

Financial Statements and
Independent Auditor's Report

Howard County Junior College District

August 31, 2018 and 2017

TABLE OF CONTENTS

| | Page |
|--|------|
| Names and Terms of the Board of Trustees | 4 |
| Principal Administrative Officers and the Business and Financial Staff..... | 4 |
| Independent Auditor’s Report | 5 |
| Management’s Discussion and Analysis | 8 |
| Financial Statements | |
| Statements of Net Position – Exhibit 1 | 18 |
| Statements of Revenues, Expenses, and Changes in Net Position – Exhibit 2 | 19 |
| Statements of Cash Flows – Exhibit 3 | 20 |
| Notes to the Financial Statements | 21 |
| Required Supplementary Information | |
| Schedule of Employer’s Proportionate Share of Net Pension Liability | 52 |
| Schedule of District Contributions for Pensions | 54 |
| Schedule of Employer’s Proportionate Share of Net OPEB Liability | 56 |
| Schedule of District Contributions for OPEB | 57 |
| Supplementary Information | |
| Schedules | |
| Schedule of Operating Revenues – Schedule A..... | 60 |
| Schedule of Operating Expenses by Object – Schedule B..... | 62 |
| Schedule of Non-operating Revenues and Expenses – Schedule C..... | 63 |
| Schedule of Net Position by Source and Availability – Schedule D | 64 |
| Schedule of Expenditures of Federal Awards – Schedule E..... | 66 |
| Schedule of Expenditures of State of Texas Awards – Schedule F | 70 |
| 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 | 73 |
| Independent Auditor’s Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance..... | 75 |
| Schedule of Findings and Questioned Costs | 77 |
| Summary Schedule of Prior Audit Findings | 80 |

Howard County Junior College District
ORGANIZATIONAL DATA
For the Fiscal Year 2018

Board of Trustees

| <u>Officers</u> | <u>Board Title</u> |
|---------------------|--------------------|
| Dr. John E. Freeman | Chairman |
| Mr. Maxwell Barr | Vice Chairman |
| Mr. Adrian Calvio | Secretary |

| <u>Members</u> | <u>Address</u> | <u>Term Expires</u> |
|-----------------------|-------------------|---------------------|
| Dr. John E. Freeman | Big Spring, Texas | May, 2020 |
| Mr. Maxwell Barr | Coahoma, Texas | May, 2024 |
| Mr. Adrian Calvio | Big Spring, Texas | May, 2024 |
| Mrs. Patricia Bennett | Big Spring, Texas | May, 2020 |
| Mr. Michael L. Flores | Big Spring, Texas | May, 2022 |
| Ms. Emma Krabill | Big Spring, Texas | May, 2020 |
| Mr. Mark Morgan | Big Spring, Texas | May, 2022 |

Principal Administrative Officers and the Business and Financial Staff

| <u>Key Officers</u> | <u>Title</u> |
|----------------------|---|
| Dr. Cheryl T. Sparks | President |
| Dr. Amy Burchett | Vice President Academic and Student Affairs |
| Ms. Brenda Claxton | District Chief Fiscal Officer/Controller |
| Mr. Steve Smith | District Chief Business Officer/Internal Auditor |
| Mr. Terry Hansen | District Chief Operations and Athletic Officer |
| Ms. Erin Mackenzie | Administrative Dean Instruction & Student Services, Big Spring Area |
| Ms. Pam Callan | Administrative Dean Instruction & Student Services, San Angelo |
| Mr. Fabian Serrano | Workforce & Community Development Officer, Big Spring Area |
| Ms. Jamie Rainey | Workforce & Community Development Officer, San Angelo |
| Mr. Danny Campbell | Co-Administrative Deans Instruction & Student Services, SWCID |
| Ms. Nancy Bonura | Co-Administrative Deans Instruction & Student Services, SWCID |



Logan, Thomas & Johnson, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Howard County Junior College District
Big Spring, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Howard County Junior College District (the District) as of and for the years ended August 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

5023 W. 120th Ave., #165, Broomfield, CO 80020

Calvin Logan
Phone 303 532 1000
Fax 303 532 1080

Jan Thomas
Phone 303 569 6030
Fax 303 569 6031

Pauline Davis
Phone 719 937 4270
Fax 719 937 4271

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 financial position of the District as of August 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 17, the schedule of employer's proportionate share of net pension liability on page 52, the schedule of District contributions for pensions on page 54, the schedule of employer's proportionate share of net OPEB liability on page 56, and the schedule of District contributions for OPEB on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary schedules listed in the table of contents 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 and the schedule of expenditures of State of Texas awards are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Texas Single Audit Circular, and are also not a required part of the basic financial statements.

The supplementary schedules, the schedule of expenditures of federal awards and the schedule of expenditures of State of Texas 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 supplementary schedules, the schedule of expenditures of federal awards and the schedule of expenditures of State of Texas awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Logan, Thomas & Johnson, LLC

Broomfield, Colorado
January 24, 2019

Howard County Junior College District
Management's Discussion and Analysis
August 31, 2018 and 2017

As management of the Howard County Junior College District, we offer this narrative overview and analysis of the college district's financial activities for the fiscal years ended August 31, 2018 and 2017. Since this management's discussion and analysis focuses on current activities, resulting changes, and currently known facts, we encourage readers to consider it in conjunction with the college district's financial statements and related notes.

Financial Highlights

FYE 2018

The college district's net position was \$24.8 million and \$45.1 million as of August 31, 2018 and 2017, respectively. This represents a decrease of \$20.3 million and an increase of \$1.7 million in 2018 and 2017, respectively. The \$20.3 million decline in 2018 was due to the \$23.4 million restatement of the beginning 2018 unrestricted net position required as the college implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The college district's net position as of August 2018, excluding the GASB 75 restatement to the unrestricted net position, would have been \$48.2 million, which is an increase of \$3.1 million from August 2017.

The unrestricted net position are the funds available for spending at the college district's discretion. The negative \$11 million unrestricted net position as of August 31, 2018 was due to the \$23.4 million net position restatement due to GASB 75 noted above. In comparison, as of August 31, 2017, \$9.0 million was classified as unrestricted net position. The college district's unrestricted net position as of August 2018, excluding the GASB 75 restatement to the unrestricted net position, would have been \$12.4 million which is an increase of \$3.3 million from August 2017.

FYE 2017

The college district's net position increased by \$1.7 million and \$4.0 million in 2017 and 2016, respectively.

The assets of the college district exceeded its liabilities (net position) by \$45.1 million and \$43.4 million, as of August 31, 2017 and 2016, respectively. Approximately \$9.0 million of the net position, as of August 31, 2017, was available for spending at the college district's discretion (unrestricted net position). In comparison, as of August 31, 2016, \$7.5 million was classified as unrestricted net position.

Brief Overview of the Financial Statements

This annual financial report consists of five components: Management's Discussion and Analysis, the basic financial statements (Net Position; Revenues, Expenses and Changes in Net Position;

and Cash Flows), the notes to the financial statements, required supplementary information, and other supplementary information.

The Statements of Net Position present the current and long-term assets, deferred inflows and outflows of resources, and liabilities separately with the difference in total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources reported as net position. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of the college district is improving or deteriorating. However, one may need to consider other non-financial factors to assess the overall health of the college district.

The Statements of Revenues, Expenses, and Changes in Net Position present the change in the college district's net position as a result of the fiscal year's operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transaction occurs. Thus, revenues and expenses may be reported for items that may not affect cash until future fiscal periods.

The Statements of Cash Flows present the operating cash inflows and outflows resulting in net cash flows from operations. These statements are prepared using the direct method as prescribed by the Governmental Accounting Standards Board (GASB) Statement 34.

The college district is reported as a special-purpose government engaged in business-type activities using the full accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they have been reduced to a legal or contractual obligation to pay.

The Notes to the Financial Statements provide additional information that is essential for a better understanding of the data provided in the financial statements.

Other Supplementary Information is provided in addition to the basic financial statements and accompanying notes.

Financial Analysis

Net Position

FYE 2018

The schedule below was prepared from the Statements of Net Position. Total net position, which is the difference in total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, at August 31, 2018 and 2017, was \$24.8 million and \$45.1 million, respectively. This represents an overall decrease of 44.94% from the prior fiscal year. The decrease was due to the \$23.4 million restatement of the beginning 2018 unrestricted net position required as the college district implemented GASB 75, as noted in the Financial Highlights. The application of GASB 75 recognized deferred outflows related to other post-employment benefits (OPEB) of \$2.0 million, deferred inflows related to OPEB of \$4.4 million and net OPEB liability (noncurrent portion) of \$20.0 million on the Statement of Net Position for fiscal year 2018. Refer

to the Revenues, Expenses and Changes in Net Position, Cash Flows, Capital Assets, and Debt Retirement for further details.

FYE 2017

The schedule below was prepared from the Statements of Net Position. Total net position, which is the difference in total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, at August 31, 2017 and 2016, was \$45.1 million and \$43.4 million, respectively. This represents an overall increase of 3.80% from the prior fiscal year. The majority of the increase was the \$1.5 million improvement in unrestricted net position due to a combination of several factors. Refer to the Revenue, Expenses, and Changes in Net Position for further details.

STATEMENTS OF NET POSITION

| ASSETS | 2018 | 2017 | 2016 |
|---|----------------------|----------------------|----------------------|
| Total current assets | \$ 24,586,445 | \$ 21,619,191 | \$ 19,725,956 |
| Total capital assets, net | 56,503,383 | 58,640,707 | 59,849,317 |
| Total Assets | 81,089,828 | 80,259,898 | 79,575,273 |
| Total Deferred Outflows of Resources | 2,985,628 | 1,091,060 | 673,417 |
| LIABILITIES | | | |
| Total current liabilities | 7,207,423 | 6,268,529 | 5,567,049 |
| Total noncurrent liabilities | 46,296,678 | 28,773,367 | 30,261,675 |
| Total Liabilities | 53,504,101 | 35,041,896 | 35,828,724 |
| Total Deferred Inflows of Resources | 5,747,629 | 1,220,272 | 983,790 |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 32,050,901 | 32,305,911 | 32,026,326 |
| Restricted | | | |
| Nonexpendable | 1,167,758 | 1,177,723 | 1,177,715 |
| Expendable | 2,600,147 | 2,580,165 | 2,734,081 |
| Unrestricted | (10,995,080) | 9,024,991 | 7,498,054 |
| TOTAL NET POSITION | \$ 24,823,726 | \$ 45,088,790 | \$ 43,436,176 |

Revenues, Expenses, and Changes in Net Position

FYE 2018

The change in net position is the result of operating and non-operating activities during the fiscal year. As noted, the college's total net position declined \$20.3 million (44.94%) for the fiscal year ended August 31, 2018, of which \$23.4 million was attributable to GASB 75 and improved \$1.7 million (3.80%) for the fiscal year ended August 31, 2017. However, the college district's net position from operations increased \$3.1 million for the 2018 fiscal year.

The two primary sources of operating revenues are tuition and fees and various grants and contracts. Total operating revenues were relatively flat increasing \$18 thousand (0.19%) overall

from the prior fiscal year due to a combination of factors including an \$189 thousand (48.06%) increase in other operating revenue mainly from an increase in local contract billings which had offsetting expense. This increase was somewhat offset by slight reductions in tuition and fees of \$59 thousand (1.29%) and auxiliary enterprises of \$47 thousand (17.05%), both of which are reported net of scholarship discounts and allowances, due to an approximate 5% decline in enrollment, and a minimal decrease in grants and contracts of \$88 thousand (2.32%) as a result of near completion and completion of some grants and other various factors.

Operating expenses increased \$839 thousand (2.63%) overall from the prior fiscal year due to an increase in payroll costs including the associated benefits, mainly due to an effort to increase salaries of exempt positions to reflect local and state market trends, \$466 thousand for technology upgrades of which \$344 thousand went towards a new Enterprise Resource Planning (ERP) system, and increases in regular operating expenditures such as insurance, utilities, and daily ongoing repairs and maintenance. The increases were offset some by a decrease in expenses related to net pension liability and other post-employment benefits (OPEB) required by GASB 68 and GASB 75, respectively.

As is customary practice, the district continues to be very dedicated to conservative spending habits and controlling expenditures in all areas.

The primary sources of non-operating revenues are state appropriations, property taxes, and Title IV federal grants for students including Pell, SEOG, and work study funds. Net non-operating revenues increased \$2.1 million (8.84%) primarily due to a \$523 thousand (5.7%) increase in education and general state appropriations for operations, a \$425 thousand (5.59%) increase in property taxes for operations and maintenance due to a \$157 million (5.64%) increase in net assessed valuation, although the maintenance and operations rate per \$100 valuation was relatively flat, \$720 thousand (17.47%) increase in federal revenue from the effects of year round Pell that became effective summer 2018, and a \$537 thousand (228.19%) increase in gain on disposal of fixed assets primarily from the net of an insurance claim payment of \$1.7 million and the write off for the impairment of roofs from a severe hail storm in September 2017. The increases were offset by a reduction of \$577 thousand (32.24%) in state funds for retirement and healthcare benefits primarily due to the implementation of GASB 75.

The college also recognized an increase of \$133 thousand in capital contributions for capital asset acquisitions and projects with the majority of the increase being attributable to the construction trades building at the San Angelo site.

FYE 2017

The change in net position is the result of operating and non-operating activities during the fiscal year. As noted, the college's net position improved \$1.7 million (3.80%) for the fiscal year ended August 31, 2017 and improved \$4.0 million (10.29%) for the fiscal year ended August 31, 2016.

Total operating revenues decreased \$89 thousand (.93%) overall from the prior fiscal year primarily due to a \$239 thousand (10.12%) decrease in federal grants and contracts mostly due to the near completion of a couple of Title V grants, and a \$92 thousand (8.81%) decrease in nongovernmental grants and contracts for there were a few privately funded projects in fiscal year

15/16. These reductions were somewhat offset by an approximate \$267 thousand (6.21%) increase in tuition and fees revenue due to a slight uptick in enrollment and adjustments in various tuition and fees combined.

Operating expenses increased \$1.2 million overall from the prior fiscal year due to an increase in payroll costs and the associated benefits in addition to increases in regular operating expenditures such as insurance, utilities, and daily ongoing repairs and maintenance.

As is customary practice, the district continues to be very dedicated to conservative spending habits and controlling expenditures in all areas.

