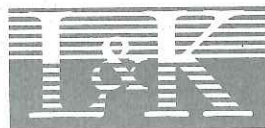


COASTAL BEND COLLEGE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2013



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

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**COASTAL BEND COLLEGE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2013**

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ORGANIZATIONAL DATA

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COASTAL BEND COLLEGE
ORGANIZATIONAL DATA
FOR THE FISCAL YEAR 2013

BOARD OF TRUSTEES

		Term Expires <u>May 31</u>
Mr. Paul A. Jaure	Chairman	2014
Mr. Carroll Wayne Lohse	Vice-Chairman	2018
Mrs. Louise W. Hall	Secretary	2014
Mr. Douglas L. Arnold	Member	2014
Mrs. Emilia H. Dominguez	Member	2016
Mrs. Laura Fischer	Member	2018
Mr. Victor Gomez	Member	2016

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Beatriz T. Espinoza	President
Ms. Velma Elizalde	Vice President of Student and Administrative Services
Dr. Kyle Wagner	Vice President of Instruction & Economic Development
Ms. Susana Morón	Director of Business Services

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FINANCIAL SECTION

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Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

418 Peoples Street, Suite 308 tele 361-884-8897
Corpus Christi, TX 78401 fax 361-884-3457

Independent Auditor's Report

Board of Trustees
Coastal Bend College
Beeville, Texas 78102

Members of the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying statements of Coastal Bend College (College) as of and for the years ended August 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Coastal Bend College's preparation and fair presentation of

circumstances, but not for the purpose of expressing an opinion on the effectiveness of Coastal Bend College'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 statement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coastal Bend College as of August 31, 2013 and 2012, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements. In 2013, Coastal Bend College adopted new accounting guidance. Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Coastal Bend College's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of Coastal Bend College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Coastal Bend College's internal control over financial reporting and compliance.

Respectfully submitted,



Lovvorn & Kieschnick, LLP
December 19, 2013

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Management's Discussion and Analysis

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Overview of Discussion and Analysis

Coastal Bend College is pleased to present its financial statements for 2013 which are in conformance with Governmental Accounting Standards Board (GASB) standards. There are three financial statements presented: (a) the Statement of Net Position, (b) the Statement of Revenues, Expenses, and Changes in Net Position, and (c) the Statement of Cash Flows. These financial statements are intended to provide both long-term and short-term financial information on the College as a whole and should be read in conjunction with the Notes to the Financial Statements. Specifically,

The Statement of Net Position is equivalent to a balance sheet for a for-profit entity. It is a snapshot of the financial status of the college on a specific date.

The Statement of Revenues, Expenses, and Changes in Net Position is equivalent to an income statement for a for-profit entity, showing the results of operations of the college for the last fiscal year.

The Statement of Cash Flows attempts to show the change in cash and cash equivalents over the course of the last fiscal year.

The Notes to the Financial Statements describe some of the accounting policies and assumptions used by the college in preparing the other basic statements and as such serve as an integral part of the basic financial statements.

The following discussion and analysis provides an overview of the College's financial activities for the years ending August 31, 2013, 2012, and 2011.

Financial Highlights

Discussion of the Statement of Net Position

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector organizations. Net position—the difference between assets and liabilities—is one way to measure the financial health of the College. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the College. From the data presented, readers of the Statement of Net Position are able to determine the resources that are available to continue the operations of the College. Readers are also able to determine the amounts the College owes vendors, bondholders and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by the institution.

The College's financial position as a whole changed during the year ending August 31, 2013, when compared to the snapshot from August 31, 2012.

Overall, current assets, which include cash and cash equivalents, short-term investments, accounts receivable, inventories and prepaid expenses, increased by \$163,587. This increase reflects the portion of matured annuities that were converted to cash. Current assets are assets that can be accessed to operate the College. Noncurrent assets, which include restricted cash and cash equivalents, endowment investments, other long-term investments, deferred charges, and capital assets, increased by \$2,062,039. This increase was due to the proceeds of a revenue bond and maintenance tax note, as well as a decrease in long-term investments.

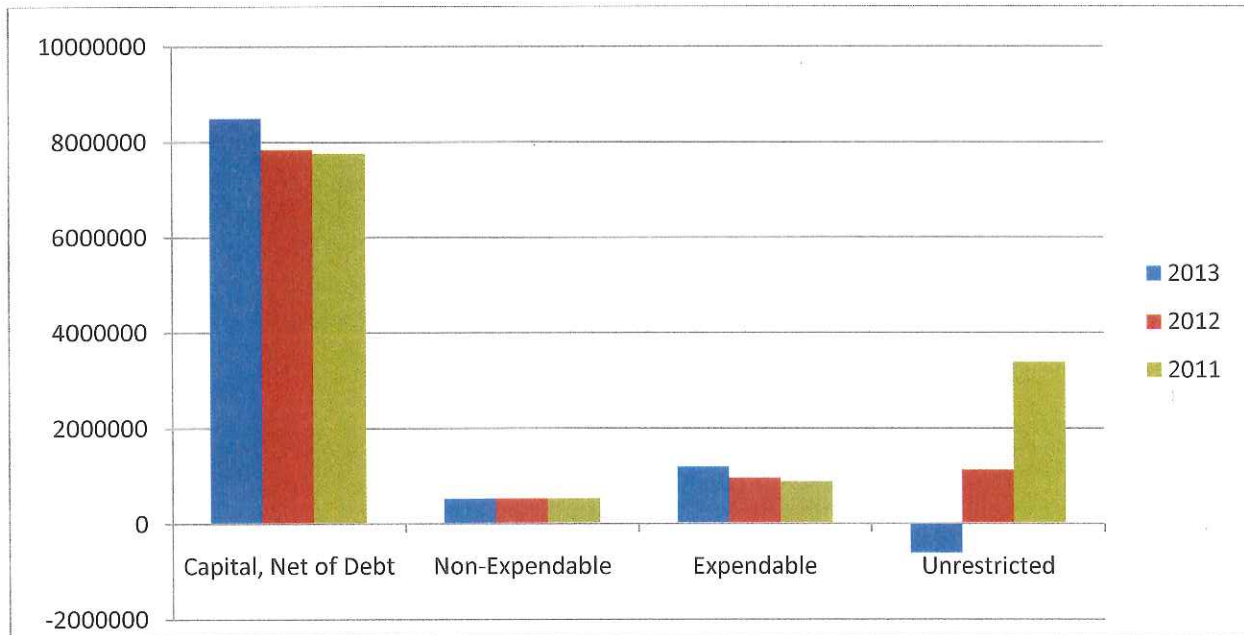
At the same time, current liabilities, which include accounts payable, funds held for others, unearned revenues, and bonds payable (current portion), increased by \$763,293. This increase is due to an increase in unearned revenues and higher current portion for leases payable, notes, payable, and bonds payable. Unearned revenues occur when payment is received before services are performed.

