the State. For the year ended August 31, 2017 the College recognized pension expense of $252,871 and revenue of $296,448 for support provided by the State.

The College reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year Ended August 31, 2018:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 51,517	$ 189,894
Changes in actuarial assumptions	160,397	91,823
Differences between projected and actual investment earnings	-	256,618
Changes in proportion and difference between employer's contributions and the proportionate share of contributions	33,394	596,430
Contributions made subsequent to the measurement date	318,889	-
Total	$ 564,197	$ 1,134,765

Fiscal Year Ended August 31, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 72,686	$ 138,418
Changes in actuarial assumptions	141,286	128,494
Differences between projected and actual investment earnings	392,537	-
Changes in proportion and difference between employer's contributions and the proportionate share of contributions	40,392	277,241
Contributions made subsequent to the measurement date	360,926	-
	$ 1,007,827	$ 544,153

The net amounts of the employer's balances of deferred outflows, except for contributions paid to TRS subsequent to measurement date, and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31, 2018:

	Pension Expense Amount
2018	$ (229,986)
2019	(5,218)
2020	(247,252)
2021	(295,076)
2022	(59,649)
Thereafter	(52,276)
	$ (889,457)

Optional Retirement Plan

Plan Description

Participation in the Optional Retirement Program is in lieu of participation in the Teachers Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions 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 State legislature. The percentages of participant salaries contributed by the state, the college, and each participant are 3.3%, 3.3% and 6.65%, respectively. Because these are individual annuity contracts, the state nor the District has no additional or unfunded liability for this program. Senate Bill (S.B.) 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 College was $45,166 and $45,392 for the fiscal years ended August 31, 2018 and 2017, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for all College employees was $10,237,849 and $10,948,605 for fiscal years 2018 and 2017, respectively. The total payroll of employees covered by the Optional Retirement Program was $1,250,873 and $2,706,731 for fiscal years 2018 and 2017, respectively.

10. Deferred Compensation Program

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants. At August 31, 2018 and 2017, the District had no employees electing to defer compensation.

11. **Compensable Absences**

Full-time employees earn annual leave of 10 days per year. The College's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum carryover of 20 days. Employees with at least three months of service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The College recognized an accrued liability of $237,508 and $272,490 for the unpaid annual leave for 2018 and 2017. Sick leave, which can be accumulated to a maximum of 45 days, is earned at the rate of one day per month. It is paid to an employee who misses work because of illness. The College District shall honor the reimbursement for leave upon separation and the reimbursement of leave upon retirement programs for eligible employees who were employed by the College District before September 1, 2010. Reimbursements shall be made in accordance with administrative regulations and determined based on the pay rate set for each employee as of June 30, 2016. Annual sick leave of $552,640 and $428,373 was recognized for 2018 and 2017 respectively.

12. 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 these benefits by expending the annual insurance premiums. The State and College's contribution per eligible full-time employee was $621.90 per month for the year ended August 31, 2018 ($617.30 per month for 2017) and totaled $629,096 for 2018 ($608,792 for the year ended 2017). The cost of providing those benefits for 128 retirees in the year ended 2018 was $1,162,416 (retiree benefits for 128 retirees cost $1,141,505 in 2017). For 220 active employees, the cost of providing benefits was $1,456,890 for the year ended 2017 (active employees for 219 employees cost $1,509,872 for the year ended 2017.

13. Other Post- Employment Benefits (OPEB)

Plan Description

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

OPEB Plan Fiduciary Net Position

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

Benefits Provided

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

Contributions

Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employer and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and the consulting actuary. Employer and member contribution rates are based on:

i. The benefit and administrative costs expected to be incurred
ii. Funds appropriated

iii. Funding policy established by the Texas Legislature in connection with benefits provided through the GBP. Trustees revise benefits when necessary to align expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

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

Maximum Monthly Employer Contribution
Retiree Health and Basic Life Premium
Fiscal Year 2017

Retiree Only	$	617.30
Retiree & Spouse	$	970.98
Retiree & Children	$	854.10
Retiree & Family	$	1,207.78

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

	FY2017		FY2016	
Employers	$	890,735,173	$	663,986,538
Members (Employees)		195,806,162		183,284,339
Nonemployer Contributing Entity (State of Texas)		45,035,437		N/A

Actuarial Assumptions
ERS Group Benefits Program Plan

Valuation Date	August 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining amortization period	30 years
Asset valuation method	N/A
Discount rate	3.51%
Projected annual salary increases (includes inflation)	2.50-9.50%
Annual healthcare trend rate	8.50% for FY2019 decreasing 0.5% per year to 4.50% for FY2027 and later years
Inflation Assumption Rate	2.50%
Ad hoc postemployment benefit changes	None
Mortality assumptions:	
Service retirees, survivors, and other inactive membe	Tables based on TRS experience w/ full generational projection using Scale BB from Base Year 2014.
Disability retirees	Tables based on TRS experience w/ full generational projection using Scale BB from Base Year 2014 using a 3 year set forward & minimum mortality rates of 4 per 100 male members and 2 per 100 female members.
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% w/ full generational projection using Scale BB.

