

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND
NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION*

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED

AUGUST 31, 2019 AND 2018

PREPARED BY:

*ADMINISTRATIVE SERVICES DEPARTMENT
NORTHEAST TEXAS COMMUNITY COLLEGE*

MOUNT PLEASANT, TEXAS

Supplemental Schedules required by Texas Higher Education Coordinating Board

Schedule A	Schedule of Detailed Operating Revenues	60
Schedule B	Schedule of Operating Expenses by Functional and Natural Classifications	61
Schedule C	Schedule of Non – Operating Revenues and Expenses	62
Schedule D	Schedule of Net Position by Source and Availability	63

FEDERAL FINANCIAL ASSISTANCE INFORMATION

	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	64-65
	Independent Auditors' Report on Compliance for each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	66-67
Schedule G	Schedule of Expenditures of Federal Awards	68-69
	Schedule of Findings and Questioned Costs	70
	Federal Schedule of Prior Year Audit Findings and Questioned Costs	71

STATE FINANCIAL ASSISTANCE INFORMATION

	Independent Auditors' Report on Compliance for each Major State Program and on Internal Control over Compliance Required by State of Texas Single Audit Circular	72-74
Schedule H	Schedule of Expenditures of State Awards	75-76
	State Awards Schedule of Findings and Questioned Costs	77-78
	Corrective Action Plan for State Audit Finding and Questioned Costs	79-80
	State Summary Schedule of Prior Year Audit Findings	81

Northeast Texas Community College
Mt. Pleasant, Texas
Organizational Data
For the Fiscal Year 2019

Board of Trustees

Officers

Dr. Dan McCauley – Mt. Pleasant, TX	(2018-2024)	Board Chairman
Mr. Chuck Johns – Pittsburg, TX	(2014-2020)	Board Vice Chairman
Mr. Sid Greer – Daingerfield, TX	(2018-2024)	Board Secretary

Members

Mr. Robin Sharp - Mt. Pleasant, TX	(2014-2020)
Ms. Sondra Fowler – Mt. Pleasant, TX	(2016-2020)
Mr. Frankie King – Pittsburg, TX	(2019-2020)
Ms. Stephanie Thurman – Mt. Pleasant, TX	(2019-2020)

Principal Administrative Officers

Dr. Ron Clinton	President
Dr. Jon McCullough	Executive Vice President for Advancement
Dr. Kevin Rose	Vice President for Instruction
Dr. Josh Stewart	Vice President for Student and Outreach Services
Mr. Jeff Chambers	Vice President for Administrative Services

INDEPENDENT AUDITORS' REPORT



Independent Auditors' Report

*Board of Trustees
Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas*

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of and for the years ended August 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the College's and the Foundation's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of August 31, 2019, and 2018, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4-11, schedule of College's share of net pension liability page 54, schedule of College's contributions for pensions page 55, schedule of College's proportionate share of Net OPEB liability page 56, and schedule of College's contributions for OPEB 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 principally 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Texas Community College and Northeast Texas Community College Foundation Inc. basic financial statements.

The supplemental schedules required by Texas Higher Education Coordinating Board section, presented on pages 60-63, are presented for purposes of additional analysis as required by the Coordinating Board and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards, pages 68-69, is 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 is not a required part of the basic financial statements.

The schedule of expenditures of state awards, pages 75-76, is presented for purposes of additional analysis as required by *State of Texas Single Audit Circular* and is not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019 on our consideration of Northeast Texas Community College and Northeast Texas Community College Foundation Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Northeast Texas Community College and Northeast Texas Community College Foundation Inc.'s internal control over financial reporting and compliance.

WILF & HENDERSON, P.C.

WILF & HENDERSON, P. C.
Certified Public Accountants
Texarkana, Texas
December 10, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A)

This section of Northeast Texas Community College's Annual Financial Report presents management's discussion and analysis of the College's financial activity during fiscal years ending 2017, 2018, and 2019. Since this management's discussion and analysis is designed to focus on current activities, resulting change, decisions or conditions of facts, please read it in conjunction with the College's basic financial statements (pages 12-17) and the footnotes (pages 18-53). The College endeavors to present an objective and easily readable analysis of the overall financial activities to students and the public. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

Management Discussion & Analysis (MD&A) compares the current year to the previous year and the previous year to the preceding year based on information presented in the financial statements.

College Foundation as a Discrete Component Unit

The College is considered to be a special purpose primary government according to the definition of GASB 14, and therefore, the College is the prime focus for this financial presentation. However, the Northeast Texas Community College Foundation is organized for the exclusive support of the Northeast Texas Community College. For this reason, the College's Foundation is included in this report, albeit as a discrete component. Any management discussion relating to the College's Foundation is considered for its significance in articulating the College's Annual Financial Report.

Statement of Net Position (Balance Sheet)

The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers a fiscal snapshot of the College for the current fiscal year ended. The Statement of Net Position combines and consolidates current financial resources (short-term spendable resources) with capital assets. It presents end-of-year data concerning:

- Assets (current, capital and other non-current),
- Liabilities (current and non-current), and
- Net Position.

Statement of Net Position For the Years Ended August 31, 2019, 2018, and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
Current	\$ 6,711,402	\$ 4,989,011	\$ 3,648,616
Net Capital Assets	49,430,676	50,973,808	50,833,180
Other Non-Current	<u>1,864,267</u>	<u>3,002,442</u>	<u>5,296,632</u>
Total Assets	<u>58,006,345</u>	<u>58,965,261</u>	<u>59,778,428</u>
Deferred Outflows of Resources	<u>8,827,696</u>	<u>1,888,844</u>	<u>1,769,817</u>
<u>Liabilities</u>			
Current	5,129,854	5,270,999	4,754,726
Non-Current	<u>57,788,030</u>	<u>53,916,051</u>	<u>43,802,478</u>
Total Liabilities	<u>62,917,884</u>	<u>59,187,050</u>	<u>48,557,204</u>
Deferred Inflows	<u>6,737,332</u>	<u>4,017,587</u>	<u>1,055,560</u>
Net Position	<u>\$ (2,821,175)</u>	<u>\$ (2,350,532)</u>	<u>\$ 11,935,481</u>

The definition of current assets means the ability of the College to pay obligations out of the proceeds of current operations. The total assets include the College's capital assets (net of depreciation). The capital assets include buildings, facilities and other improvements, furniture, machinery, vehicles and other equipment, and telecommunications and peripheral equipment. In determining the net capital assets, the College went into considerable detail in identifying the historical costs and the net accumulated depreciation of each asset category based on its useful life and residual values. In following the above guidelines, the College can provide more useful information about the long-term effects of short-term decisions, primarily by including the cost of consuming the capital assets used in providing services.

Net Position is divided into three major categories:

- ✓ The first asset category, invested in capital assets and reserve for debt service, provides the College's equity in property, plant and equipment.
- ✓ The next asset category is restricted net assets, which is divided into two categories, permanent and temporary. Restricted permanent is maintained only in the College's Foundation, is non-expendable and used only for investment purposes. Temporary restricted assets are maintained both by the College and the Foundation and are used for purposes determined by donors and/or external entities.
- ✓ The third asset category is the unrestricted assets and is available to both the College and the Foundation for any lawful purpose.

As of August 31, 2019, 2018, and 2017, the College's net positions were \$(2,821,175), \$(2,350,532), and \$11,935,481 respectively. The significant change in fiscal year 2018, was primarily due to a \$14,105,351 cumulative effect of the change in accounting principle for GASB 75 implementation. From the data presented, readers of the Statement of Net Position are able to determine the Net Assets available to continue the operations of the institution. They are also able to determine how much the College owes vendors, investors and lending institutions.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position focus on both the gross costs and the net costs of College activities that are supported mainly by state appropriation, property taxes, tuition and fees, and other revenues. The outcome of the total activities presented in the Statement of Revenues, Expenses, and Changes in Net Position influenced the above Statement of Net Position. The purpose of the statement is to present the revenues earned by the institution, both operating and non-operating, and the expenses incurred by the institution, operating and non-operating, and any other revenues, expenses, gains and losses earned or incurred by the College.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Non-operating revenues are revenues received for which goods and services are not provided. For example, Ad Valorem taxes for maintenance and operations of the College and for payment of general obligation bonds are non-operating revenues because there is no direct correlation between these revenues and the goods and services that the College provides.

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended August 31, 2019, 2018, and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
SUMMARY OF REVENUES AND EXPENSES			
Total, Operating Revenues	\$ 9,917,683	\$ 8,476,643	\$ 8,429,799
Total, Operating Expenses	<u>26,647,477</u>	<u>25,136,859</u>	<u>23,759,354</u>
Total, Operating (Loss)	(16,729,794)	(16,660,216)	(15,329,555)
Net Non-Operating Revenues	15,912,314	15,846,652	14,799,095
Capital Contributions	<u>346,837</u>	<u>632,902</u>	<u>90,633</u>
Increase (Decrease) in Net Position	(470,643)	(180,662)	(439,827)
Net Position at Beginning of Year	(2,350,532)	11,935,481	12,375,308
Cumulative Effect of Change in Accounting Principal	<u>-</u>	<u>(14,105,351)</u>	<u>-</u>
Net Position at Beginning of Year Restated	<u>(2,350,532)</u>	<u>(2,169,870)</u>	<u>12,375,308</u>
Net Position - End of Year	<u>\$ (2,821,175)</u>	<u>\$ (2,350,532)</u>	<u>\$ 11,935,481</u>

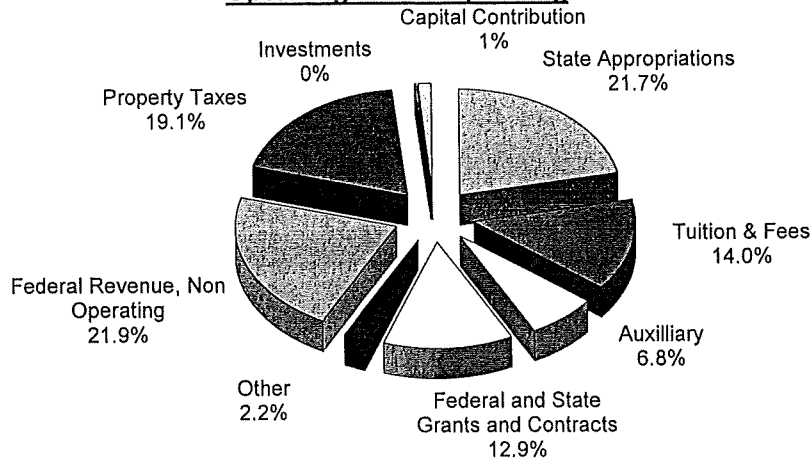
Operating and Non-Operating Revenues

In an effort to further expand and enhance the interpretation of the College's financial reports, we recapped the operating and non-operating revenues to show, graphically, the significance of revenue sources and how it relates to the overall revenue representation:

Revenues: Operating and Non-Operating
For the Years Ended August 31, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues:			
Net tuition and fees	\$ 3,862,155	\$ 3,754,710	\$ 3,672,906
Federal grants and contracts	2,390,474	1,819,028	1,505,550
State grants and contracts	1,148,606	617,320	800,477
Non-governmental grants and contracts	10,119	2,624	16,360
Sales and services of educational activities	39,629	57,572	56,243
Net auxiliary enterprises	1,893,902	1,643,077	1,849,169
Other operating revenues	<u>572,798</u>	<u>582,312</u>	<u>529,094</u>
Total, Operating Revenues	<u>9,917,683</u>	<u>8,476,643</u>	<u>8,429,799</u>
Net Non-Operating Revenues:			
State appropriations	5,940,445	5,962,829	5,887,875
Property taxes	5,268,983	5,379,020	4,880,384
Federal revenue, non-operating	6,047,001	6,002,155	5,585,373
Investment and other Income	<u>49,364</u>	<u>43,376</u>	<u>60,006</u>
Total, Non-Operating Revenues	<u>17,305,793</u>	<u>17,387,380</u>	<u>16,413,638</u>
Capital Contributions	<u>346,837</u>	<u>632,902</u>	<u>90,633</u>
Total Revenues, Operating and Non-Operating	<u>\$ 27,570,313</u>	<u>\$ 26,496,925</u>	<u>\$ 24,934,070</u>

Revenue by Source
Operating & Non-Operating



In comparing the fiscal periods ended August 31, 2019 and 2018:

- Net Tuition and fee revenues increased \$107,445 or 2.86%. This was the result of a \$4 increase in cost per hour and stable enrollment.
- Net Auxiliary Enterprises increased \$250,825 or 15.27% mainly as a result of increased housing occupancy and an increase in Whatley program revenues.
- Federal Grants and Contracts increased \$571,446 or 31.41% primarily as a result of increases in Title V Grants.
- State Grants and Contracts increased \$531,286 or 86.06% largely as a result of an increase in grant awards for Nursing Shortage and Skills Development. Additionally, NTCC was awarded a JET Grant in the amount of \$268,000 to upgrade Health Science simulation lab equipment.
- State Allocations decreased \$22,384 or .38% as a result of decrease in State appropriations for health insurance.
- Federal Revenue Non-Operating increased \$44,846 or .75% as a result of increase student awards.

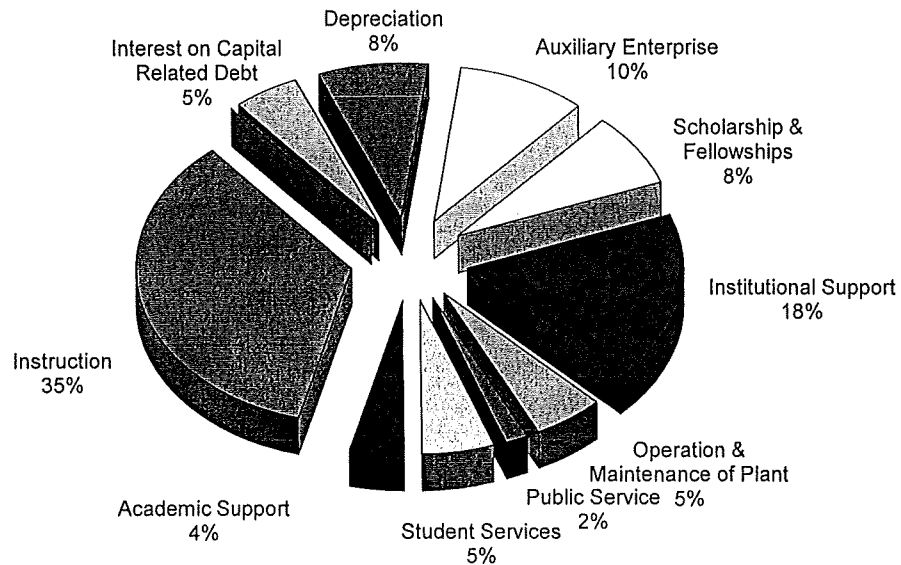
In comparing the fiscal periods ended August 31, 2018 and 2017:

- Net Tuition and fee revenues increased \$81,804 or 2.23%. This was the result of a \$2 increase in cost per hour and relatively stable enrollment.
- Net Auxiliary Enterprises decreased \$206,092 or 11.15% mainly as a result of lower than anticipated housing occupancy and a decrease in overall bookstore revenue.
- Federal Grants and Contracts increased \$313,478 or 20.82% primarily as a result of a new Title V Cooperative Grant.
- State Grants and Contracts decreased \$183,157 or 22.90% largely as a result of a decrease in workforce grant awards.
- State Allocations increased \$74,954 or 1.27% as a result of increase in State appropriations.
- Federal Revenue Non-Operating increased \$416,782 or 7.46% as a result of increase student awards due to the addition of summer Pell.