Non-current liabilities, which include accrued compensable absences and bonds payable, decreased over the August 31, 2012 snapshot by \$2,328,998. The increase in bonds payable is due to the issuance of new principle debt for the Revenue Bond and Maintenance Tax Note, less the annual payment for the college's Revenue Bond and Maintenance Tax Obligation Note to fund the Energy Savings Project. Accrued compensable absences decreased as anticipated payouts for vacation leave were lower than prior years while anticipated payouts for sick leave were higher, thus decreasing the liability for future payment to those individuals. The new debt associated with the capital lease for a Cisco voice over internet protocol telecommunication system (VoIP) also contributed to the increase in non-current liabilities.

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

	2013	2012	2011
Total Current Assets	8,680,928	8,517,340	10,778,546
Total Noncurrent Assets	18,209,059	16,147,120	17,014,933
Total Assets	26,889,987	24,664,360	27,793,479
Total Current Liabilities	9,369,365	8,606,063	9,307,773
Total Noncurrent Liabilities	7,912,079	5,583,081	5,927,055
Total Liabilities	17,281,444	14,189,144	15,234,828
Total Net Position	9,608,543	10,475,216	12,558,691

Thus, the total net position as of August 31, 2013 indicates a decrease of \$866,673 as compared to the institution's net position as of August 31, 2012. Of this amount, the major decrease is due to a decrease in net position in unrestricted funds. The overall change resulted from a combination of changes in investments in capital assets, net of related debt, debt service, and a decrease in unrestricted assets as demonstrated in the chart below:



Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – changed from a balance of \$1,214,094 at August 31, 2012 to a \$612,208 deficit at August 31, 2013. This deficit in unrestricted net position arose primarily because of two factors: the issuance of new debt and the resulting increase in current portion debt service, and the continued investment in capital assets for the betterment of the College and its students. The College has taken steps to eliminate the deficit balance in unrestricted net position by formulating an annual operating budget that accounts for an annual contribution to contingency and by assessing a \$15.00 per semester credit hour General Use Fee on students beginning Fall 2013. The College anticipates an additional \$871,241 in revenue generated by the General Use Fee.

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

The Statement of Revenues, Expenses, and Changes in Net Position present the operating results of the College as well as the non-operating revenues and expenses. For the purpose of this statement, the category Operating Revenues includes tuition and fees (net of discounts), governmental grants not related to Title IV and non-governmental grants, sales and services of educational activities, auxiliary enterprises (net of discounts) and general operating revenues. The category of non-operating revenues includes state allocations, maintenance ad valorem taxes, gifts, investment income, interest on capital related debt, and grants for Title IV and other non-operating revenues. Please note that state allocations and ad valorem taxes, while budgeted for operations, are considered non-operating revenue according to generally accepted accounting principles.

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

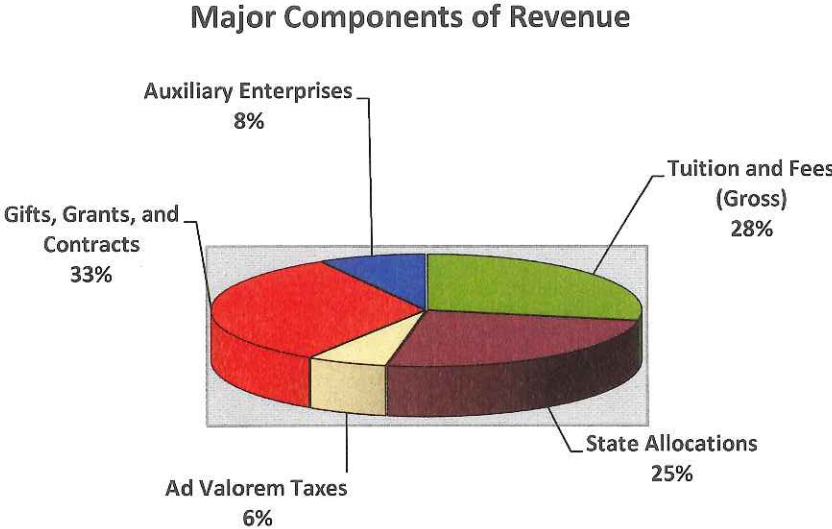
	2013	2012	2011
Operating Revenues	9,669,144	12,669,758	11,488,321
Operating Expenses	(26,155,197)	(31,083,166)	(29,665,929)
Operating Loss	(16,486,054)	(18,413,408)	(18,177,608)
Non-operating Revenues	15,619,380	16,329,933	18,868,932
Increase (Decrease) in Net Position	(866,673)	(2,083,475)	691,324

Revenue

The chart below reflects operating revenues for all sources, before discounting. The five primary sources of operating revenue for the institution continue to be: a) gifts, grants and contracts; (b) state allocations; (c) tuition and fees, (d) ad valorem taxes; and (e) auxiliary enterprises. A chart of the major components of revenue (operating and non-operating combined) follows:

Major Revenue Components	2013	2012	2011
Tuition and Fees (Gross)	8,744,201	8,886,522	9,971,936
State Allocations	7,761,373	8,089,939	8,206,289
Ad Valorem Taxes	1,887,014	1,767,948	1,812,993
Gifts, Grants, and Contracts			
Federal	9,731,138	10,066,429	11,429,983
State	461,706	478,715	940,044
Local	0	0	750
Private (Operating and Non-Operating)	0	8,000	279,316
Total Gifts, Grants, and Contracts	10,192,844	10,553,144	12,650,093
Auxiliary Enterprises	2,155,848	3,588,821	2,784,027

The following chart helps to visualize the major revenue components as they contribute to the total revenue sources of the College:



For the fiscal year ending August 31, 2013, gross tuition and fee revenue was approximately \$8,744,201 or \$142,321 lower than in fiscal year 2012. Factors contributing to the 2013 decrease relate to a decrease in enrollment. Growth is at a lower rate than the growth between fiscal year 2009 and 2010. The college is located in an area of economic growth due to the oil and gas production in the area. Steady employment at a good wage rate has caused the enrollment to decline. The college continues to develop and offer courses and training in programs related to oil and gas industry needs and is committed to exploring ways to increase enrollment. All tuition and fees for registrations for Fall 2013 are shown in fiscal year 2014, not in fiscal year 2013.