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

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

Discount Rate Sensitivity Analysis

The following schedule shows the impact on the College's proportionate share of the collective net OPEB liability if the discount rate used was 1% lower (2.51%) and 1% higher (4.51%).

	1% Decrease in Discount Rate 2.51%	Current Single Discount Rate 3.51%	1% Increase in Discount Rate 4.51%
College's proportionate share of the Net OPEB Liability:	$ 18,857,852	$ 22,186,857	$ 26,484,623

Healthcare Trend Rate Sensitivity Analysis

The initial healthcare trend rate is 8.5% and the ultimate rate is 4.5%. The following schedule shows the impact on the College's share of the collective net OPEB liability if the health care trend rate used was 1% lower (3.5%) or 1% higher (5.5%) than the current healthcare trend rate that was used in measuring the net OPEB liability.

	1% Decrease in Healthcare Cost Trend Rate 3.50%	Current Healthcare Cost Trend Rate 4.50%	1% Increase in Healthcare Cost Trend Rate 5.50%
College's proportionate share of the Net OPEB Liability:	$ 18,651,823	$ 22,186,857	$ 26,773,764

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

At August 31, 2018, the College reported a liability of $22,186,857 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the College. The amount recognized by the College as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

College's proportionate share of the collective Net OPEB Liability	22,186,857
State's proportionate share associated with the College	18,841,884
Total	41,028,741

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

At the measurement date of August 31, 2017, the employer's proportion of the collective net OPEB liability was 0.651%. For the year ended August 31, 2017, which was the same proportionate share measured at August 31, 2016. The College's recognized OPEB expense of $1,187,354 and revenue of $1,187,354 for support provided by the State.

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

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

Changes of Benefit Terms Since Prior Measurement Date

- Increase in the out of pocket costs applicable to services obtained at a free-standing emergency facility;
- Elimination of the copayment for virtual visits;
- Copay reduction for Airrosti and for out of state participants;
- Elimination of the deductible for in network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits.

These minor benefit changes have been reflected in the FY 2018 Assumed per Capita Health Benefit Costs.

At August 31, 2017 the College reported its proportionate share of the ERS plan's collective deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 266,615
Changes in actuarial assumptions	-	4,639,007
Difference between projected and actual investment earnings	6,569	-
Contributions paid to ERS subsequent to the measurement date	660,000	-
Total	$ 666,569	$ 4,905,622

The net amounts of the College's balances of deferred outflows and inflows of resource related to OPEB will be recognized in OPEB expense as follows:

Year ended August 31:

2019	(1,103,227)
2020	(1,103,227)
2021	(1,103,227)
2022	(1,103,227)
2023	(486,145)
Total	(4,899,053)

14. Operating Lease Commitments and Rental Agreement

The College no longer maintains any operating lease commitments.

15. Funds Held In Trust by Others

At August 31, 2018 and 2017, the College held, in trust funds, amounts of $337,583 and $126,611 respectively, that pertain primarily to student organizations. These funds are not available to support the College's programs.

16. Contract and Grant Awards

Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as accounts receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the Institution has not yet performed services are not included in the financial statements.

17. Property Tax

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

As of August 31, 2018:

	FY 2018	FY 2017
Assessed Valuation of the College	$ 2,838,573,700	$ 2,918,207,780
Less: Exemptions	1,167,405,353	1,156,163,514
Less: Abatements	8,603,780	9,940,690
Net assessed valuation of the College	$ 1,662,564,567	$ 1,752,103,576

	2018		
	Current Operations	Debt Service	Total
Authorized tax rate per $100 valuation	$ 0.1536084	$ 0.0577476	$ 0.211356
Assessed tax rate per $100 valuation	$ 0.142230	$ 0.053470	$ 0.195700

	2017		
Authorized tax rate per $100 valuation	$ 0.1565352	$ 0.043524	$ 0.200059
Assessed tax rate per $100 valuation	$ 0.144940	$ 0.040300	$ 0.185240

Taxes levied for the years ended August 31, 2018 and 2017 amounted to $3,134,991 and $3,181,650, respectively (which includes any penalty and interest assessed if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which impose.