Net non-operating revenues decreased \$786 thousand (3.16%) primarily due to the \$2 million the district received from the state for the Southwest Collegiate Institute for the Deaf (SWCID) for HVAC upgrades in fiscal year 15/16. The district received \$334 thousand for an oil and gas lease sign on and \$308 thousand in funds from insurance claims for storm damage in fiscal year 15/16, and there were no similar funds received in fiscal year 16/17. These reductions were somewhat offset in fiscal year 16/17 by an increase in ad valorem taxes, the gain on the disposal of fixed assets, and other non-operating federal revenue from student federal aid.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

| | 2018 | 2017 | 2016 |
|--|-------------------|-------------------|-------------------|
| REVENUES | | | |
| Operating revenues | | | |
| Tuition & fees (net of discounts) | \$ 4,499,811 | \$ 4,558,820 | \$ 4,292,218 |
| Federal grants and contracts | 2,051,749 | 2,119,315 | 2,357,836 |
| State grants and contracts | 639,777 | 612,539 | 578,286 |
| Local grants and contracts | 55,972 | 111,711 | 109,508 |
| Nongovernmental grants and contracts | 957,549 | 949,305 | 1,040,986 |
| Sales and services of educational activities | 430,979 | 408,984 | 395,734 |
| Auxiliary enterprises (net of discounts) | 226,317 | 272,826 | 283,544 |
| Other operating revenues | 583,521 | 394,116 | 458,077 |
| Total operating revenues | <u>9,445,675</u> | <u>9,427,616</u> | <u>9,516,189</u> |
| EXPENSES | | | |
| Operating expenses | | | |
| Instruction | 9,394,076 | 9,529,202 | 9,432,059 |
| Public service | 1,362,028 | 1,105,273 | 1,141,805 |
| Academic support | 1,760,020 | 1,799,523 | 2,371,376 |
| Student services | 2,484,474 | 2,400,453 | 2,202,443 |
| Institutional support | 7,047,953 | 6,554,883 | 5,775,815 |
| Operation and maintenance of plant | 3,695,597 | 3,647,964 | 3,336,764 |
| Scholarships and fellowships | 2,128,599 | 1,968,209 | 1,953,506 |
| Auxiliary enterprises | 2,349,049 | 2,390,485 | 2,094,071 |
| Depreciation | 2,543,166 | 2,529,490 | 2,410,108 |
| Total operating expenses | <u>32,764,962</u> | <u>31,925,482</u> | <u>30,717,947</u> |
| Operating loss | (23,319,287) | (22,497,866) | (21,201,758) |

NON-OPERATING REVENUES (EXPENSES)

| | | | |
|---|----------------------|----------------------|----------------------|
| State appropriations | 10,956,813 | 10,984,961 | 12,985,476 |
| Property taxes for operations | 8,030,086 | 7,604,949 | 6,798,219 |
| Property taxes for debt service | 1,462,623 | 1,463,648 | 1,673,612 |
| Payments in lieu of taxes | 260,465 | 156,356 | 152,542 |
| Federal revenue, non-operating | 4,840,235 | 4,120,246 | 3,785,222 |
| Investment income (net of investment expenses) | 114,211 | 41,601 | 37,081 |
| Interest on capital related debt | (648,653) | (725,921) | (1,234,696) |
| Gain (loss) on disposal of fixed assets | 772,158 | 235,281 | (420,295) |
| Other non-operating revenues | 434,576 | 212,342 | 1,102,261 |
| | <u>26,222,514</u> | <u>24,093,463</u> | <u>24,879,422</u> |
| Income before other revenue | 2,903,227 | 1,595,597 | 3,677,664 |
| Other revenue | | | |
| Capital contributions | 189,806 | 57,017 | 375,154 |
| | <u>3,093,033</u> | <u>1,652,614</u> | <u>4,052,818</u> |
| Increase in net position | 3,093,033 | 1,652,614 | 4,052,818 |
| Net Position – beginning of year, as previously reported | 45,088,790 | 43,436,176 | 39,383,358 |
| Cumulative effect of change in accounting principle | (23,358,097) | - | - |
| Net Position – beginning of year, as adjusted | <u>21,730,693</u> | <u>43,436,176</u> | <u>39,383,358</u> |
| Net Position – end of year | <u>\$ 24,823,726</u> | <u>\$ 45,088,790</u> | <u>\$ 43,436,176</u> |

Cash Flows

FYE 2018

In addition to the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, presented below, are another way to assess the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments by the college district during the fiscal year. There was an increase in cash and cash equivalents of \$3.0 million (16.66%) for the year ended August 31, 2018. Much of this increase was attributable to the \$1.7 million insurance claim payment from the severe hail storm in September 2017, as noted above, of which repairs were not done as of August 31, 2018. The primary use of cash in operations is in payment of salaries and benefits, followed by payments to suppliers for goods and services. Sources of cash from non-capital financing activities are primarily from ad valorem taxes and state appropriations. Capital and related financing activities include payment of debt, both principal and interest, as well as capital asset acquisitions and construction.

FYE 2017

In addition to the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, presented below, are another way to assess the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments by the college district during the fiscal year. There was an increase in cash and cash equivalents of \$1.46 million for the year ended August 31, 2017. The primary use of cash in operations is in payment of salaries and benefits, followed by payments to suppliers for goods and services. Sources of cash from non-capital financing activities are

primarily from ad valorem taxes and state appropriations. Capital and related financing activities include payment of debt, both principal and interest, as well as capital asset acquisitions and construction.

STATEMENTS OF CASH FLOWS

| Cash Provided (Used) by: | 2018 | 2017 | 2016 |
|---|-----------------|-----------------|-----------------|
| Operating activities | \$ (19,519,185) | \$ (17,632,659) | \$ (16,334,916) |
| Noncapital financing activities | 23,010,221 | 21,141,878 | 21,872,351 |
| Capital and related financing activities | (614,186) | (2,088,309) | (3,596,947) |
| Investing activities | 114,211 | 41,601 | 37,081 |
| Net increase in cash and cash equivalents | 2,991,061 | 1,462,511 | 1,977,569 |
| Cash and cash equivalents Sept 1 | 17,958,827 | 16,496,316 | 14,518,747 |
| Cash and cash equivalents Aug 31 | \$ 20,949,888 | \$ 17,958,827 | \$ 16,496,316 |

Overall Financial Position

FYE 2018

As reflected in the schedules and narrative, the college’s financial position from operations improved during the fiscal year ended August 31, 2018. The implementation of GASB 75 had a significant impact on the college district’s liabilities and total net position. A brief explanation of significant financial changes has been discussed in other sections of the Financial Analysis. The college district shares a competitive market and strives to provide quality instructional programs and services while striving to be committed to controlling expenditures in order to continue to be fiscally responsible. This steadfast commitment has helped to maintain the stability of the college’s financial position as reflected in the comparative financial information provided.

As in the past, the college continues to seek additional funding from outside sources such as federal, state, and non-governmental grants. Since tuition and fees and state funding from instructional performance are two of the primary sources of revenue, the college continually strategizes ways to increase enrollment and viable program offerings. In an effort to meet the needs of the college’s thirteen county service area, the college also continues to research ways to begin new programs and enhance existing programs, pursue new course delivery methods, and to provide new services as needed or requested. The college continues to control expenditures through conservative budgeting strategies, freezing the filling of some vacant positions when practical, limiting or reducing staff in certain areas, as well as purchasing techniques and controls that reduce costs and maximize value.

FYE 2017

As reflected in the schedules and narrative, the college’s financial position improved during the fiscal year ended August 31, 2017. A brief explanation for the significant changes has been discussed in other sections of the Financial Analysis. The college district shares a competitive market and strives to provide quality instructional programs and services while continuing to be

committed to controlling expenditures in order to continue to be fiscally responsible. This steadfast commitment has helped to maintain the stability of the college's financial position.

As in the past, the college continues to seek additional funding from outside sources such as federal, state, and non-governmental grants. In an effort to meet the needs of the college's thirteen county service area, the college continues to seek ways to begin new programs and enhance existing programs, pursue new course delivery methods, and to provide new services as needed or requested. The college also continues to control expenditures through conservative budgeting strategies, freezing the filling of some vacant positions when practical, limiting or reducing staff in certain areas, as well as purchasing techniques and controls that reduce costs and maximize value.

Capital Assets

FYE 2018

As of August 31, 2018 and 2017, the college district had invested \$86.2 million and \$86.5 million, respectively, in capital assets. Net of accumulated depreciation, the college district's net capital assets at August 31, 2018 totaled \$56.5 million and totaled \$58.6 million at August 31, 2017. Even though there was an approximate \$2.1 million decrease in net capital assets, the college district added approximately \$1.3 million in capital assets including \$501 thousand for security cameras and an electronic access system at the Big Spring and SWCID sites, \$155 thousand was added to the new Enterprise Resource Planning (ERP) system which was started last fiscal year, \$178 thousand for various instructional equipment, \$141 thousand for operating equipment and fleet upgrades, \$135 thousand to complete the upgrade to the fire alarm system on the Big Spring site that was started last year, \$67 thousand to renovate an existing building into a security building on the Big Spring site, and \$162 thousand to start a Building Trades facility at the San Angelo site. These capital asset improvements were offset by reductions including \$585 thousand to reduce the value for impairments to roofs and buildings from a major hail storm and \$2.5 million net increase in accumulated depreciation for 2017/18.

FYE 2017

As of August 31, 2017 and 2016, the college district had invested \$86.5 million and \$85.2 million, respectively, in capital assets. Net of accumulated depreciation, the college district's net capital assets at August 31, 2017 totaled \$58.6 million and totaled \$59.8 million at August 31, 2016. The approximate \$1.2 million decrease in net capital assets was largely due to the following: depreciation expense of \$2.5 million, the investment of \$602 thousand towards the initial stages of a new Enterprise Resource Planning (ERP) system of which planning and implementation will span several fiscal years; a dorm tuck pointing project at the women's dorm on the Big Spring site for \$145 thousand; the approximate \$173 thousand for vehicles and vans to address the college's aging vehicle pool district-wide; and to begin the installation and upgrades to the fire alarm system on the Big Spring site for approximately \$132 thousand with completion scheduled for 2017/18.

Debt Administration

FYE 2018

The college district's long-term debt was comprised of capital lease agreements, notes payable, the General Obligation Refunding Bonds issued September 2016, a consolidated revenue bond issued November 2009, and a consolidated revenue bond issued June 2013. The current portion was \$1,656,249 and the non-current portion was \$23,037,150 for a total of \$24,693,399 at August 31, 2018. The college entered into an operating lease agreement with the Shannon Medical Center in San Angelo beginning September 1, 2008 for instructional and office space at the St. John's campus. The lease has been amended twice to include additional space effective July 2009 and July 2011 and was renewed in 2018 to expire in 2023. Refer to Notes 6, 7, 8, 9, 10, and 11 to the financial statements for detailed information.

The college district continues to maintain a bond rating of "AA- with a stable outlook" with Standard and Poor's and Fitch Ratings on the General Obligation Refunding Bonds, Series 2016.

FYE 2017

The college district's long-term debt was comprised of capital lease agreements, notes payable, the General Obligation Refunding Bonds issued September 2016, a consolidated revenue bond issued November 2009, and a consolidated revenue bond issued June 2013. The current portion was \$1,613,440 and the non-current portion was \$24,987,633 for a total of \$26,601,073 at August 31, 2017. The college entered into operating lease agreements beginning September 1, 2008 for two facilities in San Angelo with the lease with Shannon Medical Center amended twice for additional space effective July 2009 and July 2011. Refer to Notes 6, 7, 8, 9, 10, and 11 to the financial statements for detailed information.

The college district was assigned a bond rating of "AA- with a stable outlook" with Standard and Poor's and Fitch Ratings on the General Obligation Refunding Bonds, Series 2016.

Currently Known Facts, Decisions, or Conditions

As previously noted, the District's main sources of revenue are tuition and fees, state funding, local taxes, gifts and grants. The overall economic condition of the state and the local area, both of which are heavily dependent on and influenced by the oil and natural gas industry, have an impact on each of these funding sources. The volatility of this market the past few years affected mineral and property values, particularly mineral values, significantly in the state and the local area. The college experienced a \$537 million decline in mineral values for fiscal year 2016 and an additional \$515 million decline for fiscal year 2017. The upswing in this market the past couple of years resulted in an increase in mineral values for the college by \$242 million for fiscal year 2018 resulting in an increase of \$157 million in net assessed value for the fiscal year. The growth in mineral and property values for fiscal year 2019 increased the net assessed value by approximately \$1.4 billion of which \$1.0 billion was attributable to mineral values.

With the additional property tax funds in fiscal year 2018, the college was able to complete some of the planned deferred repairs and maintenance projects and begin addressing security needs. The college plans to utilize the additional property tax funds from fiscal year 2018/19 for additional

deferred maintenance needs and to continue enhancing campus security as budget allows while striving to be fiscally responsible in doing so.

Enrollment and students' academic success are key factors with the current state funding model. In order to help address the slight decline in enrollment, the college continues its district wide marketing campaign catering to the specific demographics and culture of each service area. The college also adjusted tuition and fee rates as appropriate.

As noted, and most importantly, the college always seeks to improve and/or start new programs and services, if practical, to help address local workforce training needs, the changing workforce education market, and academic program needs in an effort to earnestly serve the communities in the college district's thirteen county service area.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the Howard County Junior College District's finances for all those with an interest in the college's finances.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Fiscal Officer/Controller, Howard College, 1001 Birdwell Lane, Big Spring, TX 79720.

Howard County Junior College District
STATEMENTS OF NET POSITION
Exhibit 1
August 31,

| | 2018 | 2017 |
|--|---------------|---------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 20,949,888 | \$ 17,958,827 |
| Accounts receivable, net | 3,017,965 | 3,042,339 |
| Prepaid expenses | 597,792 | 603,125 |
| Inventories for resale | 20,800 | 14,900 |
| Total current assets | 24,586,445 | 21,619,191 |
| Noncurrent Assets | | |
| Capital assets, net of accumulated depreciation | 56,503,383 | 58,640,707 |
| Total noncurrent assets | 56,503,383 | 58,640,707 |
| TOTAL ASSETS | 81,089,828 | 80,259,898 |
| Deferred Outflows of Resources | | |
| Deferred outflows related to pensions | 705,184 | 824,783 |
| Deferred outflows related to OPEB | 2,039,527 | - |
| Deferred outflows related to loss on refunding of debt | 240,917 | 266,277 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 2,985,628 | 1,091,060 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 1,006,309 | 935,154 |
| Accrued liabilities | 1,849,510 | 1,714,248 |
| Deposits payable | 36,769 | 35,013 |
| Unearned revenue | 2,299,563 | 1,748,519 |
| Accrued compensable absences | 257,488 | 222,155 |
| Net OPEB liability – current portion | 101,535 | - |
| Bonds and notes payable – current portion | 1,630,649 | 1,588,839 |
| Capital lease agreements – current portion | 25,600 | 24,601 |
| Total current liabilities | 7,207,423 | 6,268,529 |
| Noncurrent liabilities | | |
| Bonds and notes payable, noncurrent portion | 22,968,863 | 24,893,747 |
| Capital lease agreements, noncurrent portion | 68,287 | 93,886 |
| Net pension liability | 3,350,576 | 3,785,734 |
| Net OPEB liability, noncurrent portion | 19,908,952 | - |
| Total noncurrent liabilities | 46,296,678 | 28,773,367 |
| TOTAL LIABILITIES | 53,504,101 | 35,041,896 |
| Deferred Inflows of Resources | | |
| Deferred inflows related to pensions | 1,323,212 | 1,220,272 |
| Deferred inflows related to OPEB | 4,424,417 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 5,747,629 | 1,220,272 |
| NET POSITION | | |
| Net investment in capital assets | 32,050,901 | 32,305,911 |
| Restricted for: | | |
| Nonexpendable | | |
| Student aid | 1,167,758 | 1,177,723 |
| Expendable | | |
| Student aid | 596,303 | 575,413 |
| Instructional programs | 29,083 | 59,745 |
| Capital projects | 50,994 | 2,505 |
| Debt service | 1,647,983 | 1,570,845 |
| Other | 275,784 | 371,657 |
| Unrestricted | (10,995,080) | 9,024,991 |
| TOTAL NET POSITION (Schedule D) | \$ 24,823,726 | \$ 45,088,790 |

The accompanying notes are an integral part of these statements.