Ad Valorem tax revenue for fiscal year 2013 increased from the prior year by approximately \$119,066. This reflects the fact that the College held the tax rate steady from fiscal year 2012 while the taxable value of property in the tax district increased.

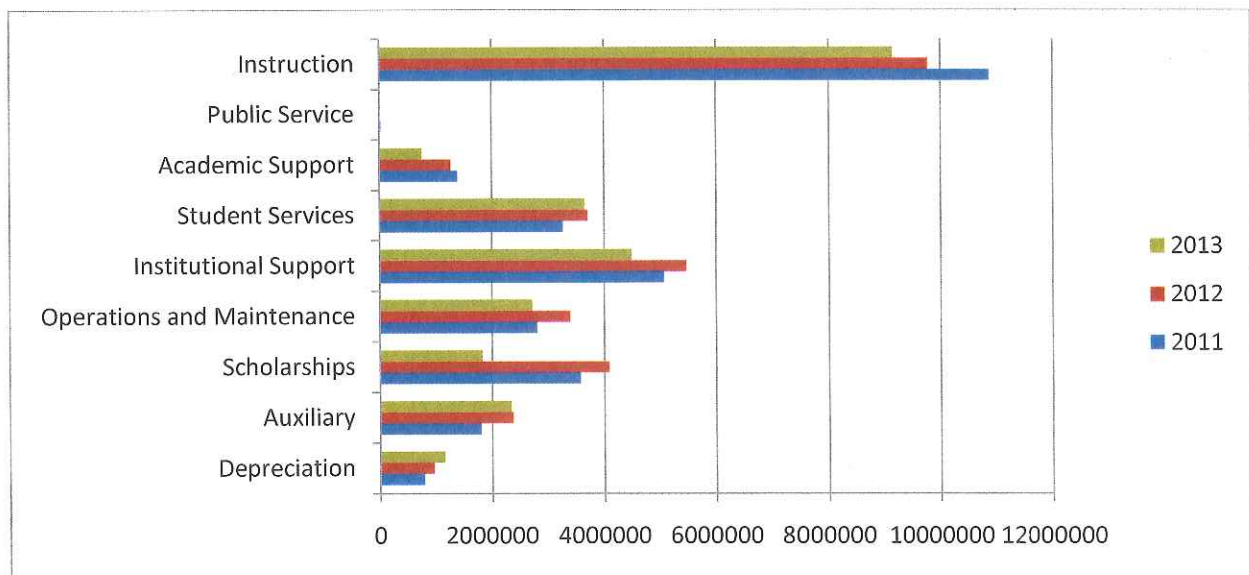
Operating Expenses by Functional Classification

Functional classifications, representing programs and services provided, are the traditional categories that have been used to show expenses.

The chart below shows the 2013 expenses compared to the 2012 and 2011 expenses.

Functional Classifications	2013	2012	2011
Instruction	9,137,730	9,727,655	10,873,263
Public Service	16,363	22,275	29,529
Academic Support	768,499	1,286,939	1,408,188
Student Services	3,659,319	3,715,009	3,271,765
Institutional Support	4,491,653	5,467,911	5,070,999
Operation and Maintenance of Plant	2,731,937	3,399,799	2,812,970
Scholarships and Fellowships	1,829,585	4,091,022	3,586,039
Auxiliary Enterprises	2,348,876	2,326,004	1,806,073
Depreciation	1,171,236	1,046,552	807,103
Total Operating Expenses	26,155,197	31,083,166	29,665,929

As the chart below visually demonstrates, differences existed in functional totals between 2013, 2012, and 2011. The majority of the College’s operating expenses continue to be dedicated to instruction and instructional support. In 2013, the majority of the operating expenses were dedicated to instruction and institutional support with student services being close behind institutional support.



The decrease in operating expenses between fiscal year 2013 and fiscal year 2012 was \$4,927,969. The decrease in expenses is attributed to the implementation of an operating budget developed as part of the program review process which resulted in expenses better aligned with anticipated revenues, and lower scholarships expenses.

Discussion of the Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement presents cash flows from four sources: (a) operating activities, (b) non-capital financing activities, (c) capital financing activities, and (d) investing activities.

A summary of the Statement of Cash Flows follows:

	2013	2012	2011
Operating Activities	(14,232,997)	(16,758,029)	(18,155,253)
Noncapital Financing Activities	15,768,876	16,436,030	19,037,001
Capital and Related Financing Activities	438,362	(2,863,802)	1,108,562
Investing Activities	1,333,341	616,810	(282,208)
Changes in Cash and Cash Equivalents	3,307,582	(2,568,991)	1,708,102

The primary cash flows from operating activities include cash receipts from students and other customers (e.g., tuition, housing, board) and grant and contract revenue. Cash outlays include payments to suppliers (supplies), employees (wages, benefits), and students (scholarships).

State appropriations and ad valorem taxes were the primary sources of non-capital financing. Accounting standards require that we reflect this source of revenue as non-operating even though these resources are classified as operating revenues in the College budget. Cash flows from Capital Financing Activities include payments of capital assets, and the principal and interest on capital debt.

Economic Factors that Will Affect the Future

Local Economy Impact

South Texas and Coastal Bend College's nine-county service area continue to experience an economic boom from the Eagle Ford Shale (EFS) Play. High wage employment for entry-level workers is still very much available, even after two years from when the initial EFS play activity began. With job options in the area, CBC continues to experience a decrease in student enrollments. The life cycle of the EFS play is estimated to last between 10-20 years with a gradual increase in the need for technical skills; consequently, CBC is aggressively pursuing programs that support the oil and gas and related industry sectors. While credit enrollments are

down, the high school dual credit/dual enrollment program is growing. Over the last two years dual enrollments encompassed one-third of our enrollments. Furthermore, the customized and continuing education, non-credit enrollments are increasing. CBC's instruction is expanding its focus to meet the various education and training options to serve a diverse workforce.

In fall 2013, the Workforce Training division expanded instruction to include entry point courses to career pathways. These options are open to the adult education and adult literacy population as well as to the high school dual credit students. These entry points lead to direct marketable skills, levels I and II certificates and associate degrees. These options increase the number of students served and those trained to enter the workforce.