Additionally, the same methodology is being presented for the operating and non-operating expenses to illustrate the use of the College's resources:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Expenses:			
Instruction	\$ 9,777,151	\$ 9,293,654	\$ 9,446,560
Public service	479,263	479,392	466,753
Academic support	1,140,629	1,237,086	1,019,202
Student services	1,504,403	1,424,558	1,449,265
Institutional support	5,098,293	4,493,271	3,913,322
Operation and maintenance of plant	1,475,267	1,510,014	1,256,531
Scholarship & fellowships	2,153,075	2,065,128	1,801,773
Auxiliary enterprise	2,714,127	2,613,777	2,685,759
Depreciation	<u>2,305,269</u>	<u>2,019,979</u>	<u>1,720,189</u>
Total, Operating Expenses	<u>26,647,477</u>	<u>25,136,859</u>	<u>23,759,354</u>
Non-Operating Expenses:			
Interest on capital related debt	1,386,093	1,418,353	1,412,741
(Gain) Loss on disposal of capital assets	4,189	118,762	(3,845)
Other non-operating expenses	<u>3,197</u>	<u>3,613</u>	<u>205,647</u>
Total, non-operating expenses	<u>1,393,479</u>	<u>1,540,728</u>	<u>1,614,543</u>
Total Expenses, Operating and Non-Operating	<u>\$ 28,040,956</u>	<u>\$ 26,677,587</u>	<u>\$ 25,373,897</u>

Expenses by Source
Operating & Non-Operating



In comparing the fiscal periods ended August 31, 2019 and 2018:

- Instruction increased \$483,497 or 5.20% primarily due to increased allocation for GASB 75 expenditures
- Academic Support decreased \$96,457 or 7.80% as a result of two positions going unfilled for the year.
- Institutional Support increased \$605,022 or 13.47% primarily as a result of an increase expenditures due to the Title V Grants.
- Other non-operating decreased \$147,249 or 9.51% due to lower loss on disposal of assets and lower interest expense.

In comparing the fiscal periods ended August 31, 2018 and 2017:

- Instruction decreased \$152,906 or 1.62% mainly as a result of closure of a program.
- Academic Support increased \$217,884 or 21.38% as a result of a reclassification of student testing and exam preparation cost.
- Institutional Support increased \$579,949 or 14.82% primarily as a result of an increase expenditures due to the new Title V Cooperative Grant.
- Other non-operating decreased \$202,034 or 98.24% due to lower overall bond costs.

Analysis of Net Position

Total Net Position of (\$2,821,175) is comprised of the investment in capital assets net of related debt of \$11,733,963, restricted for debt service of \$531,535, and unrestricted net position of (\$15,086,673). The debt service reserve is set-aside in the event the pledged revenues in interest and sinking fund are not sufficient to pay the debt service payment in the future. The unrestricted net position is the inception-to-date net of current and non-current revenues and expenses.

Net Position For the Years Ended August 31, 2019, 2018, and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investment in Capital Assets, Net of Related Debt	\$ 11,733,963	\$ 12,044,366	\$ 12,056,500
Restricted for debt service	531,535	696,039	543,948
Temporarily Restricted	-	-	-
Unrestricted	<u>(15,086,673)</u>	<u>(15,090,937)</u>	<u>(664,967)</u>
Total Net Position	<u>\$ (2,821,175)</u>	<u>\$ (2,350,532)</u>	<u>\$ 11,935,481</u>

Long Term Debt

In the fiscal period ended August 31, 2017, the college issued \$560,000 in Maintenance Tax Notes for energy retrofit projects.

In the fiscal period ended August 31, 2017, the college issued \$1,225,000 in Limited Tax Refunding Bonds to be used to advance refund the remaining 2010 Series Limited Tax Bonds.

In the fiscal period ended August 31, 2017, the college issued \$5,545,000 in Revenue Financing System Refunding Bonds to be used to advance refund a portion of the 2010 Series Revenue Bonds.

In the fiscal period ended August 31, 2016, the college issued \$9,960,000 in limited tax bonds to finance repairs and renovations of the main campus and issued \$2,540,000 in revenue bonds to be used to advance refund the remaining 2006 Revenue Bonds.

In the fiscal period ended August 31, 2015, the college issued \$9,470,000 in limited tax bonds to finance repairs and renovations of the main campus.

In the fiscal period ended August 31, 2014, the college issued \$86,000 in equipment financing notes for the purchase of a college bus.

In the fiscal period ended August 31, 2013, the college issued \$2,138,638 in Limited Tax Refunding Bonds to be used to advance refund the remaining 2003 Series Limited Tax Bonds.

In the fiscal period ended August 31, 2012, the college issued \$5,741,765 in Limited Tax Refunding Bonds to be used to advance refund a portion of the 2003 Series Limited Tax Bonds.

The College has revenue bonds, general obligation bonds, and other notes payable for which contractual payments have been made in the fiscal periods ended August 31, 2019 and 2018.

See note 9- Bonds and Notes Payable of the financial statements for further information about long-term debt activity.

Capital Assets

In the fiscal period ended August 31, 2019, the College expended \$316,805 in Federal grant funds to purchase equipment for use in our workforce education programs. The College also expended approximately \$365,000 in bond funds for the repair and renovation of the main campus.

In the fiscal period ended August 31, 2018, the College expended \$63,999 in Federal grant funds to purchase equipment for use in our workforce education programs. The College also expended approximately \$1,400,000 in bond funds for the repair and renovation of the main campus.

In the fiscal period ended August 31, 2017, the College expended \$83,310 in Federal grant funds to purchase equipment for use in our workforce education programs. The College also expended approximately \$13,000,000 in bond funds for the repair and renovation of the main campus.

In the fiscal period ended August 31, 2016, the College expended approximately \$250,000 in Federal grant funds to purchase equipment for use in our workforce education programs. The College also expended approximately 5,000,000 in bond funds for the repair and renovation of the main campus.

In the fiscal period ended August 31, 2015, the College expended approximately \$779,000 in Federal grant funds to purchase equipment for use in our workforce education programs. The College also expended \$293,000 in bond funds for the design phase of the main campus repair and renovation project.

In the fiscal period ended August 31, 2014, the College expended approximately \$232,000 in Federal grant funds to purchase equipment for use in our workforce education programs and computer system. The College also expended approximately \$201,000 to remodel half of the College's original dorms.

In the fiscal period ended August 31, 2013, the College expended approximately \$296,700 in Federal and State grant funds to purchase equipment for use in our workforce education programs. The foundation expended approximately \$148,400 to make additional improvements to the College's performing arts facilities and matching funds for the above state grant.

See note 7-Capital Assets of the financial statements for further information about capital asset activity.

On April 26, 2016 Standard & Poor's affirmed the College's Revenue Financing debt rating at BBB and rated the College's General Obligation Financing debt at AA. Management does not believe it has any debt limitations that may affect the financing of planned facilities or services.

Statement of Cash Flows

The final statement presented by the Northeast Texas Community College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts:

Part 1 deals with operating cash flows and shows the net cash used in the operating activities of the institution. The bulk of receipts from students and other customers, appropriations, grants and contracts, and other proceeds help the College cover its payments for payroll, scholarships, loans, and other cash payments.

Part 2 shows the cash flow from non-capital and related financing activities. Part of the ad-valorem local tax revenues pays for maintenance and operations of the College and the rest is for the settlement of general obligation bonds.

Part 3 reflects the cash flows from capital and related financing activities. It shows payments made on expenses and interest on capital related debt, purchase of capital assets and payments on capital debt and leases.

Part 4 shows the cash flows from investing activities where proceeds from sale and purchase of investments including investment earnings are reflected.

Part 5 reconciles the net cash used in the operating income or loss that is reflected on the Statement of Net Assets under the line item 'Cash and Cash Equivalents'.

Financial Condition and Outlook

Net position decreased in fiscal year 2019 by \$470,643 primarily due to the current year effects of GASB 75 (See Note 15). Without the effects of GASB 68 and 75 expenditures, totaling \$979,510, current year net position actually increased \$508,867. In keeping with the current economic trends, we anticipate ongoing minimal earnings of interest on our temporary investments, no increases in operating maintenance and operations tax revenues over the next two to three years, and moderate to no increases in state funding. The College's newly developed "Destination 2025" Strategic Plan incorporates initiatives and new programs for spurring enrollment growth and increases in fund balance over the next five years. We anticipate adjusting our ongoing operating spending to compensate for any changes in revenue.

FINANCIAL STATEMENTS

NORTHEAST TEXAS COMMUNITY COLLEGE
EXHIBIT I
STATEMENTS OF NET POSITION
August 31, 2019 and 2018

ASSETS	2019	2018
Current Assets		
Cash and cash equivalents (Note 4)	\$ 3,508,204	\$ 2,090,695
Investments short-term Note 4)	535,729	526,455
Accounts receivable (Note 16)	1,805,427	1,861,685
Inventories	142,484	218,845
Prepaid expense	506,589	291,331
Due from component unit	212,969	
Total Current Assets	6,711,402	4,989,011
Noncurrent Assets		
Restricted cash and cash equivalents (Note 4)	774,529	1,911,177
Short-term investments (Note 4)	897,354	881,829
Notes receivable (net of allowance for doubtful accounts of \$77,952 in 2019 and 2018)	-	-
Prepaid bond insurance	150,744	167,796
Other assets	41,640	41,640
Capital assets, net of accumulated depreciation (Note 7)	49,430,676	50,973,808
Total Noncurrent Assets	51,294,943	53,976,250
Total Assets	58,006,345	58,965,261
Deferred Outflows of Resources		
Deferred outflows pension related (Note 10)	2,867,337	1,093,271
Deferred outflows OPEB related (Note 15)	5,581,515	344,281
Deferred charge on bond refunding (Note 6)	378,844	451,292
Total Deferred Outflows of Resources	8,827,696	1,888,844
LIABILITIES		
Current Liabilities		
Accounts payable (Note 16)	614,607	693,833
Accrued liabilities (Note 16)	529,681	553,643
Due to component unit	-	5,312
Accrued compensated absences (Note 13)	116,271	125,479
Deposits payable (Note 16)	142,531	165,231
Funds held for others	113,613	99,810
Unearned revenues	1,937,403	2,171,032
Notes and leases payable - current portion (Note 8 and 9)	108,002	122,877
Bonds payable - current portion (Note 8 and 9)	1,345,000	1,333,782
Net OPEB liability- current portion (Note 8 and 15)	222,746	61,315
Total Current Liabilities	5,129,854	5,332,314
Noncurrent Liabilities		
Bonds payable (Note 8 and 9)	35,438,205	36,633,676
Premium on Bonds Payable	762,800	904,096
Notes and leases payable (Note 8 and 9)	919,962	1,028,103
Net pension liability (Note 8 and 10)	5,747,157	3,266,360
Net OPEB liability (Note 8 and 15)	14,919,906	12,022,501
Total Noncurrent Liabilities	57,788,030	53,854,736
Total Liabilities	62,917,884	59,187,050
Deferred Inflows of Resources		
Deferred inflows pension related (Note 10)	876,155	1,345,797
Deferred inflows OPEB related (Note 15)	5,861,177	2,671,790
Total Deferred Outflows of Resources	6,737,332	4,017,587
NET POSITION		
Invested in capital assets, net of related debt	11,733,963	12,044,366
Restricted for		
Expendable	-	-
Debt service	531,535	696,039
Unrestricted	(15,086,673)	(15,090,937)
Total Net Position	\$ (2,821,175)	\$ (2,350,532)

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
EXHIBIT 1A
STATEMENTS OF FINANCIAL POSITION
August 31, 2019 and 2018

ASSETS	2019	2018
Current Assets		
Cash and cash equivalents (Note 4)	\$ 1,021,486	\$ 1,012,570
Accounts receivable (Note 16)	23,696	31,897
Due from Northeast Texas Community College	-	5,312
Total Current Assets	1,045,182	1,049,779
Noncurrent Assets		
Long - term investments (Note 4)	5,261,116	4,607,930
Property, plant, and equipment, net of accumulated depreciation (Note 7)	484,263	406,800
Other assets	40,655	43,840
Total Noncurrent Assets	5,786,034	5,058,570
 Total Assets	 6,831,216	 6,108,349
 LIABILITIES		
Current Liabilities		
Deferred revenue	293,803	262,410
Due to Northeast Texas Community College	212,969	-
Total Current Liabilities	506,772	262,410
 Total Liabilities	 506,772	 262,410
 Net Position		
With Donor Restrictions	5,858,604	4,061,843
Without Donor Restriction	465,840	364,909
Total Net Assets	\$ 6,324,444	\$ 5,845,939

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

NORTHEAST TEXAS COMMUNITY COLLEGE
EXHIBIT 2
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended August 31, 2019 and 2018

REVENUES	<u>2019</u>	<u>2018</u>
Operating Revenues		
Tuition and fees (net of allowances and discounts of \$4,648,942, 2019 and \$4,373,938, 2018)	\$ 3,862,155	\$ 3,754,710
Federal grants and contracts	2,390,474	1,819,028
State grants and contracts	1,148,606	617,320
Non-Governmental grants and contracts	10,119	2,624
Sales and services of educational activities	39,629	57,572
Auxiliary enterprises (net of discounts of \$817,180, 2019 and \$920,725, 2018)	1,893,902	1,643,077
Other operating revenues	572,798	582,312
Total Operating Revenues (Schedule A)	<u>9,917,683</u>	<u>8,476,643</u>
EXPENSES		
Operating Expenses		
Instruction	9,777,151	9,293,654
Public service	479,263	479,392
Academic support	1,140,629	1,237,086
Student services	1,504,403	1,424,558
Institutional support	5,098,293	4,493,271
Operation and maintenance of plant	1,475,267	1,510,014
Scholarships and fellowships	2,153,075	2,065,128
Auxiliary enterprises	2,714,127	2,613,777
Depreciation	2,305,269	2,019,979
Total Operating Expenses (Schedule B)	<u>26,647,477</u>	<u>25,136,859</u>
Operating Income (Loss)	<u>(16,729,794)</u>	<u>(16,660,216)</u>
NON-OPERATING REVENUES (EXPENSES)		
State allocations	5,940,445	5,962,829
Ad-valorem taxes		
Taxes for maintenance & operations	3,187,208	3,179,001
Taxes on general obligations bonds	2,081,775	2,200,019
Federal revenue, non operating	6,047,001	6,002,155
Investment income (net of investment expenses)	49,364	43,376
Interest on capital related debt	(1,386,093)	(1,418,353)
Gain (Loss) on disposal of fixed assets	(4,189)	(118,762)
Other non - operating expenses	(3,197)	(3,613)
Net non-operating revenues (Schedule C)	<u>15,912,314</u>	<u>15,846,652</u>
Capital Contributions		
Component Unit	30,032	568,903
Federal grants capital contributions	316,805	63,999
	<u>346,837</u>	<u>632,902</u>
Increase (Decrease) in Net Position	<u>(470,643)</u>	<u>(180,662)</u>
Net Position - Beginning of Year	(2,350,532)	11,935,481
Cumulative Effect of Change in Accounting Principle (Note 2)		(14,105,351)
Net Position - Beginning of Year as Restated	<u>(2,350,532)</u>	<u>(2,169,870)</u>
Net Position - End of Year	<u>\$ (2,821,175)</u>	<u>\$ (2,350,532)</u>

The accompanying "Notes to the Financial Statement" are an integral part of this statement.