Howard County Junior College District
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Exhibit 2
Year Ended August 31,

| | 2018 | 2017 |
|---|---------------|---------------|
| REVENUES | | |
| Operating revenues | | |
| Tuition and fees (net of discounts of \$5,346,890 and \$5,011,089) | \$ 4,499,811 | \$ 4,558,820 |
| Federal grants and contracts | 2,051,749 | 2,119,315 |
| State grants and contracts | 639,777 | 612,539 |
| Local grants and contracts | 55,972 | 111,711 |
| Nongovernmental grants and contracts | 957,549 | 949,305 |
| Sales and services of educational activities | 430,979 | 408,984 |
| Auxiliary enterprises (net of discounts of \$1,104,124 and \$1,076,513) | 226,317 | 272,826 |
| Other operating revenues | 583,521 | 394,116 |
| Total operating revenues (Schedule A) | 9,445,675 | 9,427,616 |
| EXPENSES | | |
| Operating expenses | | |
| Instruction | 9,394,076 | 9,529,202 |
| Public service | 1,362,028 | 1,105,273 |
| Academic support | 1,760,020 | 1,799,523 |
| Student services | 2,484,474 | 2,400,453 |
| Institutional support | 7,047,953 | 6,554,883 |
| Operation and maintenance of plant | 3,695,597 | 3,647,964 |
| Scholarships and fellowships | 2,128,599 | 1,968,209 |
| Auxiliary enterprises | 2,349,049 | 2,390,485 |
| Depreciation | 2,543,166 | 2,529,490 |
| Total operating expenses (Schedule B) | 32,764,962 | 31,925,482 |
| Operating loss | (23,319,287) | (22,497,866) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| State appropriations | 10,956,813 | 10,984,961 |
| Property taxes for operations | 8,030,086 | 7,604,949 |
| Property taxes for debt service | 1,462,623 | 1,463,648 |
| Payments in lieu of taxes | 260,465 | 156,356 |
| Federal revenue, non operating | 4,840,235 | 4,120,246 |
| Investment income (net of investment expenses) | 114,211 | 41,601 |
| Interest on capital related debt | (648,653) | (725,921) |
| Gain on disposal of fixed assets | 772,158 | 235,281 |
| Other non-operating revenues | 434,576 | 212,342 |
| Net non-operating revenues (Schedule C) | 26,222,514 | 24,093,463 |
| Income before other revenue | 2,903,227 | 1,595,597 |
| Other revenue | | |
| Capital contributions | 189,806 | 57,017 |
| Increase in net position | 3,093,033 | 1,652,614 |
| Net position – beginning of year | 45,088,790 | 43,436,176 |
| Cumulative effect of change in accounting principle | (23,358,097) | - |
| Net position – beginning of year, as adjusted | 21,730,693 | 43,436,176 |
| Net position – end of year | \$ 24,823,726 | \$ 45,088,790 |

The accompanying notes are an integral part of these statements.

Howard County Junior College District
STATEMENTS OF CASH FLOWS
Exhibit 3
Year ended August 31,

| | 2018 | 2017 |
|--|-----------------|-----------------|
| Cash flows from operating activities | | |
| Receipts from students and other customers | \$ 5,161,409 | \$ 5,173,208 |
| Receipts of grants and contracts | 4,114,946 | 4,011,796 |
| Other receipts | 1,018,097 | 839,632 |
| Payments to or on behalf of employees | (18,889,721) | (17,427,465) |
| Payments to suppliers for goods and services | (8,795,317) | (8,261,621) |
| Payments of scholarships | (2,128,599) | (1,968,209) |
| Net cash used by operating activities | (19,519,185) | (17,632,659) |
| Cash flows from noncapital financing activities | | |
| Property tax receipts and payments in lieu of taxes | 8,381,624 | 7,640,565 |
| Receipts of state appropriations | 9,744,350 | 9,195,722 |
| Receipts of non-operating federal revenue | 4,884,247 | 4,305,591 |
| Net cash provided by noncapital financing activities | 23,010,221 | 21,141,878 |
| Cash flows from capital and related financing activities | | |
| Property tax receipts | 1,470,831 | 1,505,440 |
| Capital contracts, grants, and gifts | 189,806 | 57,017 |
| Payments from accounts payable related to fixed asset additions | (99,797) | (197,230) |
| Purchases of capital assets | (1,348,502) | (1,195,075) |
| Proceeds from sale of capital assets | 1,714,818 | 280,678 |
| Payments on capital debt and leases | (1,613,436) | (1,611,904) |
| Interest payments on capital debt and leases | (927,906) | (927,235) |
| Net cash used by capital and related financing activities | (614,186) | (2,088,309) |
| Cash flows from investing activities | | |
| Investment earnings | 114,211 | 41,601 |
| Increase in cash and cash equivalents | 2,991,061 | 1,462,511 |
| Cash and cash equivalents – September 1 | 17,958,827 | 16,496,316 |
| Cash and cash equivalents – August 31 | \$ 20,949,888 | \$ 17,958,827 |
| Reconciliation of operating loss to net cash used by operating activities: | | |
| Operating loss | \$ (23,319,287) | \$ (22,497,866) |
| Adjustments to reconcile operating loss to net cash used by operating activities | | |
| Depreciation expense | 2,543,166 | 2,529,490 |
| Other revenue | 434,576 | 445,516 |
| Payments made directly by state for benefits | 1,212,463 | 1,789,239 |
| Changes in assets and liabilities: | | |
| Receivables, net | 31,081 | 98,889 |
| Inventories | (5,900) | (3,400) |
| Other assets | 5,333 | (273,374) |
| Deferred outflows related to pensions | 119,599 | (151,366) |
| Deferred outflows related to OPEB | (2,039,527) | - |
| Accounts payable | 170,952 | 236,477 |
| Accrued liabilities | 145,637 | 47,477 |
| Unearned revenue | 401,044 | 54,427 |
| Deposits payable | 1,756 | (1,812) |
| Accrued compensable absences | 35,333 | 4,886 |
| Net pension liability | (435,158) | (147,724) |
| Net OPEB liability | (3,347,610) | - |
| Deferred inflows related to pensions | 102,940 | 236,482 |
| Deferred inflows related to OPEB | 4,424,417 | - |
| Net cash used by operating activities | \$ (19,519,185) | \$ (17,632,659) |
| Noncash investing, capital, and financing activities: | | |
| Acquisition of capital assets through accounts payable | \$ - | \$ 99,797 |
| Loss on refunding, bond cost expense, and interest expense through refunding of debt | - | 558,578 |
| Acquisition of capital assets through capital lease | - | 71,405 |
| Amortization of loss on refunding and bond premium | 268,878 | 215,884 |
| Net effect of noncash transactions | \$ 268,878 | \$ 945,664 |

The accompanying notes are an integral part of these statements.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 1 – REPORTING ENTITY

The Howard County Junior College District (District) was created by a county-wide vote on November 17, 1945. The District is located in Howard County, Texas, and operates as a county-wide Junior College District under the laws of the State of Texas, to serve the educational needs of Howard County and the surrounding communities. The District is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*. The District also operates extension campuses, some of which are located outside of Howard County. The District also operates the Southwest Collegiate Institute for the Deaf (SWCID), located in Big Spring, which was established as part of the District by the Board on November 6, 1979. All of the extension campuses' financial activity is included in the District's financial statements. While the District receives funding from local, state and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The District offers course work designed to prepare students to continue their education at senior institutions or to enter specific occupational areas at the end of a one- or two-year period of specialized training in occupational education. Arts and Sciences programs are designed for transfer to baccalaureate degree-granting institutions. Associate in Arts and Associate in Science degrees are available to students completing a two-year curriculum. Vocational/Technical Education programs seek to develop intellectual abilities and skills that will enable the student to enter a technical or semi-professional occupation. It is the purpose of these programs to prepare the student for jobs in industry.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting guidelines*

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

B. *Tuition discounting*

Texas Public Education Grants

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

Title IV, Higher Education Act Program Funds

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

Other tuition discounts

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

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. *Basis of accounting*

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

D. *Budgetary data*

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

E. *Cash and cash equivalents*

The District's cash and cash equivalents are considered to be cash on hand, cash in bank, demand deposits, time deposits, and investments with original maturities of three months or less from the date of acquisition.

F. *Deferred inflows*

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

G. *Deferred outflows*

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

H. *Investments*

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, investments are reported at fair value or amortized cost. Fair values are based on published market rates. The governing board has designated public funds investment pools comprised of \$530,576 and \$522,917 as of August 31, 2018 and 2017, respectively, to be cash equivalents.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. *Inventories*

Inventories consist of livestock. Inventories are stated at the lower of cost or market on a first-in, first-out basis and are charged to expense as consumed.

J. *Capital assets*

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The District's capitalization policy includes real or personal property with a value equal to or greater than \$5,000 and has an estimated life of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred. The District 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 | 50 years |
| Facilities and other improvements | 20 years |
| Library books | 15 years |
| Furniture, machinery, vehicles and other equipment | 10 years |
| Telecommunications and peripheral equipment | 5 years |

K. *Capitalization of interest costs on borrowings*

The District capitalizes interest costs on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the years ended August 31, 2018 and 2017, the District capitalized no interest in connection with capital projects. The total amount of interest cost incurred for the year ended August 31, 2018 and 2017 was \$648,653 and \$725,921, respectively.

L. *Unearned revenue*

Tuition and fees of \$1,198,942 and \$1,127,647, federal grants of \$556,050 and \$400,250, state grants of \$305,249 and \$34,720, local grants of \$27,845 and \$500, and private grants of \$211,477 and \$185,402 have been reported as unearned revenue at August 31, 2018 and 2017, respectively.

M. *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.

N. *Operating and non-operating revenue and expense policy*

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The operation of the bookstore and food service is not performed by the District.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

N. *Operating and non-operating revenue and expense policy – continued*

It is the District’s policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

O. *Pensions*

The District participates in the Teacher Retirement System of Texas (TRS) pension plan, a multi-employer cost sharing defined benefit pension plan with a special funding situation. The fiduciary net position of TRS has been determined based on 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.

P. *Other post-employment benefits (OPEB)*

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 postemployment benefits; OPEB expense; and information about assets, liabilities and additions to/deductions from SRHP’s fiduciary net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

Q. *New pronouncements*

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The District has implemented this Statement for the fiscal year ended August 31, 2018 to comply with GASB requirements.

Beginning net position as of September 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75.

| | |
|--|----------------------|
| Beginning net position | \$ 45,088,790 |
| Prior period adjustment – implementation of GASB 75: | |
| Net OPEB liability (measurement date as of August 31, 2017) | (23,908,279) |
| Deferred outflows – District contributions made during FY 2017 | <u>550,182</u> |
| Beginning net position, as restated | <u>\$ 21,730,693</u> |

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Q. *New pronouncements - continued*

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. GASB 81 is effective for financial statements for periods beginning after December 15, 2016. The District has implemented this Statement for the fiscal year ended August 31, 2018 to comply with GASB requirements and the adoption of this Statement did not have a material effect on the District's financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017* (GASB 85). The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (OPEB). Specifically, this statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer-defined benefit OPEB plans

The District has implemented this Statement for the fiscal year ended August 31, 2018 to comply with GASB requirements and the adoption of this Statement did not have a material effect on the District's financial statements, except for the requirements related to OPEB.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Q. *New pronouncements - continued*

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The District has implemented this Statement for the fiscal year ended August 31, 2018 to comply with GASB requirements and the adoption of this Statement did not have a material effect on the District’s financial statements.

R. *Pending pronouncements*

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred and requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement. In addition, this statement requires the current value of a government’s AROs to be adjusted for the effects of general inflation or deflation, at least annually, and requires a government to evaluate all relevant factors, at least annually, to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. In cases where governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities, this statement requires disclosure of how those funding and assurance requirements are being met, as well as the amount of any assets restricted for payment of the government’s AROs, if not separately displayed in the financial statements. This statement also requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. GASB 83 is effective for reporting periods beginning after June 15, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 is effective for reporting periods beginning after December 15, 2018.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

R. *Pending pronouncements - continued*

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. GASB 87 is effective for reporting periods beginning after December 15, 2019.

The District has not yet completed the process of evaluating the impact of GASB Statement Nos. 83, 84, and 87 on its financial statements.

NOTE 3 – AUTHORIZED INVESTMENTS

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) local government investment pools continuously rated no lower than AAA or AAAM or equivalent by a nationally recognized rating service, (4) certificates of deposit and (5) other instruments and obligations authorized by statute and approved by Board policy.

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount of the District’s deposits at August 31, 2018 and 2017 was \$20,413,062 and \$17,428,439, respectively. Total bank balances at August 31, 2018 and 2017 were \$20,649,187 and \$17,580,459, respectively. Of the bank balances, \$307,147 and \$1,029,578 were covered by federal deposit insurance and \$20,342,040 and \$16,550,881 were uninsured but collateralized in accordance with provisions of the Public Funds Investment Act as of August 31, 2018 and 2017, respectively. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 per depositor, per insured bank, for each account ownership category.