CBC began an aggressive program and further developed the process of college-wide institutional effectiveness. In 2013 the program review reports/data were used in developing the FY14 budget. The program review process cycles on a four year rotation of a comprehensive review for reporting total cost of ownership (TCO) and return on investment (ROI) for each instructional program and administrative educational service area; an annual update is used in the budget development process for the incoming year. CBC's annual planning calendar is being expanded to include expirations and deadlines for agreements and contracts to ensure that CBC gets the best rates in insurance, energy, auxiliary, and other high cost services. In fall 2013 CBC committed to keeping the current four goals of the College's strategic plan, Vision 2020 Keeping Student Success in Sight; in spring 2014 the College will further establish targets for growth in student achievement and institutional effectiveness.

Local Governance Impact

Governance factors that direct the future of CBC include the six goals set by the Coastal Bend College Board of Trustees beginning in FY14: 1) CBC will ensure that student success is a top priority. Every student will be able to complete a certificate or degree on time and CBC will always provide access to affordable, quality education. 2) Ensure the college staffing is in line with current enrollment by 2014. 3) Research new programs and initiatives that would help serve the needs of the service area. 4) Continually evaluate programs and positions to meet the needs and demands of our service area. Invest and support programs with growth and student success, and eliminate or reduce those that are declining. Always keeping in mind student and community/industry needs. 5) Re-establish fund balance to \$5.4 million--This will require the college to contribute \$1.5 million per year through fiscal year 2015. 6) Reduce costs and spending to ensure a \$1.5 million contribution to reserves annually.

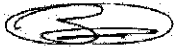
State Legislative Impact

The outcome of the 83rd Legislative Session, ending May 2013, led to a new formula funding for community colleges in Texas. For CBC this new funding will require a revision of data evaluation and analysis as 10% of the budget is based on student success points; these points are earned at various stages of meeting college achievement milestones. The budget development process for FY15 will be based on the new formula funding model.

Regional Accreditation Impact

The College's regional accreditation reaffirmation process was also conducted in the FY13-FY14 years. The Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) results for CBC will be finalized in summer 2014. The College is aligning its processes to continue participation. During this same period workforce programs completed program accreditation; the results allow CBC to continue providing these program degrees as follows: nursing, dental hygiene (2019), nursing, and radiology technology (2021).

Financial information can be obtained from the Coastal Bend College business office via written request to 3800 Charco Road, Beeville, Texas 78102.



Beatriz T. Espinoza, Ph.D.
President

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Basic Financial Statements

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Coastal Bend College

Exhibit 1

Statements of Net Position August 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents	\$ 655,451	\$ 355,154
Short term investments (See Note 4)	4,213	4,203
Accounts receivable (net)	5,393,760	5,404,305
Inventories	275,717	335,495
Prepaid expenses	<u>2,351,787</u>	<u>2,418,183</u>
Total Current Assets	<u>8,680,928</u>	<u>8,517,340</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	3,115,309	108,024
Endowment Investments	711,878	631,591
Other long-term investments	117,893	1,994,311
Deferred charges	285,932	105,715
Capital assets (net) (See Note 5)	<u>13,978,047</u>	<u>13,307,379</u>
Total Noncurrent Assets	<u>18,209,059</u>	<u>16,147,020</u>
Total Assets	<u>26,889,987</u>	<u>24,664,360</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	750,020	767,755
Funds held for others	367,558	351,360
Unearned revenues	7,378,799	7,066,968
Leases payable - current portion	236,661	66,980
Deferred amount on refunding bonds	(7,673)	-
Notes payable - current portion	309,000	138,000
Bonds payable - current portion	<u>335,000</u>	<u>215,000</u>
Total Current Liabilities	<u>9,369,365</u>	<u>8,606,063</u>
Noncurrent Liabilities:		
Accrued compensable absences-noncurrent portion	371,110	462,693
Leases payable	245,022	146,388
Deferred amount on refunding bonds	(69,053)	-
Notes payable - long term portion (See Note 6)	3,835,000	2,344,000
Bonds payable - long term portion (See Note 6)	<u>3,530,000</u>	<u>2,630,000</u>
Total Noncurrent Liabilities	<u>7,912,079</u>	<u>5,583,081</u>
Total Liabilities	<u>17,281,444</u>	<u>14,189,144</u>
NET POSITION		
Invested in capital assets, net of related debt	8,496,431	7,767,011
Restricted for:		
Non-Expendable		
Endowments	531,670	531,670
Expendable		
Scholarships	311,989	402,646
Debt service	880,661	559,795
Unrestricted (Deficit)	<u>(612,208)</u>	<u>1,214,094</u>
Total Net Position (Schedule D)	<u>\$ 9,608,543</u>	<u>\$ 10,475,216</u>

Coastal Bend College**Exhibit 2****Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2013 And 2012**

Operating Revenues	<u>2013</u>	<u>2012</u>
Tuition and Fees (net of discounts of \$5,677,077 and \$4,149,282 respectively)	\$ 3,067,124	\$ 4,737,240
Federal Grants and Contracts	3,798,821	3,662,876
State Grants and Contracts	461,706	478,715
Non-Governmental Grants and Contracts	-	8,000
Sales and Services of Educational Activities	111,410	36,829
Auxiliary Enterprises (net of discounts)	2,155,848	3,588,821
General Operating Revenues	74,235	157,277
Total Operating Revenues (Schedule A)	<u>9,669,144</u>	<u>12,669,758</u>
 Operating Expenses		
Instruction	9,137,731	9,727,655
Public Service	16,363	22,275
Academic Support	768,499	1,286,939
Student Services	3,659,319	3,715,009
Institutional Support	4,491,653	5,467,911
Operation and Maintenance of Plant	2,731,937	3,399,799
Scholarships and Fellowships	1,829,584	4,091,022
Auxiliary Enterprises	2,348,876	2,326,004
Depreciation	1,171,236	1,046,552
Total Operating Expenses (Schedule B)	<u>26,155,197</u>	<u>31,083,166</u>
 Operating Loss	 (16,486,054)	 (18,413,408)
 Non-Operating Revenues (Expenses)		
State Allocations	7,761,373	8,089,939
Maintenance Ad Valorem Taxes	1,887,014	1,767,948
Federal Revenue, Non-Operating	5,932,317	6,403,553
Gifts	129,442	128,547
Investment income	70,621	128,242
Interest on Capital Related Debt	(212,098)	(216,580)
Other Non-Operating Revenues	52,527	37,859
Other Non-Operating Expenses	(1,816)	(9,575)
 Net Non-Operating Revenues (Schedule C)	 <u>15,619,380</u>	 <u>16,329,933</u>
 Decrease in Net Position	 (866,673)	 (2,083,475)
 Net Position		
Net Position - Beginning of Year	<u>10,475,216</u>	<u>12,558,691</u>
Net Position - End of Year	<u>\$ 9,608,543</u>	<u>\$ 10,475,216</u>