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
EXHIBIT 2A
STATEMENTS OF ACTIVITIES
For the Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUES		
Operating Revenues		
Federal Grants and Contracts	\$ 141,907	\$ 142,056
State Grants and Contracts	628,915	565,387
Local Grants and Contracts	794,534	855,719
Total Operating Revenues	<u>1,565,356</u>	<u>1,563,162</u>
EXPENSES		
Operating Expenses		
Public Service	1,844,421	2,235,747
Scholarships	324,859	275,035
Depreciation	7,537	4,721
Total Operating Expenses	<u>2,176,817</u>	<u>2,515,503</u>
Operating (Loss)	<u>(611,461)</u>	<u>(952,341)</u>
Non-Operating Revenues		
Investment income	253,284	752,392
Net non-operating revenues	<u>253,284</u>	<u>752,392</u>
(Loss) Before Other Revenues, Expenses, Gains, Losses	<u>(358,177)</u>	<u>(199,949)</u>
OTHER REVENUES, (EXPENSES), GAINS, LOSSES		
Additions to Endowments	338,206	249,761
Gains (loss) on investments	(92,229)	(417,306)
Contributions	590,705	483,415
Total Other Revenues, Expenses, Gains, Losses	<u>836,682</u>	<u>315,870</u>
Increase (Decrease) in Net Position	478,505	115,921
Net Position - Beginning of Year	<u>5,845,939</u>	<u>5,730,018</u>
Net Position - End of Year	<u>\$ 6,324,444</u>	<u>\$ 5,845,939</u>

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

NORTHEAST TEXAS COMMUNITY COLLEGE

EXHIBIT 3

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from students and other customers	\$ 5,472,584	\$ 6,112,056
Receipts of grants and contracts for operating activities	3,334,566	2,443,559
Other receipts	632,945	639,884
Payments to or on behalf of employees	(7,429,892)	(8,913,651)
Payments to suppliers for goods or services	(13,707,338)	(11,690,802)
Payments of scholarships	(2,153,075)	(2,065,128)
Net cash provided (used) by operating activities	<u>(13,850,210)</u>	<u>(13,474,082)</u>
Cash Flows From Noncapital Financing Activities		
State allocations	5,656,963	5,669,585
Federal revenues	6,047,001	6,002,155
Ad valorem tax revenues	5,569,200	5,017,910
Net cash provided (used) by non-capital financing activities	<u>17,273,164</u>	<u>16,689,650</u>
Cash Flows From Capital and Related Financing Activities		
Interest and other expense on capital related debt	(1,298,603)	(1,315,073)
Purchases of capital assets	(738,080)	(1,715,277)
Capital contributions	316,805	63,999
Proceeds from sale of fixed assets	1,786	4,811
Proceeds on issuance of capital debt	-	-
Payments on capital debt and leases	(1,448,566)	(1,429,985)
Net cash provided (used) by capital and related financing activities	<u>(3,166,658)</u>	<u>(4,391,525)</u>
Cash Flows From Investing Activities		
Proceeds from sale and maturities of investments	-	-
Investment earnings	49,364	43,376
Purchases of investments	(24,799)	(19,316)
Net cash provided (used) by investing activities	<u>24,565</u>	<u>24,060</u>
Increase (Decrease) in cash and cash equivalents	280,861	(1,151,897)
Cash and cash equivalents - September 1,	<u>4,001,872</u>	<u>5,153,769</u>
Cash and cash equivalents - August 31,	<u>\$ 4,282,733</u>	<u>\$ 4,001,872</u>
Noncash investing, capital, and financing activities		
Contributions of Capital Assets	30,032	568,903
Total Noncash investing, capital, and financing activities	<u>\$ 30,032</u>	<u>\$ 568,903</u>
Reconciliation of operating income to net cash provided		
by operating activities:		
Operating income (loss)	\$ (16,729,794)	\$ (16,660,216)
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Depreciation expense	2,305,269	2,019,979
Payments made directly by state for benefits	283,482	293,244
Bad debts	282,029	(249,494)
Changes in assets and liabilities		
Receivables, net	(525,988)	192,976
Inventories	76,361	125,942
Prepaid expense	(215,258)	(77,881)
Due from component unit	(218,281)	179,226
Other assets	-	-
Accounts payable	(79,226)	(298,021)
Accrued liabilities	(34,356)	27,421
Deposits payable	(22,700)	(13,500)
Funds held for others	13,803	2,714
Pension and OPEB Related	1,248,078	208,154
Deferred revenue	(233,629)	775,374
Net cash provided (used) by operating activities	<u>\$ (13,850,210)</u>	<u>\$ (13,474,082)</u>

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
EXHIBIT 3A
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from grants and contracts for operating activities	\$ 1,090,578	\$ 1,172,179
Payments of scholarships and support of college	(106,578)	(454,260)
Payments on grants and contract costs	<u>(1,284,076)</u>	<u>(1,095,963)</u>
Net cash provided (used) by operating activities	<u>(300,076)</u>	<u>(378,044)</u>
Cash Flows From Noncapital Financing Activities		
Additions to permanent and term endowment and other contributions	<u>831,156</u>	<u>638,338</u>
Net cash provided (used) by noncapital financing activities	<u>831,156</u>	<u>638,338</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments		2,790,218
Investment income (loss)	253,284	752,392
Purchase of capital assets	(30,032)	(158,388)
Purchase of investments	<u>(745,416)</u>	<u>(3,525,997)</u>
Net cash provided (used) by investing activities	<u>(522,164)</u>	<u>(141,775)</u>
Net increase (decrease) in cash and cash equivalents	8,916	118,519
Cash and cash equivalents at beginning of year	<u>1,012,570</u>	<u>894,051</u>
Cash and cash equivalents at end of year	<u>\$ 1,021,486</u>	<u>\$ 1,012,570</u>
Noncash investing, capital, and financing activities		
Inkind contributions	<u>\$ 612,127</u>	<u>\$ 606,739</u>
Reconciliation of operating loss to net cash used by by operating activities		
Operating loss	\$ (611,461)	\$ (952,341)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	7,537	4,721
Non cash transfer to college	30,032	568,903
Amortization and expense of inkind contributions	15,941	58,980
Change in assets and liabilities		
Accounts receivable	8,201	(15,060)
Due to college	218,281	(179,225)
Deferred revenue	31,393	135,978
Accounts payable	<u>-</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ (300,076)</u>	<u>\$ (378,044)</u>

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 1 - Reporting Entity

Northeast Texas Community College (the College) was formed in January, 1984, within a voter approved tax district encompassing Camp, Morris, and Titus Counties in Northeast Texas, in accordance with the laws of the State of Texas. A seven-member Board of Trustees elected at large from the three counties serves as the oversight unit. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

In defining the College's reporting entity for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The following is a brief summary of the potential component unit addressed in defining the College's reporting entity.

Northeast Texas Community College Foundation – The Foundation is organized for the exclusive support of Northeast Texas Community College. The Foundation is a thirty-two-member board and the members of the College Board of Trustees are members of the Board of Directors of the Foundation.

Note 2 - Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants: Certain tuition amounts are required to be set aside for use as scholarships for 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 for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

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

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

Basis of Accounting

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 2 - Summary of Significant Accounting Policies - (continued)

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 College'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 Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1. The budget for the year ended August 31, 2019 was adopted by the Board of Trustees on August 30, 2018.

Cash and cash equivalents

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

Restricted cash

The College's restricted cash consists of cash not available for operations, such as cash reserves for bond requirements.

Deferred Outflows

In addition to assets, 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 (expenses) until then. Governments are only permitted 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 and pension related.

Investments

In accordance with GASB Statement No 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase. Noncurrent investments include investments that are current, but not available for operations.

Inventories

Inventories consist of consumable office supplies, physical plant supplies and bookstore stock. Inventories are stated at lower of cost or market using the first-in, first-out (FIFO) method and are charged to expense as consumed.

Deferred Inflows

In addition to liabilities, 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 will not be recognized as an inflow of resources (revenues) until that time. Governments are only permitted to report deferred inflows in circumstances specifically authorized by the GASB. A typical deferred inflow for community colleges is pension or OPEB related.

Subsequent Events

Management has evaluated subsequent events through the date of this report which is the date the financial were available to be issued which was December 10, 2019.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 2 - Summary of Significant Accounting Policies - (continued)

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and estimated useful life in excess of one year. Renovations of \$50,000 to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

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 accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits; OPEB expense; and information about assets, liabilities and additions to/deductions from SRHP's net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

Pensions

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

Unearned Revenue and Expenditure

Tuition and Fees of \$1,670,334 and \$1,883,449 and federal, state and local grants of \$267,069 and \$287,583 have been reported as unearned revenues at August 31, 2019 and 2018, respectively.

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. Actual results could differ from those estimates.

Operating and Non-Operating Revenues and Expenses

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 2 - Summary of Significant Accounting Policies - (continued)

Pending Pronouncements

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In June 2017, GASB issued Statement No. 87, *Leases*. 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Prior Period Adjustment and Reclassifications. Certain reclassifications have been made to the prior year to conform with the current year presentation.

Restatement to Beginning Net Position –For Year End August 31, 2018

During fiscal year 2018, a significant prior period adjustment was made by the District to adopt GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the College must assume their proportionate share of the Net OPEB liability of the Employees Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment total \$(14,105,351) which resulted in a restated beginning net position of \$(14,105,351).

Effective for Fiscal year 2018, the College implemented GASB Statement No. 75, *Accounting for OPEB*. Accordingly, a restatement to beginning net position was required for the recording of the beginning net OPEB liability and for the recording of deferred outflows of resources related to OPEB for contributions made to the ERS OPEB plan after the measurement date of the beginning net OPEB liability.

Because audited beginning balance could not be obtained for all the deferred outflows of resources and deferred inflows of resources related to OPEB, the College determined it was impractical to restate its fiscal year 2017 financial statements. As such, the College recorded a restatement to beginning net position in the fiscal year 2018 financial statements as a cumulative effect of change on accounting principle.

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

Beginning net position	\$ 11,935,481
Cumulative effect of change in accounting principle (GASB 75):	
Beginning Net OPEB liability (measurement date as of August 31, 2017)	(14,437,592)
Deferred outflow for the College contributions to ERS plan during FY 17	332,241
Beginning net position, as restated	<u>\$ (2,169,870)</u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 3 - Authorized Investments

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

Note 4 - Deposits and Investments

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

	2019	2018
Cash and Deposits		
Demand Deposits	\$ 2,701,318	\$ 2,456,742
Time Deposits	1,433,082	1,408,285
Petty Cash	10,837	10,237
Total Cash and Deposits	\$ 4,145,237	\$ 3,875,264

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Fair Value August 31, 2019	Fair Value August 31, 2018
Investment Pool	1,570,579	\$ 1,534,892
Total	1,570,579	1,534,892
Total Cash and Deposits	4,145,237	3,875,264
Total Deposits and Investments	\$ 5,715,816	\$ 5,410,156
Cash and Cash Equivalents (Exhibit 1)	\$ 3,508,204	\$ 2,090,695
Restricted Cash and Cash Equivalents (Exhibit 1)	774,529	1,911,177
Investments (Exhibit 1)	535,729	526,455
Restricted Investments (Exhibit 1)	897,354	881,829
Total Deposits and Investments	\$ 5,715,816	\$ 5,410,156

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 4 - Deposits and Investments-continued

Cash and Deposits for Northeast Texas Community College Foundation, Inc. reported on Exhibit 1 consist of the following:

	2019	2018
Demand Deposits	1,021,486	\$ 796,668
Total Cash and Deposits	\$ 1,021,486	\$ 796,668

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Fair Value August 31, 2019	Fair Value August 31, 2018
U.S. Government Agencies	929,299	\$ 852,254
Corporate Bond/Notes	1,394,282	88,800
Mutual Funds	2,937,535	3,882,778
Total Investments	5,261,116	4,823,832
Total Cash and Deposits	1,021,486	796,668
Total Deposits and Investments	\$ 6,282,602	\$ 5,620,500
Cash and Cash Equivalents	1,021,486	\$ 1,012,570
Long-term Investments	5,261,116	4,607,930
Total Deposits and Investments	\$ 6,282,602	\$ 5,620,500

As of August 31, 2019, the College had the following investments and maturities:

Investment Type	Credit Rating	Market Value	Investment Maturities (in years)		
			Less than 1	1-2	2-3
Certificates of Deposit	N/A	\$ 1,433,082	\$ 1,433,082	\$ -	\$ -
Investment Pool	AAA	1,570,579	1,570,579	-	-
Total Market Value		\$ 3,003,661	\$ 3,003,661	-	-

As of August 31, 2019, the Foundation had the following investments and maturities:

Investment Type	Credit Rating	Market Value	Investment Maturities (in years)			
			No Maturity	Less than 1	1-2	2-3
Investco Treasury Cash Management	AAA	-	-	-	-	
US Gov't Agencies	AAA	929,299	-	-	929,299	
Corporate Bonds/Notes	AA	1,394,282	-	-	1,394,282	
Mutual Funds	N/A	2,937,535	2,937,535	-	-	
Total Market Value		\$ 5,261,116	\$ 2,937,535	\$ -	\$ -	\$ 2,323,580

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 4 - Deposits and Investments – (continued)

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

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

Concentration of Credit Risk: The College does not place a limit on the amount that may be invested in any one issuer. More than 5% of the College’s investments are in investment pools (52.3%) and in certificates of deposit (47.7%).