Cash and Deposits as reported on Exhibit 1, Statements of Net Position, consist of the items reported below, as of August 31,:

| | 2018 | 2017 |
|-------------------------|---------------|---------------|
| Bank Deposits | | |
| Demand deposits | \$ 9,450,644 | \$ 17,428,439 |
| Time deposits | 10,962,418 | - |
| | 20,413,062 | 17,428,439 |
| Cash on hand | 6,250 | 7,471 |
| Total Cash and Deposits | \$ 20,419,312 | \$ 17,435,910 |

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 4 – DEPOSITS AND INVESTMENTS - Continued

Reconciliation of deposits and investments to Exhibit 1, as of August 31,

| | | |
|--|----------------------|----------------------|
| <u>Total deposits and investments:</u> | <u>2018</u> | <u>2017</u> |
| Per Exhibit 1: | | |
| Cash and cash equivalents | \$ 20,949,888 | \$ 17,958,827 |
| Total deposits and investments | <u>\$ 20,949,888</u> | <u>\$ 17,958,827</u> |
| Per Note 4: | | |
| Deposits and cash on hand | \$ 20,419,312 | \$ 17,435,910 |
| Investments | <u>530,576</u> | <u>522,917</u> |
| Total | <u>\$ 20,949,888</u> | <u>\$ 17,958,827</u> |

As of August 31, 2018, the District had the following investments and maturities:

| | | |
|------------------------|---------------|----------------------------------|
| | | Investment Maturities (in Years) |
| <u>Investment Type</u> | <u>Amount</u> | <u>Less than 1</u> |
| Investment Pool | \$ 530,576 | \$ 530,576 |

The Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

TexPool is managed according to requirements of the Public Funds Investment Act and TexPool Investment Policy. Investments in TexPool are stated at amortized cost. TexPool seeks to maintain a stable \$1.00 price per unit; however, this is not guaranteed or insured by the State of Texas.

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

Credit Risk – In accordance with state law and the District’s investment policy, investments in investment pools must be rated at least AAA. The District’s investment pools are rated AAAM.

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

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2018 was as follows:

| | Balance September 1, 2017 | Increases | Decreases | Balance August 31, 2018 |
|---|---------------------------------|---------------------|-----------------------|-------------------------------|
| Not depreciated: | | | | |
| Land | \$ 371,871 | \$ - | \$ - | \$ 371,871 |
| Construction in process | <u>140,015</u> | <u>337,120</u> | <u>(201,881)</u> | <u>275,254</u> |
| Subtotal | <u>511,886</u> | <u>337,120</u> | <u>(201,881)</u> | <u>647,125</u> |
| Buildings and other capital assets | | | | |
| Buildings and building improvements | 51,358,052 | 201,881 | (840,831) | 50,719,102 |
| Leasehold improvements | 16,929,806 | - | - | 16,929,806 |
| Other real estate improvements | <u>8,719,155</u> | <u>16,467</u> | <u>-</u> | <u>8,735,622</u> |
| Total buildings and other real estate improvements | 77,007,013 | 218,348 | (840,831) | 76,384,530 |
| Library books | 895,013 | 20,254 | (134,857) | 780,410 |
| Furniture, machinery, and equipment | <u>8,074,892</u> | <u>974,660</u> | <u>(664,724)</u> | <u>8,384,828</u> |
| Total buildings and other capital assets | <u>85,976,918</u> | <u>1,213,262</u> | <u>(1,640,412)</u> | <u>85,549,768</u> |
| Accumulated depreciation | | | | |
| Buildings and building improvements | (16,429,855) | (970,122) | 256,300 | (17,143,677) |
| Leasehold improvements | (2,313,905) | (492,958) | - | (2,806,863) |
| Other real estate improvements | <u>(2,949,451)</u> | <u>(388,780)</u> | <u>-</u> | <u>(3,338,231)</u> |
| Total buildings and other real estate improvements | (21,693,211) | (1,851,860) | 256,300 | (23,288,771) |
| Library books | (740,505) | (20,286) | 134,822 | (625,969) |
| Furniture, machinery, and equipment | <u>(5,414,381)</u> | <u>(671,019)</u> | <u>306,630</u> | <u>(5,778,770)</u> |
| Total buildings and other capital assets | <u>(27,848,097)</u> | <u>(2,543,165)</u> | <u>697,752</u> | <u>(29,693,510)</u> |
| Net capital assets | <u>\$ 58,640,707</u> | <u>\$ (992,783)</u> | <u>\$ (1,144,541)</u> | <u>\$ 56,503,383</u> |

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

| | Balance September 1, 2016 | Increases | Decreases | Balance August 31, 2017 |
|-------------------------|---------------------------------|----------------|-----------------|-------------------------------|
| Not depreciated: | | | | |
| Land | \$ 371,871 | \$ - | \$ - | \$ 371,871 |
| Construction in process | <u>55,092</u> | <u>145,965</u> | <u>(61,042)</u> | <u>140,015</u> |
| Subtotal | <u>426,963</u> | <u>145,965</u> | <u>(61,042)</u> | <u>511,886</u> |

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 5 – CAPITAL ASSETS - Continued

| | Balance September 1, 2016 | Increases | Decreases | Balance August 31, 2017 |
|--|---------------------------------|-----------------------|---------------------|-------------------------------|
| Buildings and other capital assets | | | | |
| Buildings and building improvements | \$ 51,183,321 | \$ 174,731 | \$ - | \$ 51,358,052 |
| Leasehold improvements | 16,949,206 | 19,400 | (38,800) | 16,929,806 |
| Other real estate improvements | <u>8,649,955</u> | <u>76,575</u> | <u>(7,375)</u> | <u>8,719,155</u> |
| Total buildings and other real estate improvements | 76,782,482 | 270,706 | (46,175) | 77,007,013 |
| Library books | 910,401 | 17,525 | (32,913) | 895,013 |
| Furniture, machinery, and equipment | <u>7,117,921</u> | <u>993,124</u> | <u>(36,153)</u> | <u>8,074,892</u> |
| Total buildings and other capital assets | <u>84,810,804</u> | <u>1,281,355</u> | <u>(115,241)</u> | <u>85,976,918</u> |
| Accumulated depreciation | | | | |
| Buildings and building improvements | (15,431,479) | (998,376) | - | (16,429,855) |
| Leasehold improvements | (1,824,028) | (491,018) | 1,141 | (2,313,905) |
| Other real estate improvements | <u>(2,565,722)</u> | <u>(385,056)</u> | <u>1,327</u> | <u>(2,949,451)</u> |
| Total buildings and other real estate improvements | (19,821,229) | (1,874,450) | 2,468 | (21,693,211) |
| Library books | (752,912) | (20,329) | 32,736 | (740,505) |
| Furniture, machinery, and equipment | <u>(4,814,309)</u> | <u>(634,711)</u> | <u>34,639</u> | <u>(5,414,381)</u> |
| Total buildings and other capital assets | <u>(25,388,450)</u> | <u>(2,529,490)</u> | <u>69,843</u> | <u>(27,848,097)</u> |
| Net capital assets | <u>\$ 59,849,317</u> | <u>\$ (1,102,170)</u> | <u>\$ (106,440)</u> | <u>\$ 58,640,707</u> |

NOTE 6 – NON-CURRENT LIABILITIES

Non-current liability activity for the year ended August 31, 2018 was as follows:

| | Balance September 1, 2017 | Additions | Reductions | Balance August 31, 2018 | Current Portion |
|-----------------------------|---------------------------------|---------------------|-----------------------|-------------------------------|---------------------|
| Leases, bonds and notes | | | | | |
| Leases | \$ 118,487 | \$ - | \$ (24,600) | \$ 93,887 | \$ 25,600 |
| Bonds | 24,930,000 | - | (1,550,000) | 23,380,000 | 1,590,000 |
| Unamortized bond premium | 1,328,102 | - | (294,238) | 1,033,864 | - |
| Notes payable | 224,484 | - | (38,836) | 185,648 | 40,649 |
| Net pension liability | 3,785,734 | 663 | (435,821) | 3,350,576 | - |
| Net OPEB liability | <u>23,908,279</u> | <u>2,073,297</u> | <u>(5,971,089)</u> | <u>20,010,487</u> | <u>101,535</u> |
| Total long-term liabilities | <u>\$ 54,295,086</u> | <u>\$ 2,073,960</u> | <u>\$ (8,314,584)</u> | <u>\$ 48,054,462</u> | <u>\$ 1,757,784</u> |

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 6 – NON-CURRENT LIABILITIES – Continued

Non-current liability activity for the year ended August 31, 2017 was as follows:

| | Balance September 1, 2016 | Additions | Reductions | Balance August 31, 2017 | Current Portion |
|-----------------------------|---------------------------------|----------------------|-----------------------|-------------------------------|---------------------|
| Leases, bonds and notes | | | | | |
| Leases | \$ 58,983 | \$ 71,405 | \$ (11,901) | \$ 118,487 | \$ 24,601 |
| Bonds | 27,545,000 | 12,780,000 | (15,395,000) | 24,930,000 | 1,550,000 |
| Unamortized bond premium | (9,715) | 1,608,866 | (271,049) | 1,328,102 | - |
| Notes payable | 269,487 | - | (45,003) | 224,484 | 38,839 |
| Net pension liability | <u>3,933,458</u> | <u>171,213</u> | <u>(318,937)</u> | <u>3,785,734</u> | <u>-</u> |
| Total long-term liabilities | <u>\$ 31,797,213</u> | <u>\$ 14,631,484</u> | <u>\$(16,041,890)</u> | <u>\$ 30,386,807</u> | <u>\$ 1,613,440</u> |

NOTE 7 – DEBT AND LEASE OBLIGATIONS

Debt service requirements at August 31, 2018, were as follows:

| For the year ending <u>August 31,</u> | <u>Bonds</u> | |
|--|----------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2019 | \$ 1,590,000 | \$ 869,080 |
| 2020 | 1,635,000 | 824,929 |
| 2021 | 1,685,000 | 774,076 |
| 2022 | 1,750,000 | 710,673 |
| 2023 | 1,820,000 | 644,953 |
| 2024-2028 | 10,315,000 | 2,000,344 |
| 2029-2033 | 3,845,000 | 482,663 |
| 2034 | <u>740,000</u> | <u>13,875</u> |
| | <u>\$ 23,380,000</u> | <u>\$ 6,320,593</u> |

Obligations under capital leases at August 31, 2018, were as follows:

| For the year ending <u>August 31,</u> | |
|---|------------------|
| 2019 | \$ 31,228 |
| 2020 | 31,228 |
| 2021 | 28,184 |
| 2022 | <u>15,040</u> |
| | 105,680 |
| Less interest portion | <u>11,793</u> |
| Present value of net minimum lease payments | 93,887 |
| Less current portion | <u>25,600</u> |
| Noncurrent portion | <u>\$ 68,287</u> |

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 8 – BONDS PAYABLE

General information related to bonds payable is summarized below:

- General Obligation Refunding Bonds, Series 2016.
 - Refunded \$13,840,000 of the General Obligation Bonds, Series 2007.
 - Issued refunding bonds on September 28, 2016.
 - \$12,780,000, all authorized bonds have been issued.
 - Source of revenue for debt service – continuing direct annual ad valorem tax levied by the District on all taxable property therein.
 - \$11,720,000 and \$12,705,000 outstanding as of August 31, 2018 and 2017, respectively.

The range of installment payments on an annual basis is from \$1,005,000 to \$1,400,000 with interest rates ranging from 2.00% to 5.00%, with the final installment due February 15, 2028.

- Consolidated Fund Revenue Bonds, Series 2013.
 - Construction and equipment for two college buildings and related infrastructure.
 - Issued June 1, 2013.
 - \$10,600,000: \$9,790,000 “Tax-Exempt Bonds” and \$810,000 “Taxable Bonds”; all authorized bonds have been issued.
 - Source of revenue for debt service – tuition pledge, building use fees, student service fees, lab fees, other fees, gross revenue of Auxiliary Services, and investment earnings on all investments.
 - \$9,060,000 and \$9,465,000 outstanding as of August 31, 2018 and 2017, respectively.

The range of installment payments on an annual basis is from \$420,000 to \$740,000 with an interest rate of 3.75%, with the final installment due October 1, 2033.

- Consolidated Fund Revenue Bonds, Series 2009.
 - Renovations, remodel and construction of student housing facilities.
 - Issued November 1, 2009.
 - \$3,570,000; all authorized bonds have been issued.
 - Source of revenue for debt service – tuition pledge, building use fees, student service fees, lab fees, gross revenue of Auxiliary Services, other fees, and investment earnings on all investments.
 - \$2,600,000 and \$2,760,000 outstanding as of August 31, 2018 and 2017, respectively.

The range of installment payments on an annual basis is from \$165,000 to \$275,000 with an interest rate of 4.60%, with the final installment due October 1, 2029.

NOTE 9 – CAPITAL LEASE AGREEMENTS

Certain leases to finance the purchase of equipment are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such equipment under capital leases as of August 31, 2018 and 2017, is \$132,444 and \$132,444, respectively, and accumulated amortization on those assets is \$42,394 and \$15,905, respectively, as of August 31, 2018 and 2017. Amortization expense on assets recorded under capital leases is included with depreciation expense.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 10 – OPERATING LEASE AGREEMENTS

The District entered into a lease beginning September 1, 2008 for a facility under a long-term, non-cancelable operating lease agreement. The lease was renewed in 2018 and expires in 2023. Lease expenses under these leases were \$166,370 and \$166,370 for the years ended August 31, 2018 and 2017, respectively.

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

| | |
|---------------------|------------|
| For the year ending | |
| <u>August 31,</u> | |
| 2019 | \$ 166,370 |
| 2020 | 166,370 |
| 2021 | 166,370 |
| 2022 | 166,370 |
| 2023 | 166,370 |

NOTE 11 – NOTES PAYABLE

The District has notes payable consisting of the following at August 31, 2018:

| | |
|--|-------------------|
| 4.50% note payable, payable in monthly installments of \$4,023, maturing November 2022, collateralized by the District's bank deposits | \$ 185,648 |
| Less current maturities | <u>40,649</u> |
| | <u>\$ 144,999</u> |

The following is a schedule by year of future maturities required under the notes:

| | |
|-------------------------------|-------------------|
| <u>Year ending August 31,</u> | |
| 2019 | \$ 40,649 |
| 2020 | 42,527 |
| 2021 | 44,524 |
| 2022 | 46,599 |
| 2023 | <u>11,349</u> |
| | <u>\$ 185,648</u> |

NOTE 12 – ENDOWMENTS

When spending an endowment's net appreciation, donor established guidelines are followed. If the donor does not provide specific guidelines, State law permits the Board of Trustees to authorize the expenditure of net appreciation of an endowment. The Scholarship Committee meets each semester to review awards and insure endowment guidelines are followed. District investment policy specifies permissible investments of endowment funds with maturity dates matching semester scholarship requirements.

At August 31, 2018, net appreciation on investment of donor-restricted endowments available for authorization for expenditure was \$14,040, of which \$14,005 was restricted for student aid, instruction, and athletics.