	2018		
Taxes Recognized	Current Operations	Debt Service	Total
Current taxes collected	$ 2,222,130	$ 834,978	$ 3,057,108
Delinquent taxes collected	58,696	-	$ 58,696
Penalties and interest collected	67,469	-	$ 67,469
Less: discounts and commissions	(41,139)	(15,465)	$ (56,604)
Total Collections	$ 2,307,155	$ 819,513	$ 3,126,668

	2017		
Taxes Recognized	Current Operations	Debt Service	Total
Current taxes collected	$ 2,488,416	$ 665,629	$ 3,154,045
Delinquent taxes collected	44,418		44,418
Penalties and interest collected	43,179		43,179
Less: discounts and commissions	(41,877)	(11,640)	(53,517)
Total Collections	$ 2,534,136	$ 653,989	$ 3,188,125

Allowance for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

18. Tax Abatements

The Texas Property Redevelopment and Tax Abatement Act, Texas Tax Code, Chapter 312 authorizes the College to enter into Tax Abatement Agreements. The College approves Tax Abatement Agreements for the sole purpose of economic development to create additional jobs, provide job training opportunities and increase the assessed value of properties made through property improvements such as expansion or modernization funded by the property owner. Ad Valorem Taxes were reduced by approximately $8,000 in fiscal year 2018 due to existing Tax Abatement Agreements.

- Dan A. Hughes Management, LLC
- Kaspar Properties, Inc. and Kaspar Ranch Hand Equipment, LP- 10-year abatement effective with the January 1, 2012 valuation date. For the fiscal year ending August 31, 2018, 50% of the current assessed value was abated.

19. Income Taxes

The College is exempt from income taxes under internal Revenue Code Section 115, Income of States, Municipalities, Etc. although unrelated business income may be subject to income tax under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the years ended August 31, 2018 and 2017.

20. Commitments and Contingencies

Contingencies

The College participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. The College has agreed to repay the Texas Higher Education Coordinating Board (THECB) $260,287 in questioned costs associated with the Nursing Shortage Reduction Program (NSRP) in FY 2018-19. As of August 31, 2018, this obligation is accrued in the financial statements.

21. Pending Lawsuits and Claims

On August 31, 2018, there was only one lawsuit and claim involving Coastal Bend College that was pending. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

22. Disaggregation of Receivable and Payable Balance

Receivables

Receivables at August 31 are as follows:

	2018	2017
Student receivables	4,892,060	3,697,193
Taxes receivable	187,907	189,409
Tuition sponsor receivables	97,492	277,513
Contract and grant receivables	1,018,620	2,844,556
Other receivables	913,333	6,168
Subtotal	7,109,412	7,014,840
Allowance for doubtful accounts	(358,432)	(358,432)
Total Receivables	**6,750,980**	**$ 6,656,408**

Payables

Payables at August 31 are as follows:

	2018	2017
Vendors payable	$ 1,215,921	$ 679,413.00
Interest payable	23,024	8,514
Other payables	280,367	208,920
Total Payables	**$ 1,519,312**	**$ 896,847**

23. Risk Management

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

REQUIRED SUPPLEMENTARY INFORMATION

COASTAL BEND COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEARS ENDED AUGUST 31, 2015 THRU 2018**

Fiscal Year Ending August 31,*	2018	2017	2016	2015
College's Proportion of the Net Pension Liability	0.0110125%	0.0122674%	0.1194730%	0.0134040%
College's Proportionate Share of Net Pension Liability	$ 3,521,208	$ 4,635,652	$ 4,223,212	$ 3,580,393
State's Proportionate Share of Net Pension Liability Associated with the College	1,952,551	2,436,696	2,080,573	1,877,347
Total	$ 5,473,759	$ 7,072,348	$ 6,303,785	$ 5,457,740
College's Covered Payroll	$ 7,787,109	$ 8,703,191	$ 7,750,856	$ 7,571,265
College's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	45.22%	53.26%	54.49%	47.29%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.00%	78.00%	78.43%	83.25%

*The amounts presented above are as of the measurement date of the collective net pension liability for the respective fiscal year.
**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

COASTAL BEND COLLEGE
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEARS ENDED AUGUST 31, 2018 THRU 2015

Fiscal Year Ending August 31,*	2018	2017	2016	2015
Contractually Required Contribution	$ 360,926	$ 360,926	$ 389,765	$ 353,750
Actual Contribution	(360,926)	(360,926)	(389,765)	(353,750)
Contribution Deficiency (Excess)	$ -	$ --	$ --	$ --
College's Covered Payroll	$ 7,787,109	$ 8,703,191	$ 7,750,856	$ 7,571,265
Contributions as a Percentage of Covered Payroll	4.63%	4.38%	4.48%	4.56%