Custodial Credit Risk: At August 31, 2019, the College had money on deposit at two banks. The carrying amount of the College’s and the Foundation’s bank deposits was \$4,134,589 and \$1,021,461 and total bank balances equaled \$4,302,269 and \$1,021,461. Bank balances of \$504,601 are covered by federal depository insurance and \$4,819,129 was covered by collateral pledged in Northeast Texas Community College’s name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

Fair Value of investments: Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets that the government can access at the measurement date, Level 2 inputs consist of inputs other than quoted prices that are observable for identical assets, and Level 3 inputs are unobservable inputs for the assets. All investments are valued using Level 1 inputs.

Note 5 – Derivatives

The College had no derivatives at August 31, 2019 or 2018.

Note 6 – Deferred Outflows of Resources Bond Refunding

The college was required to reclassify refunded debt the difference between the reacquisition price and the net carrying amount of the old debt as a deferred outflow of resources or a deferred inflow of resources and recognize this as a component of interest expense in a systematic and rational manner over the remaining life of the old debt of the life on the new debt, whichever is shorter.

	<u>Balance August 31, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2019</u>
Deferred charge on bond refunding	\$ 451,292		\$ 72,448	\$ 378,844
	<u>Balance August 31, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2018</u>
Deferred charge on bond refunding	\$ 526,247	\$ -	\$ 74,955	\$ 451,292

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 7– Capital Assets

Capital assets activity for the year ended August 31, 2019 was as follows:

	For the Year Ended August 31, 2019			Balance August 31, 2019
	Balance August 31, 2018	Increases	Decreases	
<u>Not Depreciated:</u>				
Land	\$ 1,748,209	-	\$ -	\$ 1,748,209
Construction in Process	321,259	6,715	300,500	27,474
Subtotal	<u>\$ 2,069,468</u>	<u>6,715</u>	<u>\$ 300,500</u>	<u>\$ 1,775,683</u>
<u>Other Capital Assets:</u>				
Buildings	52,385,443	74,660	-	52,460,103
Equipment Purchased with Capital Lease	342,348	-	-	342,348
Furniture, Machinery, Vehicles, and other Equipment	7,660,289	668,799	71,800	8,257,288
Library Books	628,860	18,666	816	646,710
Telecommunications and Peripheral Equipment	3,535,390	90,908	-	3,626,298
Subtotal	<u>\$ 64,552,330</u>	<u>853,033</u>	<u>\$ 72,616</u>	<u>\$ 65,332,747</u>
<u>Accumulated Depreciation:</u>				
Buildings	8,847,563	1,179,558	208,864	9,818,257
Equipment Purchased with Capital Lease	298,648	4,600	-	303,248
Furniture, Machinery, Vehicles and Other Equipment	3,603,828	662,698	65,825	4,200,701
Library Books	477,211	24,274	816	500,669
Telecommunications and Peripheral Equipment	2,420,740	434,139	-	2,854,879
Subtotal	<u>\$ 15,647,990</u>	<u>\$ 2,305,269</u>	<u>\$ 275,505</u>	<u>\$ 17,677,754</u>
Net Other Capital Assets	<u>\$ 48,904,340</u>	<u>\$ (1,452,236)</u>	<u>\$ (202,889)</u>	<u>\$ 47,654,993</u>
Net Capital Assets	<u>\$ 50,973,808</u>	<u>\$ (1,445,521)</u>	<u>\$ 97,611</u>	<u>\$ 49,430,676</u>

The college has committed to a rehabilitation and rejuvenation project for the original campus buildings in the total amount of \$20.3 million. As of August 31, 2019, the college had expended \$20,166,414 toward this project.

***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018***

Note 7 – Capital Assets – (continued)

Foundation

	<u>For the Year Ended August 31, 2019</u>			
	<u>Balance August 31, 2018</u>	<u>Increases</u>	<u>Decreases</u>	
<u>Not Depreciated:</u>				
Land	\$ 120,480	85,000	-	\$ 205,480
Works of Art, Antiques	101,234		-	101,234
Subtotal	<u>\$ 221,714</u>	<u>85,000</u>	<u>-</u>	<u>\$ 306,714</u>
<u>Other Capital Assets:</u>				
Buildings	\$ 207,911	-	-	\$ 207,911
<u>Accumulated Depreciation:</u>				
Buildings	22,825	7,537	-	30,362
Subtotal	<u>\$ 22,825</u>	<u>\$ 7,537</u>	<u>\$ -</u>	<u>\$ 30,362</u>
Net Other Capital Assets	<u>\$ 185,086</u>	<u>\$ (7,537)</u>	<u>\$ -</u>	<u>\$ 177,549</u>
Net Capital Assets	<u>\$ 406,800</u>	<u>\$ 77,463</u>	<u>\$ -</u>	<u>\$ 484,263</u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 7 – Capital Assets – (continued)

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

	<u>Balance</u> <u>August 31, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>August 31, 2018</u>
<u>Not Depreciated:</u>				
Land	\$ 1,438,209	\$ 310,000	\$ -	\$ 1,748,209
Construction in Process	17,433,445	1,320,962	18,433,148	321,259
Subtotal	<u>\$ 18,871,654</u>	<u>\$ 1,630,962</u>	<u>\$ 18,433,148</u>	<u>\$ 2,069,468</u>
<u>Other Capital Assets:</u>				
Buildings	42,653,892	16,073,652	6,342,101	52,385,443
Equipment Purchased with Capital Lease	342,348			342,348
Furniture, Machinery, Vehicles, and other Equipment	5,302,937	2,451,765	94,413	7,660,289
Library Books	712,973	21,344	105,457	628,860
Telecommunications and Peripheral Equipment	2,791,039	744,351		3,535,390
Subtotal	<u>\$ 51,803,189</u>	<u>\$ 19,291,112</u>	<u>\$ 6,541,971</u>	<u>\$ 64,552,330</u>
<u>Accumulated Depreciation:</u>				
Buildings	13,925,395	1,156,265	6,234,097	8,847,563
Equipment Purchased with Capital Lease	294,048	4,600	-	298,648
Furniture, Machinery, Vehicles and Other Equipment	3,007,523	665,402	69,097	3,603,828
Library Books	556,600	26,068	105,457	477,211
Telecommunications and Peripheral Equipment	2,058,097	362,643		2,420,740
Subtotal	<u>\$ 19,841,663</u>	<u>\$ 2,214,978</u>	<u>\$ 6,408,651</u>	<u>\$ 15,647,990</u>
Net Other Capital Assets	<u>\$ 31,961,526</u>	<u>\$ 17,076,134</u>	<u>\$ 133,320</u>	<u>\$ 48,904,340</u>
Net Capital Assets	<u><u>\$ 50,833,180</u></u>	<u><u>\$ 18,707,096</u></u>	<u><u>\$ 18,566,468</u></u>	<u><u>\$ 50,973,808</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 7 – Capital Assets – (continued)

	For the Year Ended August 31, 2018			Balance August 31, 2018
	Balance August 31, 2017	Increases	Decreases	
<u>Not Depreciated:</u>				
Land	\$ 452,670	\$ -	\$ 332,190	\$ 120,480
Works of Art, Antiques	193,236		92,002	101,234
Subtotal	<u>\$ 645,906</u>	<u>\$ -</u>	<u>\$ 424,192</u>	<u>\$ 221,714</u>
<u>Other Capital Assets:</u>				
Buildings	196,024	112,611	100,724	207,911
Furniture, Machinery, Vehicles, and other Equipment	178,597		178,597	-
Telecommunications and Peripheral Equipment	75,087	-	75,087	-
Subtotal	<u>\$ 449,708</u>	<u>\$ 112,611</u>	<u>\$ 354,408</u>	<u>207,911</u>
<u>Accumulated Depreciation:</u>				
Buildings	65,948	4,721	47,844	22,825
Furniture, Machinery, Vehicles and Other Equipment	156,851		156,851	-
Telecommunications and Peripheral Equipment	75,087	-	75,087	-
Subtotal	<u>\$ 297,886</u>	<u>\$ 4,721</u>	<u>\$ 279,782</u>	<u>22,825</u>
Net Other Capital Assets	<u>\$ 151,822</u>	<u>\$ 107,890</u>	<u>\$ 74,626</u>	<u>\$ 185,086</u>
Net Capital Assets	<u>\$ 797,728</u>	<u>\$ 107,890</u>	<u>\$ 498,818</u>	<u>\$ 406,800</u>

Note 8 – Noncurrent Liabilities

Long-term liability activity for the year ended August 31, 2019 was as follows:

	Balance August 31, 2018	Increases	Decreases	Balance August 31, 2019	Current Portion
	Leases, bonds, and notes				
Revenue bonds	\$ 7,595,000	\$ -	\$ 325,000	\$ 7,270,000	\$ 330,000
General obligation bonds	30,372,458	141,436	1,000,689	29,513,205	1,015,000
Notes payable	1,150,980	-	123,016	1,027,964	108,002
Net pension liability	3,266,360	2,480,797	-	5,747,157	N/A
Net OPEB Liability	12,083,816	3,058,836	-	15,142,652	222,746
Total long-term obligations	<u>\$ 54,468,614</u>	<u>\$ 5,681,069</u>	<u>\$ 1,448,705</u>	<u>\$ 58,700,978</u>	<u>\$ 1,675,748</u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 8 – Noncurrent Liabilities-(continued)

Long-term liability activity for the year ended August 31, 2018 was as follows:

	Balance August 31, 2017	Increases	Decreases	Balance August 31, 2018	Current Portion
Leases, bonds, and notes					
Revenue bonds	\$ 7,915,000	\$ -	\$ 320,000	\$ 7,595,000	\$ 325,000
General obligation bonds	31,223,353	144,872	995,767	30,372,458	1,008,782
Notes payable	1,265,198	-	114,218	1,150,980	122,877
Net pension liability	3,804,716	-	538,356	3,266,360	N/A
Net OPEB Liability	-	12,416,203	332,387	12,083,816	61,315
Total long-term obligations	\$ 44,208,267	\$ 12,561,075	\$ 2,300,728	\$ 54,468,614	\$ 1,517,974

Note 9 – Bonds and Notes Payable

General Obligation Bonds

The 2012 Series Limited Tax Refunding Bonds are due in annual installments varying from \$31,582 to \$1,130,200 with interest rates from 1.08% to 2.4%. The 2013 Series Limited Tax Refunding Bonds are due in annual installments from \$ 530,000 to \$1,130,000 with interest rates from 3.03% to 3.38%. Of the original \$18,000,000 bonds authorized by the November 5, 2002 election, there were un-issued but approved bonds totaling \$5,518,457 at August 31, 2019 and 2018. The 2015 Series Limited Tax Bonds are due in annual installments varying from \$35,122 to \$1,055,600 with interest rates from 4% to 4.25%. The 2016 Series Limited Tax Bonds are due in annual installments varying from \$75,000 to \$1,955,000. The 2016 refunding bonds are due in annual installments varying from \$5,000 to \$90,000 with interest rates from 1.69% to 3.22%. The principal and interest expense for the next five years and beyond for the tax obligation bonds are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2020	1,015,000 (A)	997,975	2,012,975
2021	1,080,000 (A)	932,600	2,012,600
2022	1,110,000 (A)	900,125	2,010,125
2023	1,155,000 (A)	856,600	2,011,600
2024	1,078,338 (A)	932,737	2,011,075
2025-2029	5,024,867 (A)	5,036,974	10,061,841
2030-2034	6,805,000 (A)	3,259,232	10,064,232
2035-2039	8,400,000 (A)	1,699,756	10,099,756
2040-2041	3,845,000 (A)	202,094	4,047,094
	\$ 29,513,205	\$ 14,818,093	\$ 44,331,298

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018*

Note 9 – Bonds and Notes Payable-(continued)

2012, 2013, and 2016(A) Series Limited Tax Refunding Bonds are stated at their current accreted value.

The orders authorizing the issuance of the tax obligation bonds require the Board of Trustees to annually levy ad valorem taxes which will be sufficient to raise and produce the money required to pay the interest and principal of the bonds as they mature. The tax collections that are restricted for payment of the bond principal and interest are to be deposited into the Retirement of Indebtedness Fund.

General information related to bonds payable is summarized below:

Limited Tax Refunding Bonds, Series 2012

To advance refund a portion of the 2003 Series Limited Tax Bonds

Issued January 20, 2012

Total authorized and issued \$9,293,154

Source of revenue for debt service is ad valorem taxes

Outstanding accreted principal balance at August 31, 2019 and 2018 was \$4,225,000 and \$5,153,782, respectively.

The economic gain resulting from the refunding transaction was \$1,948,388

Limited Tax Refunding Bonds, Series 2013

To advance refund the remaining 2003 Series Limited Tax Bonds

Issued January 25, 2013

Total Authorized and Issued \$3,912,171

Source of revenue for debt service is ad valorem taxes

Outstanding accreted principal balance at August 31, 2019 and 2018 was \$4,808,205 and \$4,658,676, respectively.

The economic gain resulting from the refunding transaction was \$1,791,192

Limited Tax Bonds, Series 2015

To construct and equip school buildings

Issued August 11, 2015

Total authorized and issued \$9,470,000

Source of revenue for debt service is ad valorem taxes

Outstanding principal balance at August 31, 2019 and 2018 is \$9,470,000 and \$9,470,000, respectively.

Limited Tax Bonds, Series 2016

To construct and equip school buildings

Issued May 24, 2016

Total authorized and issued \$9,960,000

Source of revenue for debt service is ad valorem taxes

Outstanding principal balance at August 31, 2019 and 2018 is \$9,815,000 and \$9,885,000, respectively.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 9 – Bonds and Notes Payable-(continued)

Limited Tax Refunding Bonds, Series 2016 A

To advance refund the 2010 Series Limited Tax Bonds

Issued December 8, 2016

Total authorized and issued \$1,225,000

Source of revenue for debt service is ad valorem taxes

Outstanding accredited principal balance at August 31, 2019 and 2018 is \$1,195,000 and \$1,205,000, respectively.