At August 31, 2017, net appreciation on investment of donor-restricted endowments available for authorization for expenditure was \$2,447, of which \$2,440 was restricted for student aid, instruction, and athletics.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 13 – DEFINED BENEFIT PENSION PLANS

Plan Description

The District 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [http://www.trs.texas.gov/TRS%20Documents/cafr 2017.pdf](http://www.trs.texas.gov/TRS%20Documents/cafr%202017.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 and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, whose formulas use the three highest annual salaries. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic cost of living adjustments (COLA). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

Contributions

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

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

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 and thereafter. The 85th and 84th Texas Legislature, General Appropriations Act (GAA), established the employer contribution rates for fiscal years 2018 and 2017.

| | <u>Contribution Rates</u> | |
|--|---------------------------|-------------|
| | <u>2018</u> | <u>2017</u> |
| Member | 7.7% | 7.7% |
| Non-Employer Contributing Entity (State) | 6.8% | 6.8% |
| Employers | 6.8% | 6.8% |
| | <u>2018</u> | <u>2017</u> |
| Member Contributions | \$ 664,354 | \$ 602,652 |
| State of Texas On-behalf Contributions | \$ 202,938 | \$ 201,630 |
| District Contributions | \$ 367,476 | \$ 329,473 |

The District’s contributions to the TRS pension plan in 2018 and 2017 were \$367,476 and \$329,473, respectively, as reported in the Schedule of District Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2018 were \$229,518.

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

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

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

Actuarial Assumptions

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

| | |
|---|-----------------------------|
| • Valuation date | August 31, 2017 |
| • Actuarial cost method | Individual entry age normal |
| • Asset valuation method | Market value |
| • Single discount rate | 8.00% |
| • Long-term expected investment rate of return | 8.00% |
| • Municipal Bond Rate* | N/A* |
| • Last year ending August 31 in the 2017 to 2116 Projection period (100 years) | 2116 |
| • Inflation | 2.5% |
| • Salary increases including inflation | 3.50% to 9.50% |
| • Benefit changes during the year | None |
| • Ad hoc post-employment benefit changes | None |

* If a municipal bond rate was to be used, the rate would be 3.42 percent as of August 2017 (i.e., the rate closest to but not later than the Measurement Date). The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index.”

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System’s target asset allocation as of both measurement dates August 31, 2017 and 2016, are summarized below:

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Geometric Real Rate of Return</u> | <u>Expected Contribution to Long-Term Portfolio Returns*</u> |
|-------------------------------|--------------------------|---|--|
| 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 | 16.0% | 5.1% | 1.1% |
| Energy and Natural Resources | 3.0% | 6.6% | 0.2% |
| Commodities | 0.0% | 1.2% | 0.0% |
| Risk Parity | | | |
| Risk Parity | <u>5.0%</u> | <u>6.7%</u> | <u>0.3%</u> |
| Inflation Expectation | | | 2.2% |
| Alpha | | | <u>1.0%</u> |
| Total | <u>100.0%</u> | | <u>8.7%</u> |

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

Source: Teacher Retirement System of Texas 2017 and 2016 Comprehensive Annual Financial Reports

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (8%) in measuring the 2018 Net Pension Liability.

| | <u>1% Decrease in Discount Rate (7.0%)</u> | <u>Discount Rate (8.0%)</u> | <u>1% Increase in Discount Rate (9.0%)</u> |
|---|--|-----------------------------|--|
| District's proportionate share of the net pension liability | \$ 5,648,409 | \$ 3,350,576 | \$ 1,437,257 |

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

| | <u>1% Decrease in Discount Rate (7.0%)</u> | <u>Discount Rate (8.0%)</u> | <u>1% Increase in Discount Rate (9.0%)</u> |
|---|--|-----------------------------|--|
| District's proportionate share of the net pension liability | \$ 5,859,041 | \$ 3,785,734 | \$ 2,027,150 |

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

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

At August 31, 2018 and 2017, the District reported a liability of \$3,350,576 and \$3,785,734, respectively, for its proportionate share of the TRS’s net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | 2018 | 2017 |
|--|--------------|--------------|
| District’s proportionate share of the collective net pension liability | \$ 3,350,576 | \$ 3,785,734 |
| State’s proportionate share that is associated with the District | 1,984,031 | 2,393,316 |
| Total | \$ 5,334,607 | \$ 6,179,050 |

The net pension liability was measured as of August 31, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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 periods September 1, 2016 thru August 31, 2017 and September 1, 2015 thru August 31, 2016, respectively.

At the measurement date of August 31, 2017, the employer’s proportion of the collective net pension liability was 0.0104788637%, which was an increase of 0.0004606504% from its proportion measured as of August 31, 2016.

For the year ended August 31, 2018, the District recognized pension expense of \$151,334 and revenue of \$151,334 for support provided by the State. For the year ended August 31, 2017, the District recognized pension expense of \$248,369 and revenue of \$248,369 for support provided by the State. The total payroll for all District employees was \$15,210,166 and \$13,911,903 for the fiscal years ended August 31, 2018 and 2017, respectively. The total payroll of employees covered by the Teacher Retirement System was \$8,638,856 and \$7,831,407.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual actuarial experience | \$ 49,020 | \$ 180,692 |
| Changes in actuarial assumptions | 152,624 | 87,374 |
| Net difference between projected and actual investment earnings | - | 244,182 |
| Changes in proportion and difference between the employer’s contributions and the proportionate share of contributions | 136,064 | 810,964 |
| Contributions paid to TRS subsequent to the measurement date | 367,476 | - |
| Total | \$ 705,184 | \$1,323,212 |

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

The \$367,476 reported as deferred outflows of resources related to pensions, resulting from contributions paid to TRS subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending August 31, 2019.

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

| | Deferred Outflows of <u>Resources</u> | Deferred Inflows of <u>Resources</u> |
|--|--|---|
| Differences between expected and actual actuarial experience | \$ 59,360 | \$ 113,040 |
| Changes in actuarial assumptions | 115,382 | 104,936 |
| Net difference between projected and actual investment earnings | 320,568 | - |
| Changes in proportion and difference between the employer’s contributions and the proportionate share of contributions | - | 1,002,296 |
| Contributions paid to TRS subsequent to the measurement date | <u>329,473</u> | <u>-</u> |
| Total | <u>\$ 824,783</u> | <u>\$1,220,272</u> |

The \$329,473 reported as deferred outflows of resources related to pensions, resulting from contributions paid to TRS subsequent to the measurement date, was recognized as a reduction of the net pension liability in the year ended August 31, 2018.

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

| For the year ending | <u>Pension Expense Amount</u> |
|---------------------|-------------------------------|
| <u>August 31,</u> | |
| 2019 | \$ (277,142) |
| 2020 | (63,266) |
| 2021 | (293,569) |
| 2022 | (332,906) |
| 2023 | (33,231) |
| Thereafter | <u>14,610</u> |
| | <u>\$ (985,504)</u> |

NOTE 14 – DEFINED CONTRIBUTION PENSION PLANS

Optional Retirement Plan – Defined Contribution Plan

Plan Description. Participation in the Optional Retirement Plan Program is in lieu of participation in the Teacher 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.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 14 – DEFINED CONTRIBUTION PENSION PLANS - Continued

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas Legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.6 percent and 6.65 percent, respectively. The District contributes 0.71 percent for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. 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 District was \$139,893 and \$118,273 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 District.

The total payroll for all District employees was \$15,210,166 and \$13,911,903 for the fiscal years ended August 31, 2018 and 2017, respectively. The total payroll of employees covered by the Optional Retirement System was \$4,431,213 and \$4,184,074 for the fiscal years ended August 31, 2018 and 2017, respectively.

NOTE 15 – DEFERRED COMPENSATION PROGRAM

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

NOTE 16 – COMPENSABLE ABSENCES

All full-time exempt and non-exempt employees working twelve months are entitled to accrue paid vacation time from the date of employment. On September 1, current employees are credited 80 hours to be used during the year. Employees hired after September 1 accrue vacation time at 6.67 hours each month worked. The monthly vacation credit may be pro-rated if the employee's regular work week is less than 38 hours in the fall and spring; and 36 hours in the summer. The District's policy allows employees to carry their accrued leave forward from one fiscal year to the next fiscal year with a maximum accrual of 160 hours per employee. The District recognizes the accrued liability at August 31, 2018 and 2017 of \$257,488 and \$222,155, respectively, for the unpaid annual leave in the Unrestricted Current Fund. Sick leave is earned at the rate of 8 hours per month for non-faculty and 6 hours per month for faculty and may be pro-rated if the employee's work week is less than 38 hours. The maximum sick leave that may be accumulated is 720 hours. The District's policy is to recognize the cost of sick leave when paid. The liability is not recorded in the financial statements because experience indicates the expenditure for sick leave to be minimal.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 17 – 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's contribution per full-time employee was \$621.90 per month for the year ended August 31, 2018 (\$617.30 per month for 2017) and totaled \$921,235 for 2018 (\$1,422,598 for the year 2017). The cost of providing those benefits for 109 retirees in the year ended 2018 was \$300,873 (retiree benefits for 119 retirees cost \$461,817 in 2017). For 232 active employees, the cost of providing benefits was \$620,362 for the year ended 2018 (active employee benefits for 225 employees cost \$960,781 for the year ended 2017). S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

NOTE 18 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The District participates in a cost-sharing, multiple-employer, other post-employment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain postemployment health care, life and dental insurance benefits to retired employees of participating universities, community 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 these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

OPEB Plan Fiduciary Net Position

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

Benefits Provided

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

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 18 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Contributions

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

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

Maximum Monthly Employer Contribution
Retiree Health and Basic Life Premium

| | 2017 |
|----------------------|--------|
| Retiree only | \$ 617 |
| Retiree and spouse | 971 |
| Retiree and children | 854 |
| Retiree and family | 1,208 |

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

| | 2018 |
|--|--------------|
| Employers | \$ 2,033,603 |
| Members (Employees) | \$ 633,197 |
| Nonemployer Contributing Entity (State of Texas) | \$ 1,395,340 |

Actuarial Assumptions

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

- Valuation date August 31, 2017
- Actuarial cost method Entry age
- Amortization method Level percent of pay, open
- Remaining amortization period 30 years
- Asset valuation method Not applicable
- Discount rate 3.51%
- Projected annual salary increase
 (includes inflation) 2.50% to 9.50%
- Annual healthcare trend rate 8.50% for FY 2019, decreasing 0.5% per year to
4.50% for FY 2027 and later years

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 18 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

| | |
|---|---|
| <ul style="list-style-type: none"> • Inflation assumption rate • Ad hoc post-employment benefit changes • Mortality assumptions <ul style="list-style-type: none"> Service retirees, survivors and other inactive members Disability retirees Active members | <p>2.50%</p> <p>None</p> <p>Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014</p> <p>Tables based on TRS experience with full generational projection using Scale BB from base year 2014 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members</p> <p>Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB</p> |
|---|---|

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 1, 2010 to August 31, 2014 for Higher Education members.

Investment Policy

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

Discount Rate

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

Discount Rate Sensitivity Analysis

The following schedule shows the impact on the District’s proportionate share of the collective net OPEB liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (3.51%) in measuring the net OPEB Liability.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 18 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

| | 1% Decrease in Discount Rate (2.51%) | Discount Rate (3.51%) | 1% Increase in Discount Rate (4.51%) |
|--|---|--------------------------------------|---|
| District’s proportionate share of the net OPEB liability | \$23,886,674 | \$20,010,487 | \$17,008,034 |

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 District’s proportionate share of the collective net OPEB liability if the healthcare cost trend rate used was 1 percent less than (7.5% decreasing to 3.5%) and 1 percent greater (9.5% decreasing to 5.5%) than the healthcare cost trend rate that was used in measuring the net OPEB liability.

| | 1% Decrease (7.5% decreasing to 3.5%) | Current Healthcare Cost Trend Rates (8.5% decreasing to 4.5%) | 1% Increase (9.5% decreasing to (9.0%)) |
|--|--|--|--|
| District’s proportionate share of the net OPEB liability | \$16,822,214 | \$20,010,487 | \$24,147,453 |

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

At August 31, 2018, the District reported a liability of \$20,010,487 for its proportionate share of the ERS’s net OPEB liability. This liability reflects a reduction for State support provided to the District for OPEB. The amount recognized by the District 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 District were as follows:

| | |
|---|---------------------|
| | 2018 |
| District’s proportionate share of the collective net OPEB liability | \$20,010,487 |
| State’s proportionate share that is associated with the District | <u>17,214,177</u> |
| Total | <u>\$37,224,664</u> |

The net OPEB liability was measured as of August 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer’s proportion of the net OPEB liability was based on the employer’s 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 0.05872826%, which was the same proportion measured as of August 31, 2016.

For the year ended August 31, 2018, the District recognized OPEB expense of \$1,395,340 and revenue of \$1,395,340 for support provided by the State.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 18 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Changes Since the Prior Actuarial Valuation

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

- Demographic assumptions (including rates of retirement, disability, termination, and mortality, assumed salary increases and assumed age differences for future retirees and their spouses for select classes of State Agency employees), assumed aggregate payroll increases and the assumed rate of general inflation have been updated to reflect assumptions recently adopted by the ERS Trustees. These new assumptions were adopted to reflect an experience study on the ERS retirement plan performed by the ERS retirement plan actuary.
- Assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and Expense trends have been updated to reflect recent experience and its effects on our short-term expectations and the revised assumed rate of general inflation.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence, the proportion of future retirees covering dependent children and the percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.
- The discount rate assumption was lowered as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher.

Changes of Benefit Terms Since Prior Measurement Date

The following benefit revisions have been adopted since the prior valuation:

- an increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility;
- elimination of the copayment for virtual visits;
- a reduction in the copayment for Airrosti;
- for out-of-state participants, (i) elimination of the deductible for in-network services and (ii) application of a copayment rather than coinsurance to certain services like primary care and specialist office visits.

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

At August 31, 2018, the District 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:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual economic experience | \$ - | \$ 240,462 |
| Changes in actuarial assumptions | - | 4,183,955 |
| Difference between projected and actual investment earnings | 5,924 | - |
| Contributions paid to ERS subsequent to the measurement date | <u>2,033,603</u> | <u>-</u> |
| Total | <u>\$2,039,527</u> | <u>\$4,424,417</u> |

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 18 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

The \$2,033,603 reported as deferred outflows of resources related to OPEB, resulting from contributions paid to ERS subsequent to the measurement date, was recognized as a reduction of the net pension liability in the year ended August 31, 2018.