*The amounts presented above are as of the measurement date of the collective net pension liability for the respective fiscal year.
**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

COASTAL BEND COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
EMPLOYEE RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2018

Fiscal Year Ending August 31,*	2017
College's proportion of collective net OPEB liability (%)	0.06511563%
College's proportionate share of collective net OPEB liability	$22,186,857
State's proportionate share of net OPEB liability associated with College Liability Associated with the College	18,841,884
Total	41,028,741
College's Covered Payroll	$ 7,787,109
College's proportionate share of the collective net OPEB liability as a percentage of covered payroll	284.92%
Plan fiduciary net position as a percentage of the total OPEB liability	2.04%

*The amounts presented above are as of the measurement date of the collective net pension liability for the respective fiscal year.
**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

COASTAL BEND COLLEGE
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
FOR THE YEARS ENDED AUGUST 31, 2018

Fiscal Year Ending August 31,*	2017
Legally required contributions	$ 660,000
Actual contributions	660,000
Contributions deficiency (excess)	$ -
College's Covered Payroll	$ 7,787,109
Contributions as a percentage of covered payroll	8.48%

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

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

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SUPPLEMENTAL INFORMATION AND FINANCIAL ASSISTANCE

SCHEDULE A

COASTAL BEND COLLEGE
Schedule of Operating Revenues
For the Year Ended August 31, 2018 and 2017

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2018 Total	2017 Total
Tuition:						
State funded credit courses						
In-district resident tuition	$ 2,497,021	$ -	$ 2,497,021	$ -	$ 2,497,021	$ 1,286,505
Out-of-district resident tuition	1,441,061	-	1,441,061	-	1,441,061	2,321,345
Non-resident tuition	20,539	-	20,539	-	20,539	50,653
TPEG set aside (set aside)*	269,086	-	269,086	-	269,086	278,327
State funded continuing education	124,367	-	124,367	-	124,367	220,153
Non-state funded continuing education	1,905	-	1,905	-	1,905	2,820
Total Tuition	4,353,978	-	4,353,978	-	4,353,978	4,159,803
Fees:						
Out of district fee	2,777,195	-	2,777,195	-	2,777,195	2,750,355
Distance learning fee	434,976	-	434,976	-	434,976	677,646
Installment plan fees	59,996	-	59,996	-	59,996	46,936
Dual credit fees	855,395	-	855,395	-	855,395	890,546
Individual course fees	1,156,661	-	1,156,661	-	1,156,661	830,634
General use fees	844,319	-	844,319	-	844,319	831,839
Parking fees	143,291	-	143,291		143,291	-
Registration fee	607,662	-	607,662	-	607,662	549,709
Total Fees	6,879,494	-	6,879,494	-	6,879,494	6,577,665
Scholarship Allowances and Discounts:						
Bad debt allowance	(1,000,000)	-	(1,000,000)	-	(1,000,000)	-
Remissions and exemptions - state	(371,418)	-	(371,418)	-	(371,418)	(398,840)
Remissions and exemptions - local	(315,730)	-	(315,730)	-	(315,730)	(180,688)
Title IV federal grants	(4,794,232)	-	(4,794,232)	-	(4,794,232)	(4,150,438)
TPEG awards	(291,200)	-	(291,200)	-	(291,200)	(207,380)
Other state grants	(297,331)	-	(297,331)	-	(297,331)	(175,142)
Other local grants	(203,010)	-	(203,010)	-	(203,010)	(318,627)
Total Scholarship Allowances	(7,272,920)	-	(7,272,920)	-	(7,272,920)	(5,431,115)
Total Net Tuition and Fees	3,960,552	-	3,960,552	-	3,960,552	5,306,353
Additional Operating Revenues:						
Federal grants and contracts	-	1,696,248	1,696,248	-	1,696,248	1,804,266
State grants and contracts	-	639,519	639,519	-	639,519	657,610
Sales and services of educational activities	41,404	-	41,404	-	41,404	202,732
Miscellaneous governmental receipts		104,266	104,266	-	104,266	53,256
General operating revenues	358,747	-	358,747	-	358,747	84,761
Total Additional Operating Revenues	400,151	2,440,034	2,840,185	-	2,840,185	2,802,625
Auxiliary Enterprises:						
Bookstore	-	-	-	118,885	118,885	101,710
Less Discounts	-	-	-	-	-	-
Housing	-	-	-	782,487	782,487	804,807
Less Discounts	-	-	-	(73,628)	(73,628)	(106,722)
Child Care Center	-	-	-	155,730	155,730	161,306
Less Discounts	-	-	-	(32,989)	(32,989)	(27,935)
Facilities Rental	-	-	-	178,016	178,016	163,261
Student Programs	-	-	-	17,131	17,131	30,819
Total Net Auxiliary Enterprises	-	-	-	1,145,633	1,145,633	1,127,246
Total Operating Revenues	$ 4,360,703	$ 2,440,034	$ 6,800,737	$ 1,145,633	$ 7,946,370	$ 9,236,224
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.003, $269,086 and $278,327 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended August 31, 2018 and 2017, respectively.