Revenue Bonds

The 2016 Revenue Financing System Refunding and Improvement Bonds, Series 2016 are due in annual installments varying from \$140,000 to \$205,000. The 2016(A) Revenue Financing System Bonds are due in annual installments of \$180,000 to \$560,000 with interest at 2%.

Debt service requirements for the revenue bonds are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2020	330,000	241,038	571,038
2021	340,000	233,413	573,413
2022	350,000	224,613	574,613
2023	355,000	214,813	569,813
2024	370,000	203,938	573,938
2025-2029	2,025,000	837,278	2,862,278
2030-2034	2,400,000	461,278	2,861,278
2035-2036	1,100,000	44,400	1,144,400
	\$ 7,270,000	\$ 2,460,771	\$ 9,730,771

Revenue Financing System Refunding and Improvement Bonds, Series 2016

To advance refund 2006 Revenue Bonds, which refunded 1992 Series Dormitory System

Revenue Bonds

Issued May 24, 2016

Total Authorized and issued \$2,510,000

Sources of revenue for debt service is dorm fees

Outstanding principal balance at August 31, 2019 and 2018 was \$2,085,000 and \$2,230,000, respectively

The economic gain resulting from the refunding transaction was \$204,988

Revenue Financing System Refunding and Improvement Bonds, Series 2016 A

To advance refund 2010 Revenue Bonds

Issued December 8, 2016

Total Authorized and issued \$5,545,000

Sources of revenue for debt service is dorm fees

Outstanding principal balance at August 31, 2019 and 2018 was \$5,185,000 and \$5,365,000, respectively

The economic gain resulting from the refunding transaction was \$232,086.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 9 – Bonds and Notes Payable-(continued)

Notes Payable

The College entered into a 4.34% maintenance tax note payable dated April 27, 2010 to a bank in the amount of \$1,100,000. The note is due in 30 semi-annual payments of \$50,129. The balance of the note at August 31, 2019 and 2018 was \$522,974 and \$597,714, respectively.

The College entered into a financing agreement payable to a bank to purchase a bus on November 25, 2013 in the amount of \$86,000. The loan is due in 5 annual payments \$18,726, including interest at 2.88%. The balance of the note at August 31, 2019 and 2018 was \$0 and \$18,180 respectively

The College entered into a 3.95% maintenance tax note payable dated December 12, 2016 to a bank in the amount of \$560,000. The note is due in 15 semi-annual payments of \$45,000 to \$50,000. The balance of the note at August 31, 2019 and 2018 was \$504,990 and \$535,000, respectively.

Debt service requirements for the notes payable are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2020	108,002	37,468	145,470
2021	116,530	33,114	149,644
2022	120,157	28,438	148,595
2023	123,945	23,599	147,544
2024	127,885	18,610	146,495
2025-2029	296,459	41,685	338,144
2030-2032	134,986	7,031	142,017
	\$ 1,027,964	\$ 189,945	\$ 1,217,909

Note 10 – Defined Benefit Pension Plan

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

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

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 10 – Defined Benefit Pension Plan-(continued)

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, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

Contribution Rates

	2018	2019
Member (Employees)	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employer (District)	6.8%	6.8%
Member Contributions	635,565	646,033
State of Texas On-Behalf Contributions	193,058	205,565
College Contributions	351,746	360,087

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

The district's contributions to the TRS pension plan in 2019 were \$360,087 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 2019 were \$205,565.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 10 – Defined Benefit Pension Plan-(continued)

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

Public junior colleges or junior college district 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 source or 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 and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial Assumptions. The total pension liability in the August 31, 2017 actuarial valuation and rolled to 2018 was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017, rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percent of Payroll, Floating
Amortization Period	30 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	6.907%
Long-term Expected Investment Rate of Return	7.25%
Municipal Bond Rate*	3.69*
Inflation	2.30%
Payroll Growth Rate	3.00%
Salary increases including inflation	3.05% to 9.05%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

* 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."

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 10 – Defined Benefit Pension Plan-(continued)

The actuarial methods and assumptions were selected by the TRS Board of Trustees based upon analysis and recommendations by the TRS system's actuary. The TRS Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2017 and were adopted in July 2018. There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period. Assumptions, methods, and plan changes were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including postretirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8 percent to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability. There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Discount Rate. The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. 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 sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 10 – Defined Benefit Pension Plan-(continued)

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 arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation* %	Long-Term Expected Arithmetic Real Rate of Return**	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18%	5.7%	1.0%
Non-U.S. Developed	13%	6.9%	0.9%
Emerging Markets	9%	8.9%	0.8%
Directional Hedge Funds	4%	3.5%	0.1%
Private Equity	13%	10.2%	1.3%
Stable Value			
U.S. Treasuries	11%	1.1%	0.1%
Absolute Return	0%	-	0.0%
Stable Value Hedge Funds	4%	3.1%	0.1%
Cash	1%	-0.3%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.7%	0.0%
Real Assets	14%	5.2%	0.7%
Energy and Natural Resources	5%	7.5%	0.4%
Commodities	0%	-	0.0%
Risk Parity			
Risk Parity	5%	3.7%	0.2%
Inflation Expectations			2.3%
Volatility Drag***			-0.7%
Total	<u>100%</u>		<u>7.2%</u>

* Target allocations are based on the FY2016 policy model.

** Capital market assumptions come from Aon Hewitt (2017 Q4)

***The volatility drag results from the conversion between arithmetic and geometric mean returns.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 10 – Defined Benefit Pension Plan-(continued)

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

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
College's proportionate share of the net pension liability	\$ 8,673,944	\$ 5,747,157	\$ 3,377,876

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2019, the college reported a liability of \$5,747,157 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the college. The amount recognized by the college as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the college were as follows:

College proportionate share of the collective net pension liability	\$ 5,747,157
State's proportionate share that is associated with the College	<u>3,360,848</u>
Total	<u><u>\$ 9,108,005</u></u>

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

At August 31, 2018 the employer's proportion of the collective net pension liability was .0104414490%, which was an increase (decrease) of .0002257499% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The Total Pension Liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0 percent to 7.25 percent.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 10 – Defined Benefit Pension Plan-(continued)

- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the Net Pension Liability.

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

For the year ended August 31, 2019, the college recognized pension expense of \$200,181 and revenue of \$200,181 for support provided by the State.

For the year ended August 31, 2018, the college recognized pension expense of \$193,058 and revenue of \$193,058 for support provided by the State.

At August 31, 2019, the college reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 35,823	\$ 141,014
Changes in actuarial assumptions	2,072,152	64,755
Difference between projected and actual investment earnings	298,679	407,729
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	100,596	262,657
Total as of August 31, 2018 measurement date	2,507,250	876,155
Contributions paid to TRS subsequent to the measurement date	360,087	-
Total	\$ 2,867,337	\$ 876,155

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:

Year ended August 31:			
2020	\$	396,445	
2021		166,958	
2022		121,345	
2023		350,641	
2024		360,822	
Thereafter		234,884	
	\$	1,631,095	

***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018***

Note 11 – Defined Contribution Pension Plan

The state has also established an optional retirement program for institutions of higher education. Participation in the Optional Retirement 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. 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 6.0% and 6.65%, respectively. The College contributes 3.3% percent for employees who were participating in the optional retirement program prior to September 1, 1995 and .24% for all others. 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. Senate Bill (SB) 1812, 83rd Texas Legislation, Regular Session, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense of the State for the College, for both the define benefit plan and the define contribution plan, was \$283,483, \$293,244, and \$278,972 for the fiscal years ended August 31, 2019, 2018, and 2017 respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for the College employees was \$11,284,120, \$11,114,508, and \$10,863,353 for fiscal years 2019, 2018, and 2017 respectively. The total payroll of employees covered by the Teacher Retirement System was \$8,390,035, \$8,254,074, and \$7,759,509 and the total payroll of employees covered by the Optional Retirement Program was \$2,524,304, \$2,655,041, and \$2,746,507 for fiscal years 2019, 2018, and 2017, respectively.

Note 12 - Deferred Compensation Program

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. Both a 403(b) plan and a 457(b) plan are available. These plans are funded by employee contributions such that the System is not liable for the diminution in value or loss of all or part of the participating employees' deferred amounts or investment income due to market conditions or the failure, insolvency or bankruptcy of a qualified vendor.

The total number of NTCC employees participating in these plans at August 31, 2019 and 2018 were 17 and 15, respectively. During fiscal years ended August 31, 2019 and August 31, 2018, NTCC employee contributions amounting to \$254,360 and \$153,850, respectively, were invested in the plan.

Note 13 – Compensable Absences

Full time College employees earn vacation of 5-15 days per year based on years of service and sick leave benefits of 8 hours per month. Employees are required to take all of their vacation by the anniversary date of their employment. The College has accrued \$116,271 and \$125,479 for August 31, 2019 and 2018, respectively, in the financial statements for vacation to be carried over to the next fiscal year. Administration believes that all of the accrued vacation will be taken or paid out in the next fiscal year. Sick leave can be accumulated up to 480 hours, but cannot be redeemed in pay. Accordingly, no accrual for sick leave has been made.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 14 - 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 insured was \$312.41 and \$311 for the years ended August 31, 2019 and 2018 respectively and totaled \$922,709 for 2019, and \$935,242 for 2018. The cost of providing those benefits for 68 retirees in the year ended FY 19 was \$359,717 (retirees benefits for 65 retirees cost \$340,703 in FY 18). For 201 active employees, the cost of providing benefits was \$1,070,309 for the years ended FY 19 (active employee benefits for 202 employees cost \$1,135,924 for the year ended FY 18). (SB 1812, 83rd Texas Legislature, Regular Session, effective September 1, 2013, limits the amount of the state's contribution to the 50 percent of eligible employees in the reporting district.)

Note 15 – Other Post-Employment Benefits (OPEB)

Plan Description. The Texas Employees Group Benefit Program (GBP) is administered by the Employee 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 Positions. Detailed information about 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. The fiduciary net position of the plan has been determined using the same basis used by OPEB plan.

***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018***

Note 15 – Other Post-Employment Benefits (OPEB)-continued

Components of the net OPEB liability of the plan as of August 31, 2018 are as follows:

Net OPEB Liability		Total
Total OPEB Liability	\$	30,018,171,896
Less: Plan Fiduciary Net Position		<u>380,429,662</u>
Net OPEB Liability	\$	<u><u>29,637,742,234</u></u>
Net Position as a percentage of Total OPEB Liability		1.27%

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 minimum premium funding arrangement. The authority under which the obligations of the plan members and employers are established and/or may be amended is Chapter 1551, Texas Insurance Code.

Contributions. Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employers 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 maxim 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
Fiscal Year 2018 and 2017

		<u>2018</u>		<u>2017</u>
Retiree Only	\$	621.90	\$	617.30
Retiree & Spouse		1,334.54		970.98
Retiree & Children		1,099.06		854.10
Retiree & Family		1,811.75		1,207.78

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 15 – Other Post-Employment Benefits (OPEB)-continued

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

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

	2018	2017
Employers	\$ 307,028,467	\$ 890,735,173
Members (Employees)	203,123,120	195,806,162
Nonemployer Contribution Entity (State of Texas)	16,885,270	44,433,743
Federal Revenue	74,492,786	73,120,123
Total Contributions	\$ 601,529,643	\$ 1,204,095,201

Source: ERS 2018 Comprehension Annual Financial Report

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of August 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018*

Note 15 – Other Post-Employment Benefits (OPEB)-continued

Actuarial Assumptions
ERS Group Benefits Program Plan

Valuation Date	31-Aug-18
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	N/A
Inflation Assumption rate	2.50%
HealthSelect	7.30 for FY20, 7.40% for FY21, 7.00% for FY22, decreasing 0.5% per year to 4.50% for FY 2027 and later years
HealthSelect Medicare Advantage	11.80% for FY20, 13.40% for FY21, 7.00% for FY22, decreasing 0.5% per year to 4.50% for FY 2027 and later years The HealthSelect Medicare Trend is projected to be higher in FY2020 and FY2021 as a result of the reinstatement of the ACA Health Insurance Providers Fee following its suspension in
Projected annual salary increase (includes inflation)	2.50 to 9.50%
Discount Rate	3.96%
Mortality	1. State Agency Members a. <u>Service Retirees, Survivors and other Inactive Members</u> - 2017 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection b. <u>Disability Retirees-</u> RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014 c. <u>Active Members:</u> RP-2014 Employee Mortality tables with Ultimate MP Projection Scale from year 2014 2. Higher Education Members a. <u>Service Retirees, Survivors and other Inactive Members:</u> Tables based on TRS experience with Ultimate MP projection b. <u>Disability Retirees:</u> Tables based on TRS experience with Ultimate MP projection from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members. c. <u>Active Members:</u> Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP projection Scale from the year 2014.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 15 – Other Post-Employment Benefits (OPEB)-continued

Many of the actuarial assumptions used in this valuation have been updated based on the results of actuarial experience studies recently adopted by Teacher Retirement System (TRS) trustees for higher education members.

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

Discount Rate. Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the beginning of the measurement year 3.51%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 3.96%, which amounted to an increase of 0.45%. 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 College’s proportionate share of the collective net OPEB Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used 3.96% in measuring the net OPEN Liability.

	1% Decrease in Discount Rate 2.96%	Single Discount Rate 3.96%	1% Increase in Discount Rate 4.96%
The College’s proportionate share of the net OPEB liability:	\$17,977,853	\$15,142,652	\$12,996,723

Healthcare Trend Rate Sensitivity Analysis. The initial healthcare trend rate is 7.30% and the ultimate rate is 4.50%. The following schedule shows the impact on the College’s proportionate share of the collective net OPEB Liability if the healthcare cost trend rate used was 1 percent less than and 1 percent greater than the healthcare cost trend rate that was used 4.50% in meaning the net OPEB Liability.

	1% Decrease in Healthcare Cost Trend Rates 6.30% decreasing to 3.50%	Current Healthcare Cost Trend Rates 7.30% decreasing to 4.50%	1% Increase in Healthcare Cost Trend Rates 8.30% decreasing to 5.50%
The College’s proportionate share of the net OPEB liability:	\$12,823,870	\$15,142,652	\$18,133,889

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 15 – Other Post-Employment Benefits (OPEB)-continued

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At August 31, 2019, the College reported a liability of \$15,142,633 for its proportional share of the ERS’s net OPEB liability. This liability reflects a reduction for State support provided to the College for OPEB. The amount recognized by the College as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

The College's proportionate share of the collective net OPEB liability	\$15,142,653
State's proportionate share that is associated with The College	\$9,285,987
Total	\$24,428,640

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

At the measurement date of August 31, 2018, the employer’s proportion of the collective net OPEB liability was .05109246%, which was an increase of .0156278% from its proportion measure as of August 31, 2017.