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

| For the year ending <u>August 31,</u> | <u>OPEB Expense Amount</u> |
|--|----------------------------|
| 2019 | \$ (995,009) |
| 2020 | (995,009) |
| 2021 | (995,009) |
| 2022 | (995,009) |
| 2023 | <u>(438,457)</u> |
| | <u>\$ (4,418,493)</u> |

NOTE 19 – DISAGGREGATION OF RECEIVABLES BALANCES

Receivables at August 31 were as follows:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Student receivables | \$ 2,304,981 | \$ 2,246,764 |
| Taxes receivable | 729,152 | 733,345 |
| Federal receivable | 499,249 | 412,002 |
| Accounts receivable | <u>312,912</u> | <u>347,692</u> |
| Gross receivables | 3,846,294 | 3,739,803 |
| Less: allowance for uncollectible accounts | <u>(828,329)</u> | <u>(697,464)</u> |
| Net total receivables | <u>\$ 3,017,965</u> | <u>\$ 3,042,339</u> |

NOTE 20 – CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal and non-federal contract and grant awards, funds expended, but not collected, are reported as Accounts Receivable on Exhibit 1. For federal and non-federal contract and grant awards, funds collected, but not expended, are reported as Unearned Revenue on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2018 and 2017 for which monies have not been received nor funds expended totaled \$1,963,813 and \$2,701,557, respectively. Of these amounts, \$1,615,413 and \$2,681,683 were from Federal Contract and Grant Awards and \$348,400 and \$19,874 were from State Contract and Grant Awards for the fiscal years ended August 31, 2018 and 2017, respectively.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2018 and 2017

NOTE 21 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries appropriate commercial insurance. For the years ended August 31, 2018 and 2017, the District also participated in a pool for its workers' compensation program.

Beginning in the year 2000, the District elected participation in the Texas Public and Junior Community College Employee Benefits Consortium. This pool is exclusively for public community and junior college entities thus providing a preferred risk pool for workers' compensation coverage. Under this agreement, the pool retains liability for claims under \$750,000 or less per incident and purchases commercial insurance for claims in excess of the liability retained by the pool. The reinsurance covers losses to the specific and aggregate statutory limits required by the State of Texas. There was no significant reduction in insurance coverage from the year ended August 31, 2017 to the year ended August 31, 2018, and no settlements exceeded insurance for any of the past three fiscal years.

The claims liability of \$78,208 and \$80,516 reported in accrued liabilities at August 31, 2018 and 2017, respectively, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated based on actuarial calculations. Changes in the fund's claims liability amount in fiscal years 2018 and 2017 were:

| | <u>August 31, 2018</u> | <u>August 31, 2017</u> |
|--|------------------------|------------------------|
| Balance at beginning of year | \$ 80,516 | \$ 59,092 |
| Current year claims and changes in estimates | 22,596 | 30,315 |
| Claims paid | <u>(24,904)</u> | <u>(8,891)</u> |
| Balance at end of year | <u>\$ 78,208</u> | <u>\$ 80,516</u> |

NOTE 22 – PROPERTY TAXES

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

As of August 31,:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------------|-------------------------|
| Assessed valuation of the District | \$ 3,861,229,021 | \$ 3,572,652,220 |
| Less: Abatements | 289,874,408 | 153,322,030 |
| Less: Exemptions | <u>626,849,768</u> | <u>631,915,770</u> |
| Net assessed valuation of the District | <u>\$ 2,944,504,845</u> | <u>\$ 2,787,414,420</u> |

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 22 – PROPERTY TAXES - Continued

| | 2018 | | | 2017 | | |
|---|-----------------------|-----------------|----------|-----------------------|-----------------|----------|
| | Current Operations | Debt Service | Total | Current Operations | Debt Service | Total |
| Authorized Tax Rate per \$100 Valuation (Maximum per enabling legislation) | 0.700000 | 0.000000 | 0.700000 | 0.700000 | 0.000000 | 0.700000 |
| Assessed Tax Rate per \$100 Valuation | 0.265831 | 0.048454 | 0.314285 | 0.263163 | 0.050635 | 0.313798 |

Taxes levied for the years ended August 31, 2018 and 2017, were \$9,453,161 and \$9,020,950, respectively, including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

| | 2018 | | | 2017 | | |
|-------------------------------------|-----------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|
| | Current Operations | Debt Service | Total | Current Operations | Debt Service | Total |
| Current taxes collected | \$ 7,770,741 | \$ 1,398,376 | \$ 9,169,117 | \$ 7,279,648 | \$ 1,400,321 | \$ 8,679,969 |
| Delinquent taxes collected | 102,258 | 22,450 | 124,708 | 56,123 | 14,751 | 70,874 |
| Penalties and interest collected | <u>91,717</u> | <u>19,782</u> | <u>111,499</u> | <u>69,091</u> | <u>15,364</u> | <u>84,455</u> |
| Total collections | <u>\$ 7,964,716</u> | <u>\$ 1,440,608</u> | <u>\$ 9,405,324</u> | <u>\$ 7,404,862</u> | <u>\$ 1,430,436</u> | <u>\$ 8,835,298</u> |

Tax collections for the years ended August 31, 2018 and 2017, were 97.07% and 96.62% of the current tax levy, respectively. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance, operations, and debt service.

NOTE 23 - TAX ABATEMENTS

The District has entered into property tax abatement agreements with local businesses under Texas Code Chapter 312, and as amended by the Tax Abatement Guidelines and Criteria adopted by Howard College. Under the Act, localities may grant property tax abatements of up to 100 percent of a business’s property tax bill for attracting or retaining business within their jurisdictions. The abatements may be granted to any qualifying business located within or promising to relocate to the service area of the District.

For the fiscal years ended August 31, 2018 and 2017, the District abated property taxes totaling \$650,567 and \$324,765, respectively, under this program.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 24 – COMMITMENTS AND CONTINGENCIES

The District has received financial assistance from federal and state agencies in the form of grants. The acceptance of such grants requires compliance with special regulations and grant provisions, and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material adverse effect on the District's financial position at August 31, 2018.

The District has received appropriations from the State for the operation of the Southwest Collegiate Institute for the Deaf. The acceptance of these funds requires compliance with special purchasing regulations, and is subject to audit by the State. Any disallowed expenditures would have to be reimbursed by the District. However, in the opinion of management, the possible reimbursements, if any, will not have a material adverse effect on the District's financial position at August 31, 2018.

NOTE 25 – INCOME TAXES

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

NOTE 26 – INSURANCE RECOVERIES

During the fiscal year ended August 31, 2018, the District's buildings suffered severe hail damage. The District received \$1,714,818 from its insurance company to pay for the damages. The District recognized an impairment of its capital assets in the amount of \$584,531 related to this incident. The net gain on the insurance recovery of \$1,130,287 is reported as a gain on disposal of fixed assets in the statement of revenues, expenses, and changes in net position.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

Howard County Junior College District
 SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Year ended August 31,
 (unaudited)

| <u>Fiscal year ended August 31,*</u> | <u>2018**</u> | <u>2017**</u> |
|--|---------------------|---------------------|
| TRS net position as percentage of total pension liability | 82.17% | 78.00% |
| District's proportionate share of collective net pension liability (NPL) (%) | 0.0104789% | 0.0100182% |
| District's proportionate share of collective net pension liability (\$) | \$ 3,350,576 | \$ 3,785,734 |
| Portion of NECE's total proportionate share of NPL associated with the District | <u>1,984,031</u> | <u>2,393,316</u> |
| Total | <u>\$ 5,334,607</u> | <u>\$ 6,179,050</u> |
| District's covered payroll amount | \$ 7,831,407 | \$ 7,598,544 |
| Ratio of: District's proportionate share of collective NPL / District's covered payroll amount | 42.78% | 49.82% |

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

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

| <u>2016**</u> | <u>2015**</u> |
|---------------------|---------------------|
| 78.43% | 83.25% |
| 0.0111276% | 0.0141531% |
| \$ 3,933,458 | \$ 3,780,489 |
| <u>2,417,113</u> | <u>1,950,379</u> |
| <u>\$ 6,350,571</u> | <u>\$ 5,730,868</u> |
| \$ 7,789,830 | \$ 7,968,685 |
| 50.49% | 47.44% |

Howard County Junior College District
 SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS
 Year ended August 31,
 (unaudited)

| <u>Fiscal year ended August 31,*</u> | <u>2018**</u> | <u>2017**</u> |
|--|-----------------|-----------------|
| Legally required contributions | \$ 367,476 | \$ 329,473 |
| Actual contributions | <u>367,476</u> | <u>329,473</u> |
| Contributions deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll amount | \$8,638,856 | \$7,831,407 |
| Ratio of: Actual contributions / employer covered payroll amount | 4.25% | 4.21% |

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

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

| <u>2016**</u> | <u>2015**</u> |
|----------------|---------------|
| \$ 318,304 | \$ 57,829 |
| <u>318,304</u> | <u>57,829</u> |
| <u>\$ -</u> | <u>\$ -</u> |
| \$7,598,544 | \$7,789,830 |
| 4.19% | 0.74% |

Howard County Junior College District
 SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
 EMPLOYEE RETIREMENT SYSTEM OF TEXAS
 STATE RETIREE HEALTH PLAN
 Year ended August 31,
 (unaudited)

| Fiscal year ended August 31,* | 2018** |
|--|---------------|
| District's proportion of collective net OPEB liability (%) | 0.0587283% |
| District's proportionate share of collective net OPEB liability (\$) | \$ 20,010,487 |
| State's proportionate share of net OPEB liability associated with District | 17,214,177 |
| Total | \$ 37,224,664 |
| District's covered-employee payroll | \$ 12,166,104 |
| District's proportionate share of collective net OPEB liability as a percentage of covered-employee payroll | 164.48% |
| Plan fiduciary net position as percentage of the total OPEB liability | 2.00% |

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

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

Howard County Junior College District
 SCHEDULE OF DISTRICT CONTRIBUTIONS FOR OPEB
 EMPLOYEE RETIREMENT SYSTEM OF TEXAS
 STATE RETIREE HEALTH PLAN
 Year ended August 31,
 (unaudited)

| Fiscal year ended August 31,* | 2018** |
|---|--------------------|
| Legally required contributions | \$ 2,029,222 |
| Actual contributions | <u>2,029,222</u> |
| Contributions deficiency (excess) | <u><u>\$ -</u></u> |
| District's covered-employee payroll amount | \$ 14,091,947 |
| Contributions as a percentage of covered-employee payroll | 14.40% |

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

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

SUPPLEMENTARY INFORMATION

SCHEDULES

Howard County Junior College District
SCHEDULE OF OPERATING REVENUES
Schedule A
Year Ended August 31, 2018
(With Memorandum Totals for the Year Ended August 31, 2017)

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total Educational Activities</u> | <u>Auxiliary Enterprises</u> |
|---|---------------------|---------------------|---|----------------------------------|
| Tuition | | | | |
| State Funded Credit Courses | | | | |
| In-District Resident Tuition | \$ 888,073 | \$ - | \$ 888,073 | \$ - |
| Out-of-District Resident Tuition | 6,017,008 | - | 6,017,008 | - |
| TPEG-credit (set aside)* | 77,506 | - | 77,506 | - |
| Non-Resident Tuition | 755,383 | - | 755,383 | - |
| State Funded Continuing Education | 252,976 | - | 252,976 | - |
| TPEG-non-credit (set aside)* | 16,807 | - | 16,807 | - |
| Non-State Funded Continuing Education | 11,257 | - | 11,257 | - |
| Total tuition | <u>8,019,010</u> | <u>-</u> | <u>8,019,010</u> | <u>-</u> |
| Fees | | | | |
| Building use fee | - | - | - | 1,012,790 |
| General fees | 16,180 | - | 16,180 | - |
| Student service fee | - | - | - | 154,849 |
| Lab / course fees | 643,872 | - | 643,872 | - |
| Total fees | <u>660,052</u> | <u>-</u> | <u>660,052</u> | <u>1,167,639</u> |
| Scholarship allowances and discounts | | | | |
| Scholarship allowances | (290,795) | (538,329) | (829,124) | (139,584) |
| Remissions and exemptions | (1,132,358) | - | (1,132,358) | 53,694 |
| TPEG allowances | - | (81,024) | (81,024) | - |
| Federal grants to students | - | (3,017,224) | (3,017,224) | - |
| Other state | - | (201,270) | (201,270) | - |
| Total scholarship allowances | <u>(1,423,153)</u> | <u>(3,837,847)</u> | <u>(5,261,000)</u> | <u>(85,890)</u> |
| Total net tuition and fees | <u>7,255,909</u> | <u>(3,837,847)</u> | <u>3,418,062</u> | <u>1,081,749</u> |
| Other operating revenues | | | | |
| Federal grants and contracts | 11,697 | 2,040,052 | 2,051,749 | - |
| State grants and contracts | - | 639,777 | 639,777 | - |
| Local grants and contracts | - | 55,972 | 55,972 | - |
| Nongovernmental grants and contracts | 1,500 | 951,549 | 953,049 | 4,500 |
| Sales and services of educational activities | 430,979 | - | 430,979 | - |
| Investment income (program restricted) | - | 15,636 | 15,636 | - |
| Other operating revenues | 557,972 | 9,098 | 567,070 | 815 |
| Total other operating revenues | <u>1,002,148</u> | <u>3,712,084</u> | <u>4,714,232</u> | <u>5,315</u> |
| Auxiliary enterprises | | | | |
| Intercollegiate athletics | - | - | - | 58,181 |
| Diagnostic center | - | - | - | 8,574 |
| Residential life, net of discounts of \$1,034,407 and \$1,012,697 | - | - | - | 101,155 |
| Bookstore, net of discounts of \$69,717 and \$63,816** | - | - | - | 58,407 |
| Total net auxiliary enterprises | <u>-</u> | <u>-</u> | <u>-</u> | <u>226,317</u> |
| Total operating revenues (Exhibit 2) | <u>\$ 8,258,057</u> | <u>\$ (125,763)</u> | <u>\$ 8,132,294</u> | <u>\$ 1,313,381</u> |

* In accordance with Education Code 56.033, \$94,313 and \$90,924 of tuition was set aside for Texas Public Education Grants (TPEG)

** The bookstore auxiliary operations are outsourced.

| <u>2018</u> | <u>2017</u> |
|--------------|--------------|
| <u>Total</u> | <u>Total</u> |
| \$ 888,073 | \$ 934,862 |
| 6,017,008 | 6,073,257 |
| 77,506 | 76,868 |
| 755,383 | 635,246 |
| 252,976 | 245,878 |
| 16,807 | 14,056 |
| 11,257 | 17,859 |
| 8,019,010 | 7,998,026 |
| 1,012,790 | 802,016 |
| 16,180 | 484,389 |
| 154,849 | 145,706 |
| 643,872 | 139,772 |
| 1,827,691 | 1,571,883 |
| (968,708) | (967,119) |
| (1,078,664) | (1,160,018) |
| (81,024) | (91,128) |
| (3,017,224) | (2,611,462) |
| (201,270) | (181,362) |
| (5,346,890) | (5,011,089) |
| 4,499,811 | 4,558,820 |
| 2,051,749 | 2,119,315 |
| 639,777 | 612,539 |
| 55,972 | 111,711 |
| 957,549 | 949,305 |
| 430,979 | 408,984 |
| 15,636 | 3,057 |
| 567,885 | 391,059 |
| 4,719,547 | 4,595,970 |
| 58,181 | 67,153 |
| 8,574 | 4,401 |
| 101,155 | 130,411 |
| 58,407 | 70,861 |
| 226,317 | 272,826 |
| \$ 9,445,675 | \$ 9,427,616 |
| (Exhibit 2) | (Exhibit 2) |