COASTAL BEND COLLEGE
Schedule of Operating Expenses by Object
For the Year Ended August 31, 2018 and 2017

	Operating Expenses					
		Benefits				
	Salaries and Wages	State Benefits	Local Benefits	Other Expenses	2018 Total	2017 Total
Unrestricted - Educational Activities						
Instruction	$ 5,067,876	$ -	$ 752,119	$ 612,978	$ 6,432,974	$ 6,366,969
Public service	24,725	-	470	8,701	33,896	27,915
Academic support	339,312	-	46,661	137,015	522,988	1,683,174
Student services	739,383	-	115,178	181,056	1,035,617	988,459
Institutional support	1,632,445	-	496,465	2,200,878	4,329,787	4,309,756
Operation and maintenance of plant	1,059,314	-	45,389	1,322,314	2,427,017	1,976,786
Scholarships and fellowships	-	-	-	-	-	125,252
Total Unrestricted Educational Activities	8,863,054	-	1,456,283	4,462,943	14,782,280	15,478,311
Restricted - Educational Activities						
Instruction	19,052	1,124,422	21,319	738,105	1,902,899	1,064,955
Public service	-	1,137	-	-	1,137	-
Academic support	468,328	88,914	-	-	557,242	269,278
Student services	104,812	219,444	1,524	222,012	547,792	1,803,657
Institutional support	-	446,583	-	-	446,583	272,886
Operation and maintenance of plant	8,258	211,535	-	189,731	409,524	563,521
Scholarships and fellowships	122,546	4	13	1,740,914	1,863,476	2,188,913
Total Restricted Educational Activities	722,996	2,092,039	22,856	2,890,762	5,728,653	6,163,210
Total Educational Activities	9,586,051	2,092,039	1,479,138	7,353,705	20,510,933	21,641,521
Auxiliary Enterprises	643,714	151,135	29,805	850,963	1,675,617	1,486,245
Depreciation Expense						
Buildings & other real estate improvements	-	-	-	816,627	816,627	842,441
Equipment and furniture	-	-	-	780,454	780,454	691,716
Total Operating Expenses	$ 10,229,765	$ 2,243,174	$ 1,508,943	$ 9,801,749	$ 23,783,631	$ 24,661,923
					(Exhibit 2)	(Exhibit 2)

COASTAL BEND COLLEGE
Schedule of Non-Operating Revenues and Expenses
For the Year Ended August 31, 2018 and 2017

	Unrestricted	Restricted	Auxiliary Enterprises	2018 Total	2017 Total
Non-Operating Revenues					
State Allocations:					
Education and general state support	$ 7,164,843	$ -	$ -	$ 7,164,843	$ 6,389,742
State group insurance	-	481,505	-	481,505	1,090,297
State retirement matching	-	194,099	-	194,099	255,559
Total State Allocations	7,164,843	675,604	-	7,840,447	7,735,598
Ad valorem taxes:					
Taxes for maintenance and operations	2,307,155	-	-	2,307,155	2,534,136
Taxes for debt service	819,513	-	-	819,513	653,989
Title IV	-	6,859,224	-	6,859,224	6,259,403
Gifts	-	-	-	-	248,904
Investment income	46,412	-	-	46,412	70,890
Other non-operating revenue (expense)	7,200	-	-	7,200	(190,800)
Total Non-Operating Revenues	10,345,123	7,534,828	-	17,879,951	17,312,120
Non-Operating Expenses					
Interest on capital related debt	-	233,048	-	233,048	248,522
Other non-operating expense	-	450	-	450	451
Total Non-Operating Expenses	-	233,498	-	233,498	248,973
Net Non-Operating Revenues	$ 10,345,123	$ 7,301,329	$ -	$ 17,646,452	$ 17,063,147
				(Exhibit 2)	(Exhibit 2)

SCHEDULE D

COASTAL BEND COLLEGE
Schedule of Net Position by Source and Availability
For the Year Ended August 31, 2018