For the year ended August 31, 2018, the College recognizes OPEB expense of \$935,242 and revenue of \$935,242 for support provided by the State.

For the year ended August 31, 2019, the College recognizes OPEB expense of \$922,709 and revenue of \$922,709 for support provided by the State.

Changes in Actuarial Assumptions

Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, and assumed salary increases) for Higher Education members have been updated to reflect assumptions recently adopted by the Teacher Retirement System (TRS) Trustees. These new assumptions were adopted to reflect an experience study on the TRS retirement plan performed by the TRS retirement plan actuary.

In addition, 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. Furthermore, (a) 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 and (b) 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.

Lastly, the discount rate assumption was increased from 3.51% to 3.96% 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 in effect on the measurement date.

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018*

Note 15 – Other Post-Employment Benefits (OPEB)-continued
Changes to Term Benefits

Under Q/A #4.107 of GASB's Implementation Guide No. 2017-2, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the benefit changes that will become effective January 1, 2019, since these changes were communicated to plan members in advance of the preparation of this report. The only benefit change for fiscal year 2019 for HealthSelect retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect (CDHP) from \$6,550 to \$6,650 for individuals and from \$13,100 to \$13,300 for families in order to remain consistent with Internal Revenue Service maximums. This minor benefit change is provided for in the fiscal year 2019 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is Primary.

High-Cost Plan Excise Tax. Consistent with the prior valuation, the effects of the High-Cost Plan Excise Tax imposed by the ACA under Internal Revenue Code Section 49801 (sometimes referred to as the "Cadillac Tax") have been included in this valuation. The Excise Tax becomes effective in 2020, but the plan is not expected to be subject to the tax until 2068 based on current plan provisions, assumptions and participant demographics. The Net OPEB Liability is increased by the \$97 million present value of the estimated Excise Taxes in future years, and associated increased to the ADC is \$7 million.

Medicare Part D. The Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the basic coverage provided under Medicare Part D (the Retiree Drug Subsidy).

The valuation of future OPEB may not reflect the anticipated receipt of future federal government subsidy payments under the Medicare Part D Prescription Drug Program as required under GASB Technical Bulletin No. 2006-1. The Bulletin requires that Retiree Drug Subsidy payments to an employer to be reported by the employer as revenue, rather than being netted against the employer's OPEB cost for prescription drug coverage.

ERS implemented an Employer Group Waiver Plan plus Commercial Wrap (EGWP plus Wrap) on January 1, 2013 in order to provide the plan with the benefit of increased subsidies and discounts available under such an arrangement. The Retiree Drug Subsidy has been significantly reduced as a result of the implementation of the EGWP plus Wrap. The Retiree Drug Subsidies are excluded from this valuation in accordance with GASB Technical Bulletin No. 2006-1.

The projected cost of the EGWP plus Wrap reflects the subsidies which are expected to be provided by the Federal government under Medicare Part D and the discounts expected to be provided by drug manufacturers as required under the ACA.

Variability in Future Actuarial Measurement. Future actuarial measurements may differ significantly from the current measurements due to such factors as the following:

- Plan experience differing from that anticipated by the economic or demographic assumptions;
- Changes in economic or demographic assumptions;
- Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 15 – Other Post-Employment Benefits (OPEB)-continued

- Changes in plan provisions, applicable law or applicable accounting standards.

At August 31, 2019, the College reported its proportionate share of the ERS plan’s collective deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 554,778
Changes in actuarial assumptions	-	5,306,399
Difference between projected and actual investment earnings	7,171	
Change in proportion and difference between the employer's contributions and the proportionate share of contributions	5,483,920	-
Total as of August 31, 2018 measured date	5,491,091	5,861,177
Contributions paid to ERS subsequent to the measurement date	90,424	
Total	<u>\$ 5,581,515</u>	<u>\$ 5,861,177</u>

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:

<u>Fiscal year ended August 31,</u>	OPEB Expense Amount
2020	(298,514)
2021	(298,514)
2022	(298,514)
2023	185,676
2024	339,780
Thereafter	-
	<u>(370,086)</u>

***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018***

Note 15 – Other Post-Employment Benefits (OPEB)-continued

The District is dependent upon information provided by the ERS Plan for recognizing the OPEB liability, deferred inflows and deferred outflows of resources, and expenses. The ERS Plan information provided to the District used retiree data for the restatement in fiscal year 2019. Contributions made subsequent to the measurement date by the District for retirees have been recorded as deferred outflows of resources as of August 31, 2019 and contributions made subsequent to the measurement date by the District for active employees have been recorded as an expense for the year ended August 31, 2019. Future changes, if any, to the current methodology or actuarial assumptions being utilized, could result in significant changes in accounting and financial reporting in future periods.

Note 16 - Disaggregation of Receivables and Payables Balances

Receivables at August 31, 2019 were as follows:

	<u>College</u>	<u>Foundation</u>
Tuition and Fees Receivable	\$ 2,557,955	-
Taxes Receivable	505,839	-
Scholarship and Pledges Receivable		-
Contracts and Grants Receivable	605,531	23,696
Other Receivables	6,779	-
Subtotal	3,676,104	23,696
Allowance for Doubtful Accounts	1,870,677	-
Total Receivables	\$ 1,805,427	\$ 23,696

Payables at August 31, 2019 were as follows:

	<u>College</u>	<u>Foundation</u>
Accounts Payable:		
Vendors Payable	\$ 614,607	\$ -
Accrued Liabilities:		
Accrued payroll liabilities	\$ 3,098	\$ -
Interest payable	526,583	-
Total Accrued Liabilities	529,681	-
Deposits payable:		
Student deposits payable	\$ 142,531	\$ -

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 16 - Disaggregation of Receivables and Payables Balances-continued

Receivables at August 31, 2018 were as follows:

	<u>College</u>	<u>Foundation</u>
Tuition and Fees Receivable	\$ 2,376,669	-
Taxes Receivable	800,821	-
Scholarship and Pledges Receivable		-
Contracts and Grants Receivable	390,898	31,897
Other Receivables	20,518	-
Subtotal	3,588,906	31,897
Allowance for Doubtful Accounts	1,727,221	-
Total Receivables	\$ 1,861,685	\$ 31,897

Payables at August 31, 2018 were as follows:

	<u>College</u>	<u>Foundation</u>
Accounts Payable:		
Vendors Payable	\$ 693,833	\$ -
Accrued Liabilities:		
Accrued payroll liabilities	\$ 28,246	\$ -
Interest payable	525,397	-
Total Accrued Liabilities	553,643	-
Deposits payable:		
Student deposits payable	\$ 165,231	\$ -

Note 17 - 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, and Schedule C. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 17 - Contract and Grant Awards

Contracts and grant award funds already committed or funds awarded during fiscal year 2019 and 2018 for the College and Foundation are as follows:

	<u>2019</u>	<u>2018</u>
College		
Federal	\$ 2,561,340	\$ 2,086,391
State	137,984	740,998
Total	<u>\$ 2,699,324</u>	<u>\$ 2,827,389</u>
Foundation		
Federal	\$ 130,656	\$ 141,907
State	973,752	563,186
Total	<u>\$ 1,104,408</u>	<u>\$ 705,093</u>

Note 18 – Self-Insured Plans

The College self-insures for coverage in the areas of workers' compensation and unemployment compensation. These plans are on a pay-as-you-go basis, in which no assets are set aside. Accrued liabilities are generally based on actuarial valuation and represent the present value of unpaid expected claims. Estimated future payments for incurred claims are charged to current operations. Management has determined the liability to be less than \$15,000.

Note 19 – Ad Valorem Tax

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

	<u>At August 31,</u>	
	<u>2019</u>	<u>2018</u>
Assessed Valuation	\$ 4,869,636,070	\$ 4,774,654,956
Less Exemptions and Abatements	780,742,036	737,483,075
Net Taxable Assessed Value	<u>\$ 4,088,894,034</u>	<u>\$ 4,037,171,881</u>

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax rate authorized per \$100 valuation	\$ N/A	\$ N/A	\$ 0.1300
Tax rate assessed per \$100 valuation for 2019	\$ 0.0786	\$ 0.0514	\$ 0.1300
Tax rate assessed per \$100 valuation for 2018	\$ 0.0768	\$ 0.0532	\$ 0.1300

Taxes levied for the years ended August 31, 2019 and 2018 were \$5,315,562 and \$5,248,323 respectively excluding 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.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Note 19 – Ad Valorem Tax- continued

Tax collections for the year ended August 31, 2019 and 2018 are as follows:

	2019			2018		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes	\$ 2,998,462	\$ 1,958,304	\$ 4,956,766	\$ 2,863,249	\$ 1,981,504	\$ 4,844,753
Delinquent Taxes	242,017	158,062	400,079	60,310	41,738	102,048
Penalties and Interest	120,388	78,627	199,015	44,139	30,546	74,685
Other Fees	2,281	1,490	3,771	2,067	1,430	3,497
Total Collections	\$ 3,363,148	\$ 2,196,483	\$ 5,559,631	\$ 2,969,765	\$ 2,055,218	\$ 5,024,983

Current tax levy collections for the years ended August 31, 2019 and 2018 were 93.25% and 92.31%, respectively. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance and operations and/or general obligation debt service.

Note 20—Tax Abatement

Northeast Texas Community College has upheld county property tax abatement agreements with local businesses under the State of Texas Property Tax Abatement Act, Tax Code Chapter 312. Under the Act, localities may grant property tax abatements of all or a part of an increase in the value of business' real property and/or tangible personal property for attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the service area of Northeast Texas Community College.

For the fiscal year ended August 31, 2018, Northeast Texas Community College abated property taxes totaling \$27,889 under this program, including the following tax abatement agreements that each exceeded 10 percent of the total amount abated:

- A 90 percent property tax abatement to a manufacturer for construction of new manufacturing and parking facilities. The abatement amounted to \$15,352.
- A 90 percent property tax reduction for a manufacturer to equip facilities. The abatement amounted to \$12,537.

For the fiscal year ended August 31, 2019, Northeast Texas Community College did not have any abatement agreements.

Note 21 - Income Taxes

The College is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable Organizations. The college had no unrelated business income for the years ended August 31, 2019 and 2018.

***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018***

Note 22 – Northeast Texas Community College Foundation, Inc. – Discrete Component Unit

Northeast Texas Community College Foundation, Inc. (the Foundation) was established in 1984 as a separate nonprofit organization to raise funds to provide student scholarships and assistance in the development and growth of the College. Under Government Standards Board Statement No 39, Determining Whether Certain Organizations are Component Units, an organization should report as a discretely presented component unit those organizations that raise and hold economic resources for the direct benefit of a government unit.

Accordingly, the Foundation financial statements are included in the College's annual report as a discrete component unit. Complete financial statements of Northeast Texas Community College Foundation, Inc. can be obtained from the administrative office of the Foundation.

Note 23 - Risk Management - Claims and Judgments

In the normal course of operations, the College is exposed to risks of loss from a number of sources including fire and casualty, errors and omissions by board members and employees, and injuries to employees during the course of performing their duties.

The College attempts to cover these losses by purchase of insurance. Significant risks are covered by commercial insurance for property and liability programs. There has been no significant reduction in coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

In management's estimation there are no current loss claims that exceed the maximum coverage or any material unfunded claim benefit obligation for the self-funded programs.

Note 24 - Commitments and Contingencies

Litigation – The College may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded

Grant Programs – The college participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the college has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2019 may be impaired. In the opinion of the college, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Penalties - In August of 2019, Northeast Texas Community College was notified by the IRS of a proposed penalty for our 2017 1098-T information return. The IRS allows for waivers of the penalties and we meet the qualifications of such waiver. The College has submitted an appeal outlining sufficient facts supporting a basis for waiver of the proposed penalty for failure to timely file and failure to provide correct TINs for the information reporting filings required by Section 6721 of the IRS Code. The College respectfully asked the IRS to waive the penalty in its entirety because the College has: (i) provided a written Statement; (ii) responded to Notice 972CG within the 45 day time period; (iii) established reasonable cause under Section 301.6724-1(c)(1)(iv); (iv) established reasonable cause under Section 301.6724-1(c)(1)(v); (v) did not willfully neglect to comply with the information filing requirements; (vi) established that it acted in a reasonable manner under Section 301.6724-1(d) by conducting the required solicitations under Section 301.6724-1(f); and (vii) also

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018*

Note 24 - Commitments and Contingencies- continued

established significant mitigating circumstances under Section 301.6724-1(b). We believe that there is a more likely than not probability that the IRS will waive the proposed penalty. As of the printing of the 2019 Annual Financial Report, the College's request is still under review by the IRS. The full amount of the proposed penalty is \$150,070.00.

Note 25 -TC³ Consortium

The purpose of this strategic partnership with 5 community colleges is to utilize a common Student Information System to facilitate a growing number of 'shared services' in a manner that reduces administrative overhead and supports growth without an increase in administrative costs. The members include Northeast Texas Community College, Texarkana College, Kilgore College, Paris Junior College, and Angelina College. TC³ members have formally adopted an interlocal agreement, appointed officers, and secured private start-up funding as well as a special-item appropriation from the state of Texas for \$2.5 M.

Note 26-Pending Lawsuits and Claims

As of August 31, 2019, there is one lawsuit pending against the College. In the opinion of College administration, the potential loss on this claim will be covered by insurance.

REQUIRED SUPPLEMENTAL INFORMATION

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE I
 SCHEDULE OF COLLEGE'S SHARE OF NET PENSION LIABILITY
 For the Year Ended August 31, 2019

	Measurement Year Ended August 31,			
	2018	2017	2016	2015
Colleges Proportion Share of Net Pension Liability	0.0144145%	0.0102157%	0.01006840%	0.01183270%
College's Proportionate Share of Collective Net Pension Liability	\$ 5,747,157	\$ 3,266,360	\$ 3,804,716	\$ 3,718,433
State's Proportionate Share of Collective Net Pension Liability	3,360,848	1,887,439	2,199,339	2,194,512
Associated with College	\$ 9,108,005	\$ 5,153,799	\$ 6,004,055	\$ 4,943,371
College Covered Payroll Amount	\$ 8,254,074	\$ 7,759,509	\$ 7,385,543	\$ 7,268,137
Ratio of College's Proportionate of Net Pension Liability to College's Covered Payroll	69.63%	42.10%	51.52%	46.01%
TRS Net Position as Percentage of Total Pension Liability	73.74%	82.17%	78.00%	78.43%
				83.25%

Note: Only five years of data is presented in accordance with GASB 68, Paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In those cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this statement."