Howard County Junior College District
SCHEDULE OF OPERATING EXPENSES BY OBJECT
Schedule B
Year ended August 31, 2018
(With Memorandum Totals for the Year ended August 31, 2017)

| | Operating Expenses | | | 2018 Total | 2017 Total | |
|--|-----------------------|--------------------|--------------------|---------------------|------------------------------------|------------------------------------|
| | Salaries and Wages | Benefits | | | | Other Expenses |
| | | State | Local | | | |
| Unrestricted - Educational Activities | | | | | | |
| Instruction | \$ 6,796,890 | \$ - | \$ 992,309 | \$ 1,010,206 | \$ 8,799,405 | \$ 8,583,291 |
| Public service | 364,086 | - | 55,934 | 1,120 | 421,140 | 337,733 |
| Academic support | 971,111 | - | 151,763 | 526,526 | 1,649,400 | 1,499,676 |
| Student services | 1,503,872 | - | 167,135 | 240,308 | 1,911,315 | 1,815,838 |
| Institutional support | 3,092,620 | - | 716,214 | 2,335,498 | 6,144,332 | 5,713,408 |
| Operation and maintenance of plant | 1,072,979 | - | 240,554 | 2,369,688 | 3,683,221 | 3,596,621 |
| Scholarships and fellowships | - | - | - | 33,942 | 33,942 | 38,490 |
| Total Unrestricted - Educational Activities | <u>13,801,558</u> | <u>-</u> | <u>2,323,909</u> | <u>6,517,288</u> | <u>22,642,755</u> | <u>21,585,057</u> |
| Restricted - Educational Activities | | | | | | |
| Instruction | 47,470 | 481,369 | 6,275 | 59,557 | 594,671 | 945,911 |
| Public service | 544,906 | - | 156,221 | 239,761 | 940,888 | 767,540 |
| Academic support | 28,469 | 62,586 | 9,891 | 9,674 | 110,620 | 299,847 |
| Student services | 187,892 | 108,588 | 57,986 | 218,693 | 573,159 | 584,615 |
| Institutional support | 33,866 | 550,119 | 10,604 | 309,032 | 903,621 | 841,475 |
| Operation and maintenance of plant | - | 9,801 | - | 2,575 | 12,376 | 51,343 |
| Scholarships and fellowships | - | - | - | 2,094,657 | 2,094,657 | 1,929,719 |
| Total Restricted - Educational Activities | <u>842,603</u> | <u>1,212,463</u> | <u>240,977</u> | <u>2,933,949</u> | <u>5,229,992</u> | <u>5,420,450</u> |
| Total Educational Activities | 14,644,161 | 1,212,463 | 2,564,886 | 9,451,237 | 27,872,747 | 27,005,507 |
| Auxiliary Enterprises | 519,193 | - | 167,112 | 1,662,744 | 2,349,049 | 2,390,485 |
| Depreciation Expense - Buildings and other real estate improvements | - | - | - | 1,851,861 | 1,851,861 | 1,874,450 |
| Depreciation Expense - Equipment and furniture | - | - | - | 691,305 | 691,305 | 655,040 |
| Total Operating Expenses (Exhibit 2) | <u>\$15,163,354</u> | <u>\$1,212,463</u> | <u>\$2,731,998</u> | <u>\$13,657,147</u> | <u>\$32,764,962</u> (Exhibit 2) | <u>\$31,925,482</u> (Exhibit 2) |

Howard County Junior College District
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
Schedule C
Year Ended August 31, 2018
(With Memorandum Totals for the Year Ended August 31, 2017)

| | Unrestricted | Restricted | Auxiliary Enterprises | 2018 Total | 2017 Total |
|---|---------------------|---------------------|--------------------------|------------------------------------|------------------------------------|
| NON-OPERATING REVENUES | | | | | |
| State appropriations | | | | | |
| Education and general state support | \$ 9,689,024 | \$ - | \$ - | \$ 9,689,024 | \$ 9,166,404 |
| State group insurance | - | 921,236 | - | 921,236 | 1,422,598 |
| State retirement matching | - | 291,227 | - | 291,227 | 366,641 |
| Professional nursing shortage reduction | - | 55,326 | - | 55,326 | 29,318 |
| Total state appropriations | 9,689,024 | 1,267,789 | - | 10,956,813 | 10,984,961 |
| Property taxes for operations | 8,030,086 | - | - | 8,030,086 | 7,604,949 |
| Property taxes for debt service | - | 1,462,623 | - | 1,462,623 | 1,463,648 |
| Payments in lieu of taxes | 260,465 | - | - | 260,465 | 156,356 |
| Federal revenue, non operating | - | 4,840,235 | - | 4,840,235 | 4,120,246 |
| Investment income (net of investment expenses) | 110,005 | 4,206 | - | 114,211 | 41,601 |
| Other non-operating revenue | 370,580 | 54,783 | 9,213 | 434,576 | 212,342 |
| Total non-operating revenues | 18,460,160 | 7,629,636 | 9,213 | 26,099,009 | 24,584,103 |
| NON-OPERATING EXPENSES | | | | | |
| Interest on capital related debt | (648,653) | - | - | (648,653) | (725,921) |
| Gain on disposal of fixed assets | 772,158 | - | - | 772,158 | 235,281 |
| Total non-operating expenses | 123,505 | - | - | 123,505 | (490,640) |
| Net non-operating revenues (Exhibit 2) | <u>\$18,583,665</u> | <u>\$ 7,629,636</u> | <u>\$ 9,213</u> | <u>\$26,222,514</u> (Exhibit 2) | <u>\$24,093,463</u> (Exhibit 2) |

Howard County Junior College District
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
Schedule D
August 31, 2018
(With Memorandum Totals for August 31, 2017)

| | Detail by Source | | | | Capital Assets Net of Depreciation & Related Debt | Total |
|--|---------------------|------------------|--------------------|---------------------|--|-------|
| | Unrestricted | Restricted | | Total | | |
| | | Expendable | Non- Expendable | | | |
| Current: | | | | | | |
| Unrestricted | \$ (12,593,917) | \$ - | \$ - | \$ - | \$ (12,593,917) | |
| Restricted | - | 952,164 | - | - | 952,164 | |
| Auxiliary enterprises | 1,598,837 | - | - | - | 1,598,837 | |
| Endowment: | | | | | | |
| True endowment | - | - | 1,167,758 | - | 1,167,758 | |
| Plant: | | | | | | |
| Debt service | - | 1,647,983 | - | - | 1,647,983 | |
| Investment in plant | - | - | - | 32,050,901 | 32,050,901 | |
| Total Net Position, August 31, 2018 | \$ (10,995,080) | \$ 2,600,147 | \$ 1,167,758 | \$ 32,050,901 | \$ 24,823,726 (Exhibit 1) | |
| Cumulative Effect of Change in Accounting Principle | (23,358,097) | - | - | - | (23,358,097) | |
| Total Net Position, August 31, 2017 | 9,024,991 | 2,580,165 | 1,177,723 | 32,305,911 | 45,088,790 (Exhibit 1) | |
| Net Increase (Decrease) in Net Position | <u>\$ 3,338,026</u> | <u>\$ 19,982</u> | <u>\$ (9,965)</u> | <u>\$ (255,010)</u> | <u>\$ 3,093,033</u> (Exhibit 2) | |

Available for
Current Operations

| Yes | No |
|----------------|---------------|
| \$(12,593,917) | \$ - |
| 952,164 | - |
| 1,598,837 | - |
| - | 1,167,758 |
| - | 1,647,983 |
| - | 32,050,901 |
| \$(10,042,916) | \$ 34,866,642 |
| (23,358,097) | - |
| 10,034,311 | 35,054,479 |
| \$ 3,280,870 | \$ (187,837) |

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Schedule E
For the Year Ended August 31, 2018

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Passed Through to Subrecipients | Expenditures and Pass-Through Disbursements |
|---|---------------------------|-------------------------------------|---------------------------------------|--|
| U.S. Department of Education | | | | |
| Direct Programs: | | | | |
| Student Financial Aid Cluster | | | | |
| Federal Supplemental Educational Opportunity Grants 17/18 | 84.007 | | | \$ 66,166 |
| Subtotal Federal Supplemental Educational Opportunity Grants | | | | 66,166 |
| Federal Work-Study Program 17/18 | 84.033 | | | 43,985 |
| Federal Work-Study Program (100%) 17/18 | 84.033 | | | 4,569 |
| Subtotal Federal Work-Study Program | | | | 48,554 |
| Federal Pell Grant Program 16/17 | 84.063 | | | (1,355) |
| Federal Pell Grant Program 17/18 | 84.063 | | | 4,726,870 |
| Subtotal Federal Pell Grant Program | | | | 4,725,515 |
| Federal Direct Student Loans 17/18 | 84.268 | | | 2,344,870 |
| Subtotal Federal Direct Student Loans | | | | 2,344,870 |
| Total Student Financial Aid Cluster | | | | 7,185,105 |
| eSTART 15/16 | 84.031C | P031C110093 | | 3,167 |
| Subtotal eSTART | | | | 3,167 |
| Perfecting Achievement in Student Success 15/16 | 84.031S | P031S150131 | | 9,426 |
| Perfecting Achievement in Student Success 16/17 | 84.031S | P031S150131-16 | | 176,927 |
| Perfecting Achievement in Student Success 16/17 | 84.031S | P031S150131-16 | | 17,743 |
| Perfecting Achievement in Student Success 16/17 | 84.031S | P031S150131-16 | | 466,511 |
| Subtotal Perfecting Achievement in Student Success | | | | 670,607 |
| Pass through from: | | | | |
| Texas Workforce Commission | | | | |
| Adult Education and Literacy 231 - BS 16/17 | 84.002A | 1116AEL003 | | 17,451 |
| Adult Education and Literacy 231 Admin - BS 16/17 | 84.002A | 1116AEL003 | | 9 |
| Adult Education and Literacy 225 - BS 16/17 | 84.002A | 1116AEL003 | | 607 |
| Adult Education and Literacy 223 - BS 16/17 | 84.002A | 1116AEL003 | | 157 |
| Adult Education and Literacy El Civics - BS 16/17 | 84.002A | 1116AEL003 | | 3,347 |
| Adult Education and Literacy El Civics Admin - BS 16/17 | 84.002A | 1116AEL003 | | 41 |
| Adult Education and Literacy Federal Distance Learning - BS 16/17 | 84.002A | 1116AEL003 | | 3,557 |
| Adult Education and Literacy Federal 231 - BS 17/18 | 84.002A | 1116AELB03 | | 59,596 |
| Adult Education and Literacy Federal 231 Admin - BS 17/18 | 84.002A | 1116AELB03 | | 1,447 |
| Adult Education and Literacy Federal 223 - BS 17/18 | 84.002A | 1116AELB03 | | 2,983 |
| Adult Education and Literacy Federal El Civics - BS 17/18 | 84.002A | 1116AELB03 | | 4,334 |
| Adult Education and Literacy Federal El Civics Admin - BS 17/18 | 84.002A | 1116AELB03 | | 238 |
| Adult Education and Literacy Federal 231 - BS 18/19 | 84.002A | 1118ALA000 | | 7,619 |
| Adult Education and Literacy Federal 231 Admin - BS 18/19 | 84.002A | 1118ALA000 | | 2,743 |
| Adult Education and Literacy Federal Workforce Training - BS 18/19 | 84.002A | 1118ALA000 | | 188 |
| Adult Education and Literacy Federal 223 - BS 18/19 | 84.002A | 1118ALA000 | | 2,145 |
| Adult Education and Literacy Federal El Civics - BS 18/19 | 84.002A | 1118ALA000 | | 2,332 |
| Adult Education and Literacy Federal El Civics Admin - BS 18/19 | 84.002A | 1118ALA000 | | 227 |
| Adult Education and Literacy 231 - SA 16/17 | 84.002A | 1216AEL001 | | 11,482 |
| Adult Education and Literacy 231 Admin - SA 16/17 | 84.002A | 1216AEL001 | | 1,401 |
| Adult Education and Literacy El Civics - SA 16/17 | 84.002A | 1216AEL001 | | 8,966 |
| Adult Education and Literacy Federal Distance Learning - SA 16/17 | 84.002A | 1216AEL001 | | 5,931 |
| Adult Education and Literacy Performance Award - SA 17/18 | 84.002A | 1217PQI000 | | 162,599 |
| Adult Education and Literacy Performance Award Admin - SA 17/18 | 84.002A | 1217PQI000 | | 20,842 |
| Adult Education and Literacy Federal 231 - SA 17/18 | 84.002A | 1216AELB01 | | 238,430 |

(continued)

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Schedule E
For the Year Ended August 31, 2018