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

Statements of Cash Flows
Years Ended August 31, 2013 and August 31, 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 4,778,000	\$ 8,948,356
Receipts from grants and contracts	7,583,393	4,066,851
Payments to suppliers for goods and services	(8,673,805)	(9,662,125)
Payments to or on behalf of employees	(16,165,236)	(16,177,366)
Payments for scholarships and fellowships	(1,829,584)	(4,091,022)
Other receipts	74,235	157,277
Net cash used by operating activities	<u>(14,232,997)</u>	<u>(16,758,029)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from state appropriations	7,761,373	8,089,939
Receipts from ad valorem taxes	1,911,374	1,767,948
Receipts from Non Operating Federal Revenue	5,932,317	6,403,553
Gifts	129,442	128,547
Payments for collection of taxes	(19,038)	(17,814)
Receipts from student organizations and other agency transactions	16,189	44,430
Payments to student organizations and other agency transactions	(13,492)	(8,857)
Other receipts	52,527	37,859
Other payments	(1,816)	(9,575)
Net cash provided by noncapital financing activities	<u>15,768,876</u>	<u>16,436,030</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds on issuance of capital debt	5,665,000	-
Payment to Escrow Agent	(2,639,673)	-
Debt Issuance Costs	(94,781)	-
Purchases of capital assets	(1,847,170)	(2,226,538)
Payments on capital debt - principal	(432,916)	(387,916)
Payments on capital debt - interest	(212,098)	(249,348)
Net cash provided by capital and related financing activities	<u>438,362</u>	<u>(2,863,802)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	1,262,720	562,004
Interest on investments	70,621	128,242
Purchase of investments	-	(73,436)
Net cash provided by investing activities	<u>1,333,341</u>	<u>616,810</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT S	3,307,582	(2,568,991)
CASH AND CASH EQUIVALENTS—September 1	463,178	3,032,169
CASH AND CASH EQUIVALENTS—August 31	<u>3,770,760</u>	<u>463,178</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	(16,486,054)	(18,413,408)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	1,171,236	1,046,552
Bad debt expense	-	-
Payments made directly by state for benefits	1,439,311	1,401,038
Changes in assets and liabilities:		
Receivables (net)	(7,348)	(188,709)
Deferred expenses		
Inventories	(59,778)	(61,278)
Notes receivable	-	-
Prepaid expenses	(66,396)	115,535
Accounts payable	12,469	(562,303)
Funds Held for Others	(16,189)	35,573
Compensated absences	91,583	76,006
Deferred revenue	(311,831)	(207,035)
Net cash used by operating activities	<u>\$ (14,232,997)</u>	<u>\$ (16,758,029)</u>

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

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Notes to the Basic Financial Statements

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COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

1. Reporting Entity

Coastal Bend College (the College) was established in 1965, in accordance with the laws of the state of Texas, to serve the educational needs of Bee County and the surrounding communities. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14 *The Financial Reporting Entity*. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

Component Unit

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

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

2. Summary of Significant Accounting Policies

Report Guidelines

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

Implementation of GASB Statement No. 63

For fiscal year 2013, the College implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows and inflows of resources and required changes in account captions in the statements of net position.

Tuition Discounting

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.0333). 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.

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

Title IV, Higher Education Act Program Funds

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

Other tuition discounts

The college awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount 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 they have been reduced to a legal or contractual obligation to pay.

Budgetary Data

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 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 must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1st.

Cash and Cash Equivalents

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

Investments

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. The governing board has designated public funds investment pools comprised of MBIA Government Pool, Logic and TexPool to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories

Inventories consist of bookstore stock and are valued at cost under the "first-in, first-out" method and are charged to expense as consumed.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations to buildings, infrastructure and

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense incurred.

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

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

Deferred Revenues

Tuition and fees of \$7,378,799 and \$7,066,968 have been reported as deferred revenues at August 31, 2013 and 2012, 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. Accordingly, actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expense Policy

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

3. Authorized Investments

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

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

4. Deposits and Investments

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

Cash and Deposits		
	<u>2013</u>	<u>2012</u>
Bank Deposits		
Demand Deposits	4,478,626	462,163
Cash and Cash Equivalents		
Petty Cash on Hand	<u>4,012</u>	<u>1,015</u>
 Total Cash and Deposits	 <u><u>4,482,638</u></u>	 <u><u>463,178</u></u>

During the year ended August 31, 2013, deposits were entirely covered by FDIC insurance or by pledged collateral held by the College's agent bank in the College's name.

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Market Value August 31, 2013	Market Value August 31, 2012
Investments		
U.S. Agencies	112,268	116,576
Fixed Annuities	-	2,509,326
Money Market Fund	5,625	-
Investment Pools	<u>4,213</u>	<u>4,203</u>
 Total Investments	 122,106	 2,630,105
Total Cash and Deposits	<u>4,482,638</u>	<u>463,178</u>
Total Deposits and Investments	<u><u>4,604,744</u></u>	<u><u>3,093,283</u></u>
 Cash and Cash Equivalents (Exhibit 1)	 655,451	 355,154
Short Term Investments (Exhibit 1)	4,213	4,203
Restricted Cash and Cash Equivalents (Exhibit 1)	3,115,309	108,024
Endowment Investments (Cash) (Exhibit 1)	711,878	631,591
Other Long-term Investments (Exhibit 1)	<u>117,893</u>	<u>1,994,311</u>
 Total Deposits and Investments (Exhibit 1)	 <u><u>4,604,744</u></u>	 <u><u>3,093,283</u></u>

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

As of August 31, 2013, the College had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 3	4 to 5
U.S. Agencies	112,268	-	112,268	-
Fixed Annuities	-	-	-	-
Certificate of Deposit	-	-	-	-
Investment Pools:				
Investment in TexPool	1,129	1,129	-	-
Investment in Texas Class	2,174	2,174	-	-
Investment in LOGIC Pool	910	910	-	-
Money Market Fund	5,625	5,625	-	-
Total Fair Value	122,106	9,838	112,268	-

Interest Rate Risk

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

Credit Risk

In accordance with state law and the College's investment policy, investments in mutual funds and investment pools must be rated at least AAA, 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. The College's investments in investment pools were rated AAA. The College's investments in FHLB were rated A2.