	Detail by Source					Available for Current Operations	
		Restricted		Capital Assets			
	Unrestricted	Expendable	Non-Expendable	Net of Depreciation and Related Debt	Current Year Total	Yes	No
Current							
Unrestricted	$ (25,140,536)	$ -	$ -	$ -	$ (25,140,536)	$ (25,140,536)	$ -
Restricted for:							
Nonexpendable:							
Student aid	-	-	551,920	-	551,920	-	551,920
Expendable:					-		
Student aid	-	84,412	-	-	84,412	84,412	-
Plant							
Debt service	-	354,268	-	-	354,268	-	354,268
Parking renovation	-	141,074	-	-	141,074	-	141,074
Investment in plant	-	-	-	11,855,610	11,855,610	-	11,855,610
Total Net Position, August 31, 2018	(25,140,536)	579,754	551,920	11,855,610	(12,153,252) (Exhibit 1)	(25,056,124)	12,902,872
Total Net Position, August 31, 2017	636,001	101,476	542,443	10,656,193	11,936,113	735,956	11,200,157
Cumulative Effect of Change in Accounting Principle (Note 2)	(25,898,556)	-	-	-	(25,898,556)	-	(25,898,556)
Total Net Position, August 31, 2017 as restated	(25,262,555)	101,476	542,443	10,656,193	(13,962,443)	735,956	(14,698,399)
Net Increase (Decrease) in Net Position	$ 122,019	$ 478,278	$ 9,477	$ 1,199,417	$ 1,809,191 (Exhibit 2)	$ 25,792,080	$ (27,601,271)

SCHEDULE E

COASTAL BEND COLLEGE

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2018

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			
Direct Programs:			
TRIO Cluster			
TRIO Upward Bound	84.047		316,427
TRIO Educational Talent Search	84.044A		607,561
TRIO Upward Bound Rural	84.047		246,438
Total TRIO Cluster:			1,170,426
Student Financial Assistance Cluster			
Supplemental Educational Opportunity Grants	84.007		109,712
Work-Study Program	84.033		90,759
Pell Grant Program	84.063		6,749,532
Direct Student Loans	84.268		3,140,701
Total Student Financial Assistance Cluster:			10,090,704
Total Direct Programs			11,261,130
Pass Through From Texas State Library & Archives Commission:			
Competitive - Rebuilding Texas Libraries	45.31		4,936
Total Texas State Library & Archives Commission			4,936
Pass Through From Texas Department of Public Safety:			
Public Assistance Grant, 4332, Texas Hurricane Harvey	97.036		16,214
Total Texas Department of Public Safety			16,214
Pass Through From Texas Higher Education Coordinating Board:			
Carl Perkins Career and Technical Education Grant	84.048A		413,914
Total Texas Higher Education Coordinating Board			413,914
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 11,696,194

Schedule E

COASTAL BEND COLLEGE

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2018

Note 1: Federal Assistance Reconciliation

Federal Assistance Reconciliation		
Federal Grants and Contracts revenue - per Schedule A	$	1,696,248
Add: Non-Operating Revenue from Schedule C		6,859,224
Add: Direct Student Loans		3,140,701
Total Federal Revenues per Schedule of Expenditures of Federal Awards	$	11,696,173

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The expenditures included in the schedule are reported for the college'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 college 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. Some amounts reported in the schedule may differ from amounts used in the preparation of the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The college has followed all applicable guidelines issued by various entities in the preparation of the schedule.

SCHEDULE F

COASTAL BEND COLLEGE
Schedule of Expenditures of State Awards
For the Year Ended August 31, 2018

Grantor Agency/ Program Title	Grant Contract Number		Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD			
Direct funding:			
College Work-study Program	9920050M	$	20,526
Work-study mentorship Program	15554		4,610
Texas Educational Opportunity Grant Program	PCA13399		297,331
Accelerate Texas-College Readiness & Success Models	19072		22,000
Total Direct Funding			344,467
TEXAS STATE COMPTROLLER'S OFFICE			
Jet Grant LPN & LVN	2217JET000	$	289,953.30
Total Texas State Comptroller's Office			289,953.30
TEXAS WORKFORCE COMMISSION			
National Dislocated Worker Grant - Hurricane Harvey	2918NDW002		5,099
Total Texas Workforce Commission			5,099
TOTAL STATE FINANCIAL ASSISTANCE		$	5,099
		$	639,519

Note 1: State Assistance Reconciliation

State Assistance Reconciliation	$	639,519
per Schedule of Expenditures of State Awards		
		639,519
Total State Revenues per Schedule A		

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 College's significant accounting policies. These expenditures are reported on the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.

OVERALL COMPLIANCE
AND
INTERNAL CONTROLS

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

December 24, 2018

Board of Trustees
Coastal Bend College
Beeville, Texas

We have audited, 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, the financial statements of the Coastal Bend College (the College) as of and for the years ended August 31, 2018, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 24, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedules of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-1 to be significant deficiency.