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Passed Through to Subrecipients | Expenditures and Pass-Through Disbursements |
|--|---------------------------|-------------------------------------|---------------------------------------|--|
| Adult Education and Literacy 231 Admin - SA 17/18 | 84.002A | 1216AELB01 | | 8,060 |
| Adult Education and Literacy 225 - SA 17/18 | 84.002A | 1216AELB01 | | 16,811 |
| Adult Education and Literacy Workforce Training - SA 17/18 | 84.002A | 1216AELB01 | | 22,785 |
| Adult Education and Literacy 223 - SA 17/18 | 84.002A | 1216AELB01 | | 6,941 |
| Adult Education and Literacy El Civics - SA 17/18 | 84.002A | 1216AELB01 | | 64,217 |
| Adult Education and Literacy El Civics Admin - SA 17/18 | 84.002A | 1216AELB01 | | 2,579 |
| Adult Education and Literacy Performance Award (Yr2) - SA 17/18 | 84.002A | 1218PQI000 | | 33,209 |
| Adult Education and Literacy Federal 231 - SA 18/19 | 84.002A | 1218ALA000 | | 65,117 |
| Adult Education and Literacy Federal 225 - SA 18/19 | 84.002A | 1218ALA000 | | 2,119 |
| Adult Education and Literacy Federal Workforce Training - SA 18/19 | 84.002A | 1218ALA000 | | 3,117 |
| Adult Education and Literacy Federal 223 - SA 18/19 | 84.002A | 1218ALA000 | | 9,027 |
| Adult Education and Literacy Federal El Civics - SA 18/19 | 84.002A | 1218ALA000 | | 13,797 |
| Subtotal Texas Workforce Commission | | | | <u>806,451</u> |
| Texas Higher Education Coordinating Board | | | | |
| Annual Perkins 17/8 | 84.048 | 184225 | | 102,101 |
| Subtotal Texas Higher Education Coordinating Board | | | | <u>102,101</u> |
| Total U.S. Department of Education | | | | <u>8,767,431</u> |
| U.S. Department of Agriculture | | | | |
| Pass through from: | | | | |
| Texas Department of Agriculture | | | | |
| Child & Adult Care Food Program | 10.558 | 02501 | | 19,869 |
| Soil & Water Conservation | 10.902 | 68-3A75-18-023 | | 10,705 |
| Subtotal Texas Department of Agriculture | | | | <u>30,574</u> |
| Total U.S. Department of Agriculture | | | | <u>30,574</u> |
| U.S. Department of Defense | | | | |
| Direct Programs: | | | | |
| Goodfellow AFB Scholarship | 12.000 | | | 8,737 |
| Navy Tuition Assistance | 12.000 | | | 1,266 |
| Marine Tuition Assistance | 12.000 | | | 750 |
| Military Spouse Career Advancement - SA | 12.000 | | | 1,456 |
| Total U.S. Department of Defense | | | | <u>12,209</u> |
| U.S. Department of Labor | | | | |
| Employment Service Cluster | | | | |
| Pass through from: | | | | |
| Concho Valley Workforce Development Board | | | | |
| West Texas Energy Consortium Career in STEM | 17.207 | 0916WPB000 | | 8,817 |
| Subtotal Concho Valley Workforce Development Board | | | | <u>8,817</u> |
| Total Employment Service Cluster | | | | 8,817 |
| WIOA Cluster | | | | |
| Pass through from: | | | | |
| Permian Basin Workforce Development Board | | | | |
| Workforce Innovation and Opportunity Act - San Angelo | 17.258 | | | 60,331 |
| Workforce Innovation and Opportunity Act - Big Spring | 17.258 | | | 641 |
| Subtotal Permian Basin Workforce Development Board | | | | <u>60,972</u> |

(continued)

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Schedule E
For the Year Ended August 31, 2018

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Passed Through to Subrecipients | Expenditures and Pass-Through Disbursements |
|--|---------------------------|-------------------------------------|---------------------------------------|--|
| Concho Valley Workforce Development Board | | | | |
| CVWDB Construction Trades SA 17/18 | 17.258 | 1218HJT000 | | 39,609 |
| Subtotal Concho Valley Workforce Development Board | | | | <u>39,609</u> |
| Total WIOA Cluster | | | | <u>100,581</u> |
| Total U.S. Department of Labor | | | | <u>109,398</u> |
| U.S. Department of Veterans Affairs | | | | |
| Direct Programs: | | | | |
| Vocational Rehab for Disabled Veterans - BS | 64.116 | | | 1,873 |
| Vocational Rehab for Disabled Veterans - SA | 64.116 | | | 27,422 |
| Subtotal Vocational Rehab for Disabled Veterans | | | | <u>29,295</u> |
| Post 9/11 Veterans Education Assistance - BS | 64.130 | | | 50,216 |
| Post 9/11 Veterans Education Assistance - SA | 64.130 | | | 176,008 |
| Subtotal Post 9/11 Veterans Education Assistance | | | | <u>226,224</u> |
| Total U.S. Department of Veterans Affairs | | | | <u>255,519</u> |
| U.S. Department of Health and Human Services | | | | |
| TANF Cluster | | | | |
| Pass through from: | | | | |
| Texas Workforce Commission | | | | |
| Adult Education and Literacy TANF - BS 16/17 | 93.558 | 1116AEL003 | | 3,269 |
| Adult Education and Literacy TANF Admin - BS 16/17 | 93.558 | 1116AEL003 | | 26 |
| Adult Education and Literacy Federal TANF - BS 17/18 | 93.558 | 1116AELB03 | | 15,083 |
| Adult Education and Literacy Federal TANF Admin - BS 17/18 | 93.558 | 1116AELB03 | | 2,837 |
| Adult Education and Literacy Federal TANF - BS 18/19 | 93.558 | 1118ALA000 | | 500 |
| Adult Education and Literacy Federal TANF Admin - BS 18/19 | 93.558 | 1118ALA000 | | 2,017 |
| Adult Education and Literacy TANF - SA 16/17 | 93.558 | 1216AEL001 | | 1,318 |
| Adult Education and Literacy TANF Admin - SA 16/17 | 93.558 | 1216AEL001 | | 300 |
| Adult Education and Literacy Federal TANF - SA 17/18 | 93.558 | 1216AELB01 | | 29,878 |
| Adult Education and Literacy Federal TANF Admin - SA 17/18 | 93.558 | 1216AELB01 | | 4,516 |
| Subtotal Texas Workforce Commission | | | | <u>59,744</u> |
| Total TANF Cluster | | | | <u>59,744</u> |
| Greater Opportunities of the Permian Basin | | | | |
| Headstart Tuition Assistance | 93.600 | | | 757 |
| Subtotal Greater Opportunities of the Permian Basin | | | | <u>757</u> |
| Total U.S. Department of Health and Human Services | | | | <u>60,501</u> |
| Corporation for National & Community Service | | | | |
| Direct Programs: | | | | |
| AmeriCorps | 94.006 | | | 1,222 |
| Total Corporation for National & Community Service | | | | <u>1,222</u> |
| Total Expenditures of Federal Awards | | | | <u>\$ 9,236,854</u> |

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Schedule E
For the Year Ended August 31, 2018

Note 1: Financial assistance reconciliation

| | |
|---|---------------------|
| Federal revenues per Schedule A: | |
| Federal grants and contracts | \$ 2,051,749 |
| Add: Non-operating federal revenue from Schedule C | 4,840,235 |
| Add: Direct student loans | <u>2,344,870</u> |
| Total Federal Revenues per Schedule of Expenditures of Federal Awards | <u>\$ 9,236,854</u> |

Note 2: Significant accounting policies used in preparing the schedule

The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the District for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from the 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 District has followed all applicable guidelines issued by various entities in the preparation of the schedule. The District has elected not to use the 10% de minimis cost as permitted in the Uniform Guidance, Section 200.414.

Note 3. Expenditures not subject to federal single audit

All federal expenditures reported in the financial statements are subject to a federal single audit.

Note 4. Nonmonetary federal assistance received

The District did not receive any nonmonetary federal assistance during the fiscal year.

Note 5. Amounts passed through by Howard County Junior College District

The District did not pass through any federal assistance during the fiscal year.

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
Schedule F
For the Year Ended August 31, 2018

| State Grantor/Program Title | Contract/ Award Number | Expenditures |
|---|------------------------------|-------------------|
| Texas Higher Education Coordinating Board | | |
| Texas Education Opportunity Grant – Initial 17/18 | | \$ 141,476 |
| Texas Education Opportunity Grant – Returning 17/18 | | 28,972 |
| Total TEOG | | <u>170,448</u> |
| Professional Nursing Shortage (Regular Program) 14/15 | | 857 |
| Professional Nursing Shortage (Under 70) 16/17 | | 54,469 |
| Texas College Work Study Program 17/18 | | 1,537 |
| Total Texas Higher Education Coordinating Board | | <u>227,311</u> |
| Department of Assistive and Rehabilitative Services | | |
| DARS – Howard College BS | | 14,977 |
| DARS – Howard College SA | | 61,651 |
| DARS – SWCID | | 68,087 |
| Total Department of Assistive and Rehabilitative Services | | <u>144,715</u> |
| Texas Military Preparedness Commission | | |
| Office of the Governor | | |
| Defense Economic Adjustment Assistance Grant (DEAAG) SA 17/18 | | 85,855 |
| Total Office of the Governor | | <u>85,855</u> |
| Texas Workforce Commission | | |
| Adult Education and Literacy State - BS 16/17 | 1116AEL003 | 655 |
| Adult Education and Literacy State Admin - BS 16/17 | 1116AEL003 | 8 |
| Adult Education and Literacy State - BS 17/18 | 1116AELB03 | 15,885 |
| Adult Education and Literacy State - BS 18/19 | 1118ALA000 | 226 |
| Adult Education and Literacy State Admin - BS 18/19 | 1118ALA000 | 3,089 |
| Adult Education and Literacy State - SA 16/17 | 1216AEL001 | 1,202 |
| Adult Education and Literacy State - SA 17/18 | 1216AELB01 | 39,613 |
| Adult Education and Literacy State Admin - SA 17/18 | 1216AELB01 | 5,806 |
| Adult Education and Literacy Skills for Small Business - SA 16/17 | 1216SSD000 | 399 |
| Bruce Wood Dance 2 Day Residency | | 2,400 |
| Total Texas Workforce Commission | | <u>69,283</u> |
| Total State of Texas Financial Assistance | | <u>\$ 527,164</u> |

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS - CONTINUED
Schedule F
For the Year Ended August 31, 2018

Note 1. State Assistance Reconciliation

| | |
|--|-------------------|
| State Revenues – Per Schedule A: | |
| State of Texas Financial Assistance | |
| Per Schedule of Expenditures of State of Texas Awards | \$ 527,164 |
| State Financial Assistance | |
| State appropriated funds not included in Schedule A | |
| Professional Nursing Shortage Reduction | (55,326) |
| State aid from other states not included as State of Texas | |
| financial assistance | |
| Vocational Rehabilitation - SW | <u>167,939</u> |
| Total State Grants and Contracts Revenues per Schedule A | <u>\$ 639,777</u> |

Note 2.

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

(This page intentionally left blank)



Logan, Thomas & Johnson, LLC
Certified Public Accountants

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

The Board of Trustees
Howard County Junior College District
Big Spring, 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 Howard County Junior College District (the District) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 24, 2019.

Internal Control Over Financial Reporting

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

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a material weakness.

5023 W. 120th Ave., #165, Broomfield, CO 80020

Calvin Logan
Phone 303 532 1000
Fax 303 532 1080

Jan Thomas
Phone 303 569 6030
Fax 303 569 6031

Pauline Davis
Phone 719 937 4270
Fax 719 937 4271

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a significant deficiency.

Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Logan, Thomas & Johnson, LLC

Broomfield, Colorado
January 24, 2019



Logan, Thomas & Johnson, LLC
Certified Public Accountants

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

The Board of Trustees
Howard County Junior College District
Big Spring, Texas

Report on Compliance for Each Major Federal Program

We have audited Howard County Junior College District's (the District) 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 District's major federal programs for the year ended August 31, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

5023 W. 120th Ave., #165, Broomfield, CO 80020

Calvin Logan
Phone 303 532 1000
Fax 303 532 1080

Jan Thomas
Phone 303 569 6030
Fax 303 569 6031

Pauline Davis
Phone 719 937 4270
Fax 719 937 4271

Opinion on Each Major Federal Program

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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.

Logan, Thomas & Johnson, LLC

Broomfield, Colorado
January 24, 2019

Howard County Junior College District
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended August 31, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes __ no
- Significant deficiency(ies) identified? X yes __ none reported

Noncompliance material to financial statements noted? __ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? __ yes X no
- Significant deficiency(ies) identified? __ yes X none reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? __ yes X no

Identification of major federal programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------------------|--|
| 84.033, 84.268, 84.007, 84.063 | U.S. Department of Education, Student Financial Aid Programs |
| 84.002 | Adult Education – Basic Grants to States |

Dollar threshold used to distinguish between type A and type B federal programs: \$ 750,000

Auditee qualified as low-risk auditee for federal awards? __ yes X no

Howard County Junior College District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
For the Year Ended August 31, 2018

Section II – Financial Statement Findings

Finding 2018-001 – Accounts Payable Cut Off

| | |
|-----------------------------------|---|
| Criteria or specific requirement: | Internal controls should exist to ensure that there is a proper cut off in recording accounts payable so that transactions are recorded in the correct financial statement period. |
| Condition: | One invoice tested at year end was not recorded in the proper accounting period. |
| Context: | The dollar amount of invoices tested for accounts payable cut off was \$1,382,999. Of the amount tested, \$45,718 was not accrued as of August 31, 2018 and should have been. |
| Cause: | The internal controls that were in place to ensure proper cut off of accounts payable were not adequately followed. |
| Effect: | Adjustments to the financial statements were required and management recorded the adjusting entries to correct the financial statements as of and for the year ended August 31, 2018. |
| Recommendation: | We recommend that the District adhere to its internal control policies regarding cut off of accounts payable at year end. |
| Views of responsible officials: | Agree. The District Director of Financial Accounting/Assistant Controller presented a “Year End Procedures” training class on August 24, 2018 to District employees who input purchase orders and/or approve invoices. This training will be available each year, and as needed. The Financial Accounting department effectively implemented a tracking procedure for recurring payments such as utilities and lease payments. Going forward, fiscal year end transactions will be included on the tracking list. The College recently underwent an ERP conversion specific to fiscal and purchasing. The new software has improved reporting capabilities. The Financial Accounting office will work with the new ERP company to create reports that will assist in year-end review of payables. The District Director of Financial Accounting/Assistant Controller will review for payables with the accounts payable staff at least quarterly including fiscal year end. |
| Contact: | Brenda Claxton |
| Implementation date: | January 23, 2019 |

Howard County Junior College District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
For the Year Ended August 31, 2018

Section II – Financial Statement Findings

Finding 2018-002 – Capital Asset Additions

Criteria or specific requirement: Internal controls should exist to ensure that additions to capital assets adhere to generally accepted accounting principles.

Condition: There were several additions to capital assets that were for items that should have been expensed during the fiscal year.

Context: The dollar amount of capital assets that should have been expensed was \$705,390. Of that amount, \$700,888 was related to one vendor for software. The contract with the vendor is for software as a service and the District does not own a license to the software. Therefore, the payment should be expensed when paid. The remaining amount of \$4,502 was for invoices that contained training or annual software license fees, which should be expensed.

Cause: The internal controls that were in place to ensure proper capitalization of expenditures were not adequately followed.

Effect: Adjustments to the financial statements were required and management recorded the adjusting entries to correct the financial statements as of and for the year ended August 31, 2018.

Recommendation: We recommend that the District review its invoices and contracts to ensure that costs that should be expensed are not capitalized.

Views of responsible officials: Agree. The District Chief Business Officer/Internal Auditor and the District Chief Fiscal Officer/Controller will coordinate efforts to ensure that invoice and contract transactions are properly recorded.

Contact: Brenda Claxton

Implementation date: January 23, 2019

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Howard County Junior College District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2018

Finding 2017-001 – Accounts Payable Cut Off

| | |
|-----------------------------------|--|
| Criteria or specific requirement: | Internal controls should exist to ensure that there is a proper cut off in recording accounts payable so that transactions are recorded in the correct financial statement period. |
| Condition: | Several invoices tested at year end were not recorded in the proper accounting period. |
| Status: | See current year finding 2018-001. |