Concentration of Credit Risk

The College does not place a limit on the amount the College may invest in any one issuer. More than 5% of the College's investments are in Federal Home Loan Bank (91.94%).

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a custodial credit risk.

The local government investment pools such as TexPool, Texas Class and Logic Pool are not evidenced by securities in physical form. They are managed conservatively to provide safe, efficient and liquid investments to Texas governmental entities. The pools both seek to maintain a \$1 value per share as required by the Texas Public Funds Investment Act.

Federated Investors manages the assets, provides participant services, and arranges for all custody and other functions in support of TexPool operations under a contract with the State Comptroller of Public Accounts. The state comptroller maintains oversight responsibility for TexPool, including the ability to influence operations, designation of management and accountability for fiscal matters.

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the College's position in TexPool is the same as the value of TexPool shares.

Logic Pool is co-administered by JPMorgan Chase and First Southwest Asset Management, Inc. The fair value of funds in Logic Pool is also the same as the value of Logic Pool shares.

Texas Class is administered by Cutwater Investor Services Corporation. The fair value of the funds in Texas Class is also the same fair value as Texas Class shares.

5. Capital Assets

Capital assets activity for the year ended August 31, 2013 was as follows:

	Balance August 31, 2012	Increases	Decreases	Balance August 31, 2013
<u>Not Depreciated</u>				
Land	476,889	-	-	476,889
Construction in Progress	-	-	-	-
Subtotal	476,889	-	-	476,889
<u>Other Capital Assets</u>				
Buildings and Improvements	20,858,775	441,622	-	21,300,397
Furniture, Machinery, Vehicles and Other Equipment	3,293,612	95,621	-	3,389,233
Telecommunications and Peripheral Equipment	3,281,826	1,292,521	-	4,574,347
Library Books	1,300,083	12,140	-	1,312,223
Subtotal	28,734,296	1,841,904	-	30,576,200
<u>Accumulated Depreciation</u>				
Buildings and Improvements	(10,715,934)	(532,435)	-	(11,248,369)
Furniture, Machinery, Vehicles, and Other Equipment	(1,717,906)	(221,963)	-	(1,939,869)
Telecommunications and Peripheral Equipment	(2,429,518)	(374,159)	-	(2,803,677)
Library Books	(1,040,448)	(42,679)	-	(1,083,127)
Subtotal	(15,903,806)	(1,171,236)	-	(17,075,042)
Net Other Capital Assets	12,830,490	670,668	-	13,501,158
Net Capital Assets	13,307,379	670,668	-	13,978,047

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

Capital assets activity for the year ended August 31, 2012 was as follows:

	Balance August 31, 2011	Increases	Decreases	Balance August 31, 2012
<u>Not Depreciated</u>				
Land	476,889	-	-	476,889
Construction in Progress	1,021,860	-	(1,021,860)	-
Subtotal	1,498,749	-	(1,021,860)	476,889
<u>Other Capital Assets</u>				
Buildings and Improvements	18,128,280	2,730,495	-	20,858,775
Furniture, Machinery, Vehicles and Other Equipment	3,028,336	265,276	-	3,293,612
Telecommunications and Peripheral Equipment	3,046,909	234,917	-	3,281,826
Library Books	1,282,374	17,709	-	1,300,083
Subtotal	25,485,899	3,248,397	-	28,734,296
<u>Accumulated Depreciation</u>				
Buildings and Improvements	(10,221,538)	(494,396)	-	(10,715,934)
Furniture, Machinery, Vehicles, and Other Equipment	(1,491,291)	(226,615)	-	(1,717,906)
Telecommunications and Peripheral Equipment	(2,149,594)	(279,924)	-	(2,429,518)
Library Books	(994,831)	(45,617)	-	(1,040,448)
Subtotal	(14,857,254)	(1,046,552)	-	(15,903,806)
Net Other Capital Assets	10,628,645	2,201,845	-	12,830,490
Net Capital Assets	12,127,394	2,201,845	(1,021,860)	13,307,379

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

6. Long-term Liabilities

Combined Fee Revenue and Refunding Bonds, Series 2013

On August 15, 2013 the College issued \$3,865,000 Combined Fee Revenue and Refunding Bonds, Series 2013 with interest rates of 3.130% secured by pledged revenues. Of the total bonds issued by the College, \$2,665,000 was issued to advance refund \$2,630,000 outstanding series 2003 combined fee revenue bonds with interest rates varying from 3.700% to 4.250% and the remainder of \$1,200,000 bonds were issued for the purpose of construction, renovation, equipping and improvement of College facilities. The College used the net proceeds of the refunding portion to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded 2003 series bonds. As a result, the 2003 series bonds are considered defeased, and the College has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$2,630,000 at August 31, 2013.

The advance refunding reduced total debt service payments over the next 10 years by approximately \$112,118. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$96,452.

Maintenance Tax Notes, Series 2013

On August 14, 2013 the College issued \$1,800,000 Maintenance Tax Notes, Series 2013 secured by ad valorem taxes levied against all taxable property in the College District. The Notes carry interest rates of 0.850% to 3.860% and mature between August 15, 2014 and August 15, 2023. The Notes were issued for the purpose of financing improvements to the College's facilities.