Compliance and Other Matters

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

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

Collier, Johnson & Woods

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

December 24, 2018

Board of Trustees
Coastal Bend College
Beeville, Texas

Report on Compliance for Each Major Federal Program

We have audited the Coastal Bend College's (the College's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended August 31, 2018. The College's major federal programs are identified in the summary of auditor's results section of the accompanying federal 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 the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Programs

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

Report on Internal Control Over Compliance

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

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

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

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

Collier, Johnson & Woods

COASTAL BEND COLLEGE

SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2018

Section I:
Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiencies reported that are not considered to be material weaknesses?	Yes
• Noncompliance material to the financial statements noted?	No
Federal Awards:	
• Material weakness identified?	No
• Significant deficiencies reported that are not considered to be material weaknesses?	None reported
Type of auditor's report on compliance for major federal programs:	Unmodified
Any audit findings required to be reported in accordance with the Uniform Guidance?	No

The programs tested as major programs include:

U.S. Department of Education Financial Aid Cluster:

84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
84.033	Federal College Work Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Loan Program

U.S. Department of Education TRIO Cluster:

84.047	TRIO Upward Bound
84.044A	TRIO Educational Talented Search
84.047	TRIO Upward Bound Rural

Pass Through from Texas Higher Education Coordinating Board:

84.048A	Carl Perkins Career and Technical Education Grant

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low risk auditee:	No

Section II:
Findings - Financial Statement Audit

Significant Deficiencies

2018-01 – Nurses Shortage Reduction Program (NSRP); Grant period for years ending September 30, 2016 and 2017

Condition: An investigation by THECB found that the College did not properly administer this grant and questioned costs of $260,287. Additionally, the investigation provided a management letter that raised questions related to the internal control environment at the College.

Criteria: According to the THECB final report dated November 12, 2018, although a separate grant account for NSRP existed, the manner in which the account was used did not account for the grant activity at the time such activity occurred.

Cause: Lack of general understanding and consistent training on CFR 200.320 and 34.76.707 among Business Office Staff and various Grant staff, including the Directors.

Effect: Lack of formal training resulted in some errors occurring in the original recording of grant related expenses. These were corrected by journal entries.

Context: A THECB investigation final report and management letter dated November 12, 2018 noted failures to (1) timely record grant related expenses at the time such activity occurred; (2) non-compliance with travel policy which required employees submit travel expenses with in 10 days of travel; (3) lacking oversite on credit card (P-card) users (4) insufficient records for time and effort recordkeeping on grants.

Recommendation: Per THECB report, the following recommendations were made: (1) Management should refund the entire questioned costs of $260,287; (2) Establish appropriate accounting controls to ensure that the NSRP grant is properly reported; (3) Ensure that time and effort reports supports grant amounts and adheres to CBC policy and sound grant management principles; (4) Comply with CBC travel policy regarding the submission of travel claims within 10 days of travel to ensure accurate grant reporting.

Although not included in the THECB letter as a specific recommendation, to address their concerns related to P-card usage, we recommend review of controls over P-cards.

View of Responsible Officials and Planned Corrective Actions: In response to the findings management has implemented the following: (1) The College's Board of Trustees voted to refund the questioned costs of $260,287 on November 20, 2018, and a wire transfer for the full amount was made November 28, 2018; (2) To strengthen the CBC control environment a full-time Chief Financial Officer, with 15 years of experience as an accounting manager at a public school district, was hired in November 2018. Additionally, CBC added a Grant Compliance and Reporting Manager to the staff and engaged Jesus Amezcua, CPA (the long serving Assistant Superintendent for Business Services at Harris County Department of Education) as a consultant to train CBC staff and assist in developing better accounting and procurement procedures and practices. (2) & (3) The College President has hired attorneys specializing in labor and employment law for governments to overhaul CBC's purchasing and procurement manuals to ensure alignment with state and federal laws and best practices. This overhaul includes best practices related to grant expenditures and practices regarding time and effort reporting; (4) CBCs revised the 10-day travel reimbursement policy guideline to extend reimbursement submissions to 30 days in order to align with standard governmental practices.

Finding 2018-01 – Nurses Shortage Reduction Program (NSRP); Grant period for years ending September 30, 2016 and 2017 – (Continued)

To address the concerns related to P-card usage, management will develop a revised P-card policy to the Board of Trustees by the February 2019 meeting.

Section III:
Findings and Questioned Costs – Major Federal Award Programs

None reported.

Section IV:
Prior Year Findings

Material Weakness

2017-01 –Investments, payroll and debt were not regularly reconciled to the general ledger which is used to accumulate balances reported in the financial statements.

Condition: There are no written procedures for reconciliations of key accounting information used to accumulate financial statement reports.