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE 2
 SCHEDULE OF COLLEGE'S CONTRIBUTIONS FOR PENSIONS
 For the Year Ended August 31, 2019

For the Year Ending August 31	2019	2018	2017	2016	2015
Legally Required Contribution	\$ 360,087	\$ 351,746	\$ 334,778	\$ 319,900	\$ 311,480
Actual Contributions	<u>360,087</u>	<u>351,746</u>	<u>334,778</u>	<u>319,900</u>	<u>311,480</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College Covered Payroll Amount	<u>\$ 8,390,035</u>	<u>\$ 8,254,074</u>	<u>\$ 7,759,509</u>	<u>\$ 7,385,543</u>	<u>\$ 7,268,137</u>
Ratio of College's Actual Contributions to Covered Payroll	<u>4.29%</u>	<u>4.26%</u>	<u>4.31%</u>	<u>4.33%</u>	<u>4.29%</u>

Note: Only five years of data is presented in accordance with GASB 68, Paragraph 138. " The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In those cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this statement."

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE 3
 SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
 For the Year Ended August 31, 2019

	Measurement Year Ended August 31,	
	2018	2017
College's proportion of collective net OPEB liability (%)	0.051092460%	0.035464480%
College's proportionate share of collective net OPEB liability (\$)	\$ 15,142,653	\$ 12,083,816
State's proportionate share of net OPEB liability associated with the College	9,285,987	7,490,251
Total	<u>24,428,640</u>	<u>19,574,067</u>
College's Covered Payroll	\$ 10,644,405	\$ 10,341,867
College's proportionate share of collective net OPEB liability as a percentage of covered payroll	142.26%	116.84%
Plan fiduciary net position as percentage of the total OPEB liability	1.27%	2.04%

*The amount presented above are as of the measurement date of the collective net OPEB liability.
 Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE 4
 SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS FOR OPEB
 For the Year Ended August 31, 2019

For the Year Ending August 31	2019	2018
Legally required contributions	\$ 359,717	\$ 340,703
Contribution in Relation to the Contractually Required Contribtuion	<u>(359,717)</u>	<u>(340,703)</u>
Contributions deficiency (excess)	<u>-</u>	<u>-</u>
College's Covered Payroll amount	\$ <u>10,579,162</u>	\$ <u>10,644,405</u>
Contributions as a percentage of covered payroll	3.40%	3.20%

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

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended August 31, 2019

A. Notes to Schedules for the TRS Pension Plan

Changes of benefit terms

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

Changes of assumptions

Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The Net Pension Liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants were updated based on the same experience study.
- The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long term assumed rate of return changed from 8.0 to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

B. Notes to Schedule for the ERS OPEB Plan

Other Post-Employment Benefit Plan

Changes of benefit terms

Under Q/A #4.107 of GASB's Implementation Guide No. 2017-2, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the benefit changes that will become effective January 1, 2019, since these changes were communicated to plan members in advance of the preparation of this report. The only benefit change for fiscal year 2019 for HealthSelect retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect (CDHP) from \$6,550 to \$6,650 for individuals and from \$13,100 to \$13,300 for families in order to remain consistent with Internal Revenue Service maximums. This minor benefit change is provided for in the fiscal year 2019 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is Primary.

Changes in Actuarial Assumptions

Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, and assumed salary increases) for Higher Education members have been updated to reflect assumptions recently adopted by the Teacher Retirement System (TRS) Trustees. These new assumptions were adopted to reflect an experience study on the TRS retirement plan performed

by the TRS retirement plan actuary. In addition, 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. Furthermore, (a) 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 and (b) 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. Lastly, the discount rate assumption was increased from 3.51% to 3.96% 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 in effect on the measurement date.

Changes in assumptions

Demographic Assumptions

Since the last calculation was prepared for this plan, 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.

In Addition, assumed Express, assumed Per Capita Health Benefit Cost 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:

- ❖ 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 earliest date at which coverage can commence.
- ❖ Proportion of future retirees covering dependent children
- ❖ Percentage of the future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.

Economic Assumptions

Assumptions for Expenses, Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution and Expense trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations.

The discount rate was changed from 3.51% to 3.96% as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation bonds rated AA/As (or equivalent) or higher in effect on the measure date.

Minor benefit changes described below have been reflected in the FY 2019 and Assumed Per Capita Health Benefits Costs.

<https://www.ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management/2018-CAFR.pdf>

<https://www.ers.texas.gov/About-ERS/Reports-and-Studies/ERS-Actuarial-Valuation-Reports/2017-ERS-OPEB-Valuation-Report-November-2018.pdf>

*SUPPLEMENTAL SCHEDULES
REQUIRED BY TEXAS HIGHER EDUCATION
COORDINATING BOARD*

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE OF DETAILED OPERATING REVENUES
SCHEDULE A

For the Year Ended August 31, 2019 (With Memorandum Totals for the Year Ended August 31, 2018)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2019 Total	Memorandum 2018 Total
Tuition						
State funded courses						
In-district resident tuition	\$ 1,616,376	\$	\$ 1,616,376	\$	\$ 1,616,376	\$ 1,578,226
Out-of-district resident tuition	1,021,235		1,021,235		1,021,235	916,402
TPEG (set aside)*	149,005		149,005		149,005	132,180
Non-resident tuition	146,155		146,155		146,155	132,424
State funded continuing education	138,936		138,936		138,936	133,181
Non-state funded continuing education	90,825		90,825		90,825	29,911
Total Tuition	3,162,532	-	3,162,532	-	3,162,532	2,922,324
Fees						
General fees	2,904,301		2,904,301		2,904,301	2,832,368
Out-of-district fees	1,544,681		1,544,681		1,544,681	1,495,183
Non-resident fees	391,178		391,178		391,178	373,013
Course fees	416,893		416,893		416,893	412,068
Other fees	91,512		91,512		91,512	93,692
Total Fees	5,348,565	-	5,348,565	-	5,348,565	5,206,324
Allowances and Discounts						
Bad debt allowance	(143,570)		(143,570)		(143,570)	(38,676)
Scholarship allowances	(535,860)		(535,860)		(535,860)	(568,049)
Remissions and exemptions	(275,375)		(275,375)		(275,375)	(269,346)
TPEG allowances	(128,308)		(128,308)		(128,308)	(80,363)
Federal and state grants to students	(3,565,829)		(3,565,829)		(3,565,829)	(3,417,504)
Total Allowances and Discounts	(4,648,942)	-	(4,648,942)	-	(4,648,942)	(4,373,938)
Total Net Tuition and Fees	3,862,155	-	3,862,155	-	3,862,155	3,754,710
Other Operating Revenues						
Federal grants and contracts	51,000	2,359,474	2,390,474		2,390,474	1,819,028
State grants and contracts		1,148,606	1,148,606		1,148,606	617,320
Nongovernmental grants and contracts		10,119	10,119		10,119	2,624
Sales and services of educational activities	39,629		39,629		39,629	57,572
Other operating revenues	408,249	-	408,249	164,549	572,798	582,312
Total Other Operating Revenues	498,878	3,498,199	3,997,077	164,549	4,161,626	3,078,856
Auxiliary Enterprises						
Residential life				1,383,129	1,383,129	1,210,491
Less discounts				(248,189)	(248,189)	(258,998)
Bookstore				1,327,953	1,327,953	1,353,311
Less discounts				(568,991)	(568,991)	(661,727)
Total Net Auxiliary Enterprises	-	-	-	1,893,902	1,893,902	1,643,077
Total Operating Revenues (Exh.2)	\$ 4,361,033	\$ 3,498,199	\$ 7,859,232	\$ 2,058,451	\$ 9,917,683	\$ 8,476,643

*In accordance with Education Code 56.033, \$149,005 and \$132,180 for years August 31, 2019 and 2018, respectively, of tuition was set aside for Texas Public Education Grants(TPEG).

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE B
 SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATIONS
 For the Year Ended August 31, 2019 (with Memorandum Totals for the Year Ended August 31, 2018)

	Operating Expenses					Memorandum Total 8/31/2018
	Salaries and Wages	State Benefits	Local Benefits	Other Expenses	Total 8/31/2019	
Unrestricted - Educational Activities						
Instruction	\$ 5,949,002		1,615,021	428,205	\$ 7,992,228	\$ 7,846,540
Public Service	64,359		17,472	110,263	192,094	194,469
Academic Support	609,983		165,597	286,940	1,062,520	1,149,248
Student Services	789,697		214,385	126,882	1,130,964	1,091,965
Institutional Support	1,696,395		460,533	1,273,631	3,430,559	3,415,726
Operation and Maintenance of Plant	310,138		84,196	1,041,219	1,435,553	1,471,047
Scholarships and Fellowships					-	-
Total Unrestricted Educational Activities	\$ 9,419,574	\$ -	\$ 2,557,204	\$ 3,267,140	\$ 15,243,918	\$ 15,168,995
Restricted - Educational Activities						
Instruction	\$ 246,622	\$ 761,780		\$ 776,521	\$ 1,784,923	\$ 1,447,114
Public Service	208,696	8,241		70,232	287,169	284,923
Academic Support		78,109			78,109	87,838
Student Services	150,539	101,122		121,778	373,439	332,593
Institutional Support	787,550	217,226		662,958	1,667,734	1,077,545
Operation and Maintenance of Plant		39,714			39,714	38,967
Scholarships and Fellowships				2,153,075	2,153,075	2,065,128
Total Restricted Educational Activities	\$ 1,393,407	\$ 1,206,192	\$ -	\$ 3,784,564	\$ 6,384,163	\$ 5,334,108
Total Educational Activities	10,812,981	1,206,192	2,557,204	7,051,704	21,628,081	20,503,103
Auxiliary Enterprises	471,139	-	162,701	2,080,287	2,714,127	2,613,777
Depreciation Expense						
Building & Improvements					1,179,558	1,110,319
Equipment & Furniture					1,101,437	883,592
Library Books					24,274	26,068
Total	\$ 11,284,120	\$ 1,206,192	\$ 2,719,905	\$ 9,131,991	\$ 26,647,477	\$ 25,136,859

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE C
SCHEDULE OF NON - OPERATING REVENUES AND EXPENSES
For the Year Ended August 31, 2019(With Memorandum totals for the Year Ended August 31, 2018)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>Total 8/31/2019</u>	<u>Memorandum Total 8/31/2018</u>
Non - Operating Revenues					
State appropriations:					
Education and general state support	\$ 4,734,253			\$ 4,734,253	4,734,343
State group insurance		922,709		922,709	935,242
State retirement matching		283,483		283,483	293,244
Ad-valorem taxes	3,187,208	2,081,775		5,268,983	5,379,020
Federal revenue, non operating		6,047,001		6,047,001	6,002,155
Investment income		49,364		49,364	43,376
Contribution from Foundation				-	0
Total Non - Operating Revenues	<u>7,921,461</u>	<u>9,384,332</u>	<u>-</u>	<u>17,305,793</u>	<u>17,387,380</u>
Non - Operating Expenses					
Interest on capital related debt	1,386,093			1,386,093	1,418,353
(Gain) Loss on disposal of fixed assets	4,189			4,189	118,762
Other non operating expense	3,197			3,197	3,613
Total Non - Operating Expenses	<u>1,393,479</u>	<u>-</u>	<u>-</u>	<u>1,393,479</u>	<u>1,540,728</u>
Net Non - Operating Revenues	<u>\$ 6,527,982</u>	<u>\$ 9,384,332</u>	<u>\$ -</u>	<u>\$ 15,912,314</u>	<u>\$ 15,846,652</u>

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE D
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
For the Year Ended August 31, 2019 (With Memorandum totals for the Year Ended August 31, 2018)

	Detail By Source							
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total 8/31/2019	Available for Current Operations		Memorandum Total 8/31/2018
		Expendable	Non Expendable			Yes	No	
Current								
Unrestricted	\$ (15,602,390)	\$	\$	\$	\$ (15,602,390)	\$ 3,575,899	(19,178,289)	(15,606,654)
Bond Designated Reserve	515,717				515,717	515,717		515,717
Plant								
Investment in plant			531,535	11,733,963	12,265,498		12,265,498	12,740,405
Total Net Assets, August 31, 2019	(15,086,673)	0	531,535	11,733,963	(2,821,175)	4,091,616	(6,912,791)	(2,350,532)
Total Net Assets, August 31, 2018	(15,090,937)		696,039	12,044,366	(2,350,532)	2,839,274	(5,189,806)	(2,169,870)
Net Increase (Decrease) in Net Assets	\$ 4,264	\$ 0	\$ (164,504)	\$ (310,403)	\$ (470,643)	\$ 1,252,342	\$ (1,722,985)	(180,662)

See independent auditors' report.

FEDERAL FINANCIAL ASSISTANCE INFORMATION



Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

*Board of Trustees
Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas*

Members of the Board:

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 Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of and for the years ended August 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. basic financial statements, and have issued our report thereon dated December 10, 2019.

Internal Control Over Financial Reporting

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

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

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

Texas Public Funds Investment Act

We have also performed tests designed to verify the College's compliance with the requirements of the Texas Public Funds Investment Act. During the year ended August 31, 2019, no instances of noncompliance, material or nonmaterial, were found.

Compliance and Other Matters

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

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.

Wilf E. Henderson, P.C.

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas
December 10, 2019



**Independent Auditors' Report on Compliance for each Major Federal Program and on Internal Control
over Compliance Required by The Uniform Guidance**

***Board of Trustees
Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas***

Members of the Board:

Report on Compliance for Each Major Federal Programs

We have audited Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major federal programs for the year ended August 31, 2019. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned cost.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance 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 Federal Programs* (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 Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'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 Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2019.

Report on Internal Control over Compliance

Management of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. 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, we considered Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal programs to determine the auditing procedures that are appropriate for the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the 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 a material weakness or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. 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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wilf & Henderson, P.C.