Long-term liability activity for the year ended August 31, 2013 was as follows:

	Balance August 31, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
<u>Bonds, Leases, and Notes</u>					
Revenue Bonds	2,845,000	3,865,000	2,845,000	3,865,000	335,000
Maintenance Tax Notes	2,482,000	1,800,000	138,000	4,144,000	309,000
Deferred amount on					
Refunding bonds	-	(76,726)	-	(76,726)	(7,673)
Capital Leases	213,368	508,744	240,429	481,683	236,661
Total	<u>5,540,368</u>	<u>6,097,018</u>	<u>3,223,429</u>	<u>8,413,957</u>	<u>872,988</u>
<u>Other Liabilities</u>					
Compensated Absences	462,693	188,000	279,583	371,110	-
Total Long-Term Liabilities	<u>6,003,061</u>	<u>6,285,018</u>	<u>3,503,012</u>	<u>8,785,067</u>	<u>872,988</u>

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

Long-term liability activity for the year ended August 31, 2012 was as follows:

	Balance August 31, 2011	Additions	Reductions	Balance August 31, 2012	Current Portion
Bonds, Leases, and Notes					
Revenue Bonds	3,050,000	-	205,000	2,845,000	215,000
Maintenance Tax Notes	2,585,000	-	103,000	2,482,000	138,000
Capital Leases	293,284	-	79,916	213,368	66,980
Total	5,928,284	-	387,916	5,540,368	419,980
Other Liabilities					
Compensated Absences	386,687	207,586	131,580	462,693	-
Total Long-Term Liabilities	6,314,971	207,586	519,496	6,003,061	419,980

7. Debt Obligations

Debt service requirements at August 31, 2013 for bonds and notes were as follows:

For The Year Ended August 31	Maintenance Tax Notes			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2014	309,000	133,532	442,532	335,000	120,975	455,975
2015	315,000	126,592	441,592	347,000	110,489	457,489
2016	323,000	119,043	442,043	360,000	99,628	459,628
2017	332,000	110,636	442,636	366,000	88,360	454,360
2018	341,000	101,440	442,441	379,000	76,904	455,904
2019-2023	1,879,000	332,706	2,211,706	2,078,000	199,005	2,277,005
2024-2026	645,000	49,367	694,367	-	-	-
Totals	4,144,000	973,317	5,117,317	3,865,000	695,361	4,560,361

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

Defeased bonds outstanding:

Defeased bonds outstanding at August 31, 2013 totaled \$2,630,000.

Capital Leases

During 2011, the College entered into a lease agreement for the purchase of computer lab equipment at a cost of \$293,284. The scheduled maturity date of the final lease payment is in September, 2015. During 2013, the College entered into a lease agreement for the purchase of a telecommunications system for \$508,744. The scheduled maturity date of the final lease payment is June, 2015. The lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of future minimum lease payments as of the date of inception. Future minimum lease payments to be paid are as follows:

Year Ending August 31	
2014	254,600
2015	254,600
Total	509,200
Less Amount Representing Interest (Rate 2.913% to 6.0631%)	(27,517)
Present Value of Future Minimum Lease Payments	481,683

8. Bonds Payable

General information related to bonds payable is summarized below:

- Bond Issue Name: Coastal Bend College Combined Fee Revenue Bonds, Series 2013
- Purpose of Bond Issue: Advance refunding and to purchase and improve a facility previously leased by the College.
- Issue Date: August 15, 2013
- Original Amount of Issue; Amount Authorized: \$3,865,000.
- Interest Rates: 3.13%
- Source of Revenue for Debt Service: Pledged registration fees, out of district fees, student service fees and course fees.

9. Employees' Retirement Plan

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

Teacher Retirement System of Texas

Plan Description.

Coastal Bend College contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan. TRS issues a publicly available financial report with required supplementary information which can be obtained from www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy.

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4 percent for fiscal years 2013, 2012 and 2011 and a state contribution rate of 6.4 percent for fiscal year 2013; 6.4 percent for fiscal year 2012; and 6.644 percent for 2011. In certain instances the reporting district is required to make all or a portion of the state's 6.4 percent contribution for fiscal year 2013; 6.4 percent for fiscal year 2012; and 6.644 percent for fiscal year 2011.

Contingent Liability.

For fiscal year 2012, the State of Texas limited the amount of funding that community colleges received for the employer portion of the retirement contributions for eligible employees. The Teacher Retirement System of Texas (TRS) requested that community colleges make up the difference. The Texas Association of Community Colleges (TACC) and most of the community colleges in the state contended that the amount owed to TRS was the state's liability and not a liability of the community college districts. Management of the Coastal Bend College did not believe it was legally responsible for the payment and chose not to report a liability for the difference in the financial statements. The estimated contingent liability was \$341,664. During 2013, it was determined that the College Districts were, in fact, responsible for paying the difference and Coastal Bend College did submit payment for \$290,000 to the State of Texas.

Optional Retirement Plan

Plan Description. 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.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.4% and 6.65%, respectively. The college contributes 2.1% for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense to the state for the college was \$573,600 and \$594,294 for the fiscal years ended August 31, 2013 and 2012, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the college.

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

The total payroll for all college employees was \$12,777,532 and \$13,818,631 for fiscal years 2013 and 2012, respectively. The total payroll of employees covered by the Teacher Retirement System was \$8,727,848 and \$9,220,876, and the total payroll of employees covered by the Optional Retirement Program was \$2,903,920 and \$3,232,916 for fiscal years 2013 and 2012, respectively.

10. Deferred Compensation Program

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants.

11. Compensated Absences

Full-time employees earn annual leave of 10 days per year. The College's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum carryover of 20 days. Employees with at least three months of service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The College recognized an accrued liability of \$125,675 and \$400,043 for the unpaid annual leave for 2013 and 2012. Sick leave, which can be accumulated to a maximum of 90 days, is earned at the rate of one day per month. It is paid to an employee who misses work because of illness. Employees with at least 10 years of service who terminate their employment are entitled to payment for all accumulated sick leave up to the maximum allowed. Annual sick leave of \$245,435 was recognized for 2013 and \$62,650 for 2012.

12. Operating Lease Commitments and Rental Agreement

Included in current expenses is \$281,945 for rent paid or due under operating leases.

At August 15, 2013, operating leases are on a month-to-month basis only.

13. Funds Held in Trust by Others

The balances or transactions of funds, held in trust by others on behalf of Coastal Bend College are not reflected in the financial statements. At August 31, 2013 and 2012 there was one fund for the benefit of the College. The assets of this fund are administered by an appointed plan administrator.

14. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, Audits of Colleges and Universities. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expensed, but not collected are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expensed, 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. Contract and grant awards already committed, e.g. multi-year awards, or funds awarded during fiscal years 2013 and 2012 for which monies have not been received nor funds expended totaled \$0 and \$0.