Original Recommendation: Procedures for producing and retaining underlying supporting information for the financial statements should be written. Employees should be provided with additional training on the reporting requirements of the THECB to facilitate the production of information necessary to provide complete and accurate financial reports. Monthly reconciliations should be performed and approved by management. Management's approval should be documented by signatures.

Current Status: In February 2018, the College contracted with a consultant with extensive experience with the College's newly implemented computer system (ERP) and higher education accounting experience to provide staff training. This enables the staff to not only learn to use the new computer system more sufficiently, but also document the accounting processes. Beginning in June 2018, processes were implemented to provided documented reconciliations for investments, payroll and debt which are agreed to monthly financial statements. Additionally, in December 2018 the College engaged Jesus Amezcua, CPA, (as indicated in finding 2018-1) as a consultant to train CBC staff and assist in developing better accounting and procurement procedures and practices.

2017-02– Government Code Chapter 2256 -Public Funds Investment Act (PFIA)

Condition: (1) The College failed to perform and provide a quarterly investment report to the Board of Trustees for the Quarter ended February 28, 2017. (2) The College invested in 2 foreign bonds totaling $54,779 which is not an allowable investment under the PFIA. (3) After the date of purchase, 10 bonds amounting to $302,880 experienced downgrading to below the required rating of A for municipal bonds and AA- for corporate bonds by a nationally recognized rating agency. (4) Investments are held by a custodian that is not compliant with the delivery versus payment standard.

Original Recommendation: The College Investment Officer must work with the Governing Board to ensure compliance with all facets of the PFIA, particularly in regards to training, portfolio compliance and the annual Policy review. The College should establish procedures during their quarterly investment reviews to liquidate investment securities that are downgraded or no longer in compliance with their investment policy.

Prior Year Findings 2017-02 – (PFIA) - (Continued)

Current Status: The College provided training to ensure compliance with this regulation. The Board of Trustees completed its review and revision of the College Investment Policy on January 16, 2018. As required by the PFIA, every Quarterly Investment Report was submitted for Board Review on a quarterly basis during 2018. The College's CFO and Investment Advisor both conducted regular reviews of the College's Investment Portfolio throughout FY2018 to ensure that investment holdings comply with the PFIA. The CFO met with the Investment Advisor and it was determined the College had and will continue to remain in compliance with the delivery versus payment standard.

Significant Deficiencies

2017-03 – Segregation of duties

Condition: The accounts payable clerk performed the incompatible duties of approving transactions, recording transactions and reconciling bank accounts.

Original Recommendation: The College should re-align the duties of accounting personnel to segregate incompatible duties whenever possible.

Current Status: In January 2018, the Finance Director resigned and the College has been understaffed causing a delay in the implementation. To improve segregation of duties, the interim Chief Financial Officer (CFO) assumed the responsibilities of setting up vendors, posting general ledger transactions, and approving journal entries and budget adjustments. With the addition of a permanent Controller in the Summer of 2018, posting abilities were granted in the CFO absence. The approval of journal entries is now a 2-tier process. When the Staff Accountant records a journal entry, the Controller and the CFO are both required to review and approve before it can be posted. If the Controller records a journal entry, the CFO and the President both review and approve prior to posting. The Business Office also hired an additional staff member in Accounts Payable in the Summer of 2018, further providing the ability to segregate duties. A new CFO was hired in November 2018 and is currently transitioning to full-time December 17, 2018.

2017-04 - Payroll

Condition: Written authority, signed by an authorized official, is not required to add or make changes to payroll records, including adding people or changing pay rates. Furthermore, payroll reports are not reviewed *after* production of the payroll by anyone other than the payroll clerk.

Effect: Because no one reviews the payroll records *afte*r the payroll information is entered by the payroll clerk, error or fraud could occur and not be detected by employees or management in the normal course of performing their duties.

Original Recommendation: The College should maintain written documentation of authorized pay rates and review payroll journals after they are produced. The review should include edit reports that show rate changes and other master file changes. Payroll rate changes, which include management's authorization, should be included in personnel files.

Prior Year Findings 2017-04 - Payroll– (Continued)

Current Status: With the implementation of the new computer system (ERP), electronic procedures were introduced that enhanced control features over payroll. The Human Resources Manager is now responsible for reconciling pay rates with the Pay Advices, and the web-based time entry. After that level of review is completed, the CFO then reviews the Payroll Calculation which cannot be uploaded until the CFO has completed the review for appropriate pay rates and benefits, verifies student workers have active course loads, and that the expense is posted to the proper general ledger account numbers. Once the CFO provides final sign off, only then is Payroll uploaded to the bank. Only the HR Manager and CFO have access in ERP to employee pay rates and job changes which strengthen the controls over payroll.