WILF & HENDERSON, P. C.
Certified Public Accountants
Texarkana, Texas
December 10, 2019

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE G
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2019
Page 1 of 2

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantors Number	Provided to Subrecipients	Pass Through Disbursements and Expenditures
U.S. Department of Education				
<u>Direct Programs</u>				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007A		\$	\$ 29,116
Federal Work-Study Program	84.033A			101,247
Federal Pell Grant Program	84.063P			6,017,885
Direct Loans	84.268			3,136,189
Total Student Financial Assistance Cluster				<u>9,284,437</u>
TRIO - Upward Bound	84.047A			<u>312,830</u>
Title V	84.031S		<u>344,155</u>	<u>1,532,870</u>
<u>Passed Through Texas Workforce Commission</u>				
Passed through Tyler Junior College				
Adult Education and Family Leave Act (AEFLA)-LCOT	84.002	0818ALA000		43,850
Adult Education and Family Leave Act (AEFLA)-LCOT	84.002A	0818ALA00B		8,855
Passed through Paris Junior College				
Adult Education and Family Leave Act (AEFLA)	84.002A	0718ALAB00		22,222
Adult Education and Family Leave Act (AEFLA)	84.002A	0818ALA000		177,427
Total Passed Through Texas Workforce Commission				<u>252,354</u>
<u>Passed Through Texas Higher Education Coordinating Board</u>				
Vocational Education - Allocated	84.048			<u>272,228</u>
Total Passed Through Texas Higher Education Coordinating Board				<u>272,228</u>
Total U.S. Department of Education			\$	\$ <u><u>11,654,719</u></u>
U.S. Department of Agriculture				
<u>Passed through UDS - SFA</u>				
NTCC-SFA Kiwi Project	10.170	18-026-19-001		<u>3,830</u>
Total US Department of Labor				<u><u>3,830</u></u>
U.S. Department of Health and Human Services				
<u>Passed Through Texas Education Agency</u>				
Temporary Assist to Needy Families	93.558	(A)		<u>141,907</u>
<u>Passed Through Workforce Solutions of East Texas</u>				
Temporary Assist to Needy Families	93.558	0819TAN000		27,005
Temporary Assist to Needy Families	93.558	0818TAN000		<u>2,206</u>
<u>Passed Through Texas Workforce Solutions</u>				
<u>Passed through Paris Junior College</u>				
Temporary Assist to Needy Families	93.558	0818ALA000		11,457
Temporary Assist to Needy Families	93.558	0718ALAB00		36
<u>Passed through Tyler Junior College</u>				
Temporary Assist to Needy Families	93.558	0816AEL002		<u>1,611</u>
Total passed through Texas Workforce Solutions				<u>13,104</u>
Total U.S. Department of Health and Human Services			\$	\$ <u><u>184,222</u></u>
U.S. Small Business Administration	59.037			<u>189,605</u>
Total Federal Financial Assistance			\$ <u>344,155</u>	\$ <u><u>12,032,376</u></u>

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended August 31, 2019
 Page 2 of 2

Note 1: Federal Financial Assistance Reconciliation

Federal Grants and Contracts Revenue - Per Schedule A - College	\$ 2,390,474
Federal Grants and Contracts Revenue - Per Schedule C - College	6,047,001
Federal Grant Capital Contributions - Per Exhibit 2 - College	316,805
Direct Loans	3,136,189
Federal Grants and Contracts Revenue - Foundation	<u>141,907</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	\$ <u>12,032,376</u>

Note 2: Significant Accounting Policies

The expenditures included in the schedule are reported for the college's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported represent funds which have been expended by the college for the purposes of the award. The expenditures reported may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. Some amounts reported in the schedule may differ from amounts used in the preparation of the basis financial statements. The college has followed all applicable guidelines issued by various entities in the preparation of the schedule. Since the College has agency approved Indirect Recovery Rate it has elected not to use the 10 percent de minimis cost rate as permitted in the UG, section 200.414.

Note 3: Student Loans Processed and Administrative Costs Recovered

Federal Grantor CFDA Number/Program Name	New Loans Processed	Administrative Cost Recovered	Total
US Department of Education			
All direct loans processed are included in the schedule.			

Note 4: Amounts Passed Through by the College

The following amounts were passed through to the listed sub-recipients by the College.

U.S. Department of Education	
Title V	
TAMUT-Texarkana	\$ 344,155
Total amount passed through by the College	<u>\$ 344,155</u>

(A) Denotes federal financial assistance program for the Component Unit - Northeast Texas Community College Foundation.

See independent auditors' report.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2019**

A: Summary of Audit Results

Financial Statements

The auditor's report expresses an unqualified opinion on the financial statements of Northeast Texas Community College and Northeast Texas Community College Foundation.

Internal control over financial reporting:

- Material weaknesses identified? _____ yes X none reported
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

The auditor's report on compliance for the major federal awards programs for Northeast Texas Community College expresses an unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

_____ yes X no

The programs tested as major programs include:

Student Financial Aid Cluster

Federal Supplemental Educational Opportunity Grants	CFDA #84.007A
Federal Work-Study Program	CFDA #84.033A
Federal Pell Grant Program	CFDA #84.063P
Direct Loans	CFDA #84.268

Vocational Education

CFDA #84.048

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

Auditee qualified as low-risk auditee? X yes _____ no

B: Findings – Financial Statements Audit

None

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None

FEDERAL SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2019

2018-1 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2018

Eligibility

Type of Finding – Significant Deficiency over Compliance

Condition:

During our testing of this compliance requirement, we reviewed 60 students, of which 39 were selected by the DOE to be verified. Of these 39, the college did not verify all required information on five students.

Recommendation:

We recommend that Northeast Texas Community College continue to implement controls to ensure the verifications are completed in accordance with program requirements.

Current Status:

The College implemented effective controls and no similar instances have been found.

2018- 002 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2018

Cash Management

Type of Finding – Significant Deficiency Over Compliance

Condition:

During our testing of this compliance requirement, we reviewed 60 students who received Title IV awards. Out of the 60 selected, 2 students had over \$200 of current funds used to satisfy prior award year charges.

Recommendation:

We recommend that Northeast Texas Community College implement procedures to review student credit balances before disbursements are issued.

Current Status:

The College implemented effective controls and no similar instances have been found.

STATE FINANCIAL ASSISTANCE INFORMATION



Independent Auditors' Report on Compliance for each Major State Program and Internal Control over Compliance in Accordance with State of Texas Single Audit Circular

***Board of Trustees
Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas***

Members of the Board:

Report on Compliance for Each Major State Programs

We have audited the compliance of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s with the types of compliance requirements described in the State of Texas Single Audit Circular, *Uniform Grant Management Standards* issued by the State of Texas that could have a direct and material effect on each of its major state programs for the year ended August 31, 2019. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned cost.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *Uniform Grant Management Standards* issued by the State of Texas. Those standards and *Uniform Grant Management Standards* 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 state program occurred. An audit includes examining, on a test basis, evidence about Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'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 state program. However, our audit does not provide a legal determination of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance.

Basis for Qualified Opinion on Texas Education Opportunity Grant

As described in the accompanying schedule of findings and questioned costs, Northeast Texas Community College's did not comply with requirements regarding Texas Education Opportunity Grant as described in finding number 2019-001 for matching. Compliance with such requirements is necessary, in our opinion, for Northeast Texas Community College's to comply with the requirements applicable to that program.

Qualified Opinion on Texas Education Opportunity Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Northeast Texas Community College's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Texas Education Opportunity Grant for the year ended August 31, 2019.

Unqualified Opinion on Each of the Other Major State Programs

In our opinion, Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. 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 other major state programs for the year ended August 31, 2019.

Other Matters

Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. 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, we considered Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s internal control over compliance with requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with *Uniform Grant Management Standards*, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore,

material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-001 to be material weaknesses.

A significant deficiency in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those in charge of governance.

Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 result of that testing based on the requirements *Uniform Grant Management* Standards issued by the State of Texas. Accordingly, this report is not suitable for any other purpose.

Wilf & Henderson, P.C.
WILF & HENDERSON, P. C.
Certified Public Accountants
Texarkana, Texas
December 10, 2019

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE H
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2019
Page 1 of 2

<u>Grantor/Program/Title</u>	<u>Grant Contract Number</u>	<u>Pass Through Disbursements and Expenditures</u>
Texas Education Agency		
Temporary Assist to Needy Families	(A) 0710580171200011	\$ 563,186
Total Texas Education Agency		<u>563,186</u>
U.S. Small Business Administration		
SBDC State		<u>90,723</u>
Texas Higher Education Coordinating Board		
Texas Education Opportunity Grant	N/A	280,902
Nursing Shortage		165,561
Total Texas Higher Education Coordinating Board		<u>446,463</u>
Texas College Workstudy		<u>52,987</u>
Texas Workforce Commission		
Skills Development Fund	0718SDF001	245,234
JET	0719JET002	268,011
Passed through Tyler Junior College		
State AEFLA	0818ALA000	10,284
Passed through Paris Junior College		
State AEFLA	0818ALA000	34,815
Professional Development	0818ALA000	89
Total Texas Wokforce Commission		<u>558,433</u>
HOGG Foundation Grant		
HOGG Foundation Grant	(A) WRC-040	<u>65,729</u>
Total State Financial Assistance		<u>\$ 1,777,521</u>

(A) Denotes state financial assistance program for the Component Unit
 Northeast Texas Community College Foundation

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2019
 Page 2 of 2

Note 1: Significant Accounting Policies

The accompanying schedule of expenditures of state awards has been prepared on the accrual basis of accounting. The expenditures included in the schedule are reported for the college's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported represent funds which have been expended by the college for the purposes of the award. The expenditures reported may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The college has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 2: State Financial Assistance Reconciliation

	<u>Expenditures</u>
State Grants and Contracts Revenue - Per Schedule A - College	\$ 1,148,606
State Grants and Contracts Revenue - Per Schedule C - College	-
State Grants and Contracts - Foundation	<u>628,915</u>
Total State Financial Assistance	\$ <u><u>1,777,521</u></u>

See independent auditors' report.

***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
STATE AWARDS SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2019***

C : Findings and Questioned Costs - Major State Award Programs Audit (continued)

2019-1 Texas Educational Opportunity Grant

Compliance Requirement - Matching

Type of Finding – Material Weakness over Compliance

Criteria:

An approved institution may not charge a person receiving a Texas Educational Opportunity Grant (TEOG) through that institution, an amount of tuition and required fees in excess of the amount of the TEOG award received by the person. If an institution’s tuition and required fee charges exceed the TEOG award amount, it may address the shortfall in one of two ways:

(A) It may use other available sources of financial aid, other than a loan or Pell grant to cover any difference in the amount of a Texas Educational Opportunity Grant award and the student's actual amount of tuition and required fees at the institution; or

(B) it may waive the excess charges for the student. However, if a waiver is used, the institution may not report the recipient's tuition and fees in a way that would increase the general revenue appropriations to the institution.

Condition:

During our testing of the matching compliance requirement, we reviewed 25 students out of the total population of 100 that received TEOG. Nine of these students, were not able to pay their total tuition and required fees with TEOG. In addition, these students’ TEOG was not supplemented with other sources, excluding Pell or a loan, in order to pay their tuition and required fees, nor was the excess tuition and required fees waived.

Population and Sample Size:

	Number	Dollars	Questioned Cost
Population	100	280,902	
Sample	25	62,527	
Not in Compliance	9		10,365

Cause:

The college did not have proper controls in effect to ensure compliance with the matching requirement when tuition and required fees exceeded the TEOG award.

Effect:

Because the college did not comply with the matching requirement, the affected students financial aid received was not correct.

Recommendation:

We recommend that Northeast Texas Community College implement controls to ensure compliance with TEOG matching requirements. The college should review all TEOG awards for this award period and take appropriate action.

Views of Responsible Officials:

The college agrees with the finding and controls will be built in the system to ensure they are able to monitor aid packages against tuition and required fees.

Corrective Action Plan

December 12, 2019

Northeast Texas Community College respectfully submits the following corrective action plan for the year ended August 31, 2019.

Name and address of independent public accounting firm:

Wilf & Henderson, P.C.
1430 College Drive
Texarkana, TX 75505

Audit Period: September 1, 2018 to August 31, 2019

The findings from the August 31, 2019 schedule of findings and question costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings – State Award Programs Audits

2019-1 Texas Educational Opportunity Grant

Compliance Requirement--Matching

Type of Finding – Material Weakness over Compliance

Recommendation: We recommend that Northeast Texas Community College implement controls to ensure compliance with TEOG requirements.

Action Taken: Northeast Texas Community College agrees that **2018-19 Program Guidelines for Texas Educational Opportunity Grant (TEOG)** has a Required Matching component. The guidelines state *“Institutions are required to cover the cost of tuition and required fees that exceed the TEOG award amount using other available sources of financial aid, which may include any non-loan program funds awarded to the student from federal, state, institutional, or outside sources, excluding Pell grants.”* In packaging students’ financial aid for the 2018-2019 academic year, Northeast utilized all non-loan program funds in the matching calculation; therefore, failing to exclude Pell grants.

The Texas Higher Education Coordinating Board (THECB) conducted *A Compliance Desk Review for the Texas Educational Opportunity Grant* (Report No. THECB-CM-FA-DR-18-033) in September of 2018. Their report indicates they tested relevant financial data reported and certified by NTCC. Detailed student financial accounts, as well as other relevant data, was submitted for their sample of 30 students. As a result of their review, there were no findings or recommendations for improvement. Having undergone this review, we were satisfied that our awarding practices were consistent with the expectations of THECB.

THECB has very robust reporting requirements surrounding financial aid and enrollment. This process is in place to help ensure that awarding is administered properly. The Financial Aid Data

Base (FADB) report is submitted to THECB and certified by the institution three times per year. Edit checks are performed on more than 100 data elements and any errors must be resolved prior to certification. The FADB includes all necessary data points to calculate the matching requirement; however, that is not one of the checks performed.

Though the Program Guidelines have excluded Pell grants from the calculation since 2016, the necessary controls have not been created in our system to ensure awards are adjusted to cover all tuition and fees with funds other than loans or Pell grants.

It is of importance to note that TEOG was awarded to only qualifying students. All other programs requirements were adhered to; therefore, this is not an error in awarding TEOG. As a result of this error however, a subset of TEOG recipients that are charged out of district tuition could have potentially received additional aid.

In order to comply with the requirement, controls will be built in the system to ensure we are able to monitor aid packages against tuition and fees. Awards will be adjusted accordingly.

Questions regarding this plan should be directed to Jeff Chambers at 903-434-8106.

Sincerely,



Dr. Ron Clinton, Interim President
Northeast Texas Community College

Responsible Person: Kim Irvin, Director of Financial Aid
Estimated Completion Date: Immediately

STATE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED AUGUST 31, 2019

Prior year audit disclosed no findings or questioned costs.