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

15. Post Retirement Health and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for these benefits if they reach normal retirement age while working for the State. These and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State's contribution per full-time employee was \$470.38 per month for the year ended August 31, 2013 (\$438.30 per month for 2012) and totaled \$1,624,925 for 2013 (\$1,602,224 for the year ended 2012). The cost of providing those benefits for 110 retirees in the year ended 2013 was \$671,609 (retiree benefits for 107 retirees cost \$611,824 in 2012). For 232 active employees, the cost of providing benefits was \$1,252,725 for the year ended 2013 (active employee benefits for 264 employees cost \$1,325,259 for the year ended 2012).

16. Property Tax

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

At August 31,

	2013	2012
Assessed Valuation of the District:	2,074,402,370	1,984,037,000
Less: Exemptions	893,925,421	876,589,670
Less: Abatements	14,419,520	15,725,170
Net Assessed Valuation of the District	1,166,057,429	1,091,722,160

2013

	Current Operations	Debt Service	Total
Tax Rate per \$100 valuation authorized (Maximum per enabling legislation)	0.50	0.50	1.00
Tax Rate per \$100 valuation of assessed	0.17067	-	0.17067

2012

	Current Operations	Debt Service	Total
Tax Rate per \$100 valuation authorized (Maximum per enabling legislation)	0.50	0.50	1.00
Tax Rate per \$100 valuation of assessed	0.16800	-	0.16800

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

Taxes levied for the years ended August 31, 2013 and 2012 amounted to \$1,915,622 and \$1,763,199, respectively (which includes any penalty and interest assessed if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

2013

<u>Taxes Collected</u>	<u>Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current Taxes Collected	1,826,941	-	1,826,941
Delinquent Taxes Collected	49,059	-	49,059
Penalties and Interest Collected	28,067	-	28,067
Total Collections	<u>1,904,067</u>	<u>-</u>	<u>1,904,067</u>

2012

<u>Taxes Collected</u>	<u>Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current Taxes Collected	1,681,153	-	1,681,153
Delinquent Taxes Collected	54,144	-	54,144
Penalties and Interest Collected	32,631	-	32,631
Total Collections	<u>1,767,948</u>	<u>-</u>	<u>1,767,948</u>

Tax collections for the years ended August 31, 2013 and 2012 were 99.40% and 100.00% respectively of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

17. 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 subjected to income taxes under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the years ended August 31, 2013 and 2012.

18. Commitments and Contingencies

1. Contingencies

The College participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable 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 basic financial statements for such contingencies.

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

2. Pending Lawsuits and Claims

On August 31, 2013, various lawsuits and claims involving Coastal Bend College were pending. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

19. Disaggregation of Receivables and Payables Balances

Receivables

Receivables at August 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Student Receivables	1,690,152	2,167,349
Taxes Receivable	133,922	150,804
Tuition Sponsor Receivable	237,192	231,937
Contract and Grant Receivable	3,359,790	2,867,989
Interest Receivable	-	16,576
Other Receivables	<u>71,478</u>	<u>72,425</u>
Subtotal	5,492,534	5,507,081
Allowance for Doubtful Accounts	<u>(98,774)</u>	<u>(102,776)</u>
TOTAL RECEIVABLES	<u>5,393,760</u>	<u>5,404,305</u>

Payables

Payables at August 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Vendors Payable	590,004	697,405
Interest Payable	10,600	17,849
Other Payable	<u>149,416</u>	<u>52,501</u>
TOTAL PAYABLES	<u>750,020</u>	<u>767,755</u>

20. Risk Management

The College is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the College purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2013 and 2012

21. Postemployment Benefits Other than Pensions
(In accordance with GASB Statement 45)

Plan Description. Coastal Bend College contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postemployment healthcare plan administered by the Employees Retirement System of Texas (ERS). SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by State law and may be amended by the Texas Legislature.

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

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

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB statement 45.

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

The College's contributions to SRHP for the years ended August 31, 2013, 2012, and 2011, were \$44,000, \$59,324, and \$95,706, respectively, which equaled the required contributions each year.

22. Construction Commitments

At August 31, 2013 the College is in the early planning stages for construction, renovation, equipping and improvement of College facilities as a result of the issuance of \$1,200,000 in bonds and \$1,800,000 in maintenance tax notes, as disclosed in Note 6.

OTHER SUPPLEMENTARY INFORMATION

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

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Schedules

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Schedule of Operating Revenues

Year Ended August 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2013 Total</u>	<u>2012 Total</u>
Tuition:						
State funded credit courses:						
In-district resident tuition	1,349,998	-	1,349,998	-	1,349,998	1,470,263
Out-of-district resident tuition	2,267,724	-	2,267,724	-	2,267,724	2,443,604
Non-resident tuition	24,625	-	24,625	-	24,625	13,343
TPEG - credit (set aside) *	237,000	-	237,000	-	237,000	200,000
State-funded continuing education	179,993	-	179,993	-	179,993	198,162
TPEG - non-credit (set aside) *	-	-	-	-	-	-
Non-state funded educational programs	8,753	-	8,753	-	8,753	-
Total Tuition	4,068,093	-	4,068,093	-	4,068,093	4,325,372
Fees:						
Out of district fee	2,724,893	-	2,724,893	-	2,724,893	2,718,252
Distance learning fee	295,846	-	295,846	-	295,846	262,057
Installment Plan Fees	-	-	-	8,650	8,650	10,515
Dual credit fees	381,254	-	381,254	-	381,254	339,558
Individual course fees	833,124	-	833,124	-	833,124	832,452
Registration fee	402,187	-	402,187	-	402,187	398,316
Total Fees	4,637,303	-	4,637,303	8,650	4,645,953	4,561,150
Scholarship allowances and discounts:						
Remissions and exemptions - state	(249,649)	-	(249,649)	-	(249,649)	(131,217)
Remissions and exemptions - local	-	-	-	-	-	-
Title IV federal grants	(4,711,697)	-	(4,711,697)	-	(4,711,697)	(3,559,489)
Other federal grants	(8,491)	-	(8,491)	-	(8,491)	(48,088)
TPEG awards	(160,870)	-	(160,870)	-	(160,870)	(180,689)
Other state grants	(262,394)	-	(262,394)	-	(262,394)	(229,799)
Rising Star program	-	-	-	-	-	-
Other local grants	(253,821)	-	(253,821)	-	(253,821)	-
Total Scholarship Allowances	(5,646,922)	-	(5,646,922)	-	(5,646,922)	(4,149,282)
Total net tuition and fees	3,058,474	-	3,058,474	8,650	3,067,124	4,737,240
Additional operating revenues:						
Federal grants and contracts	-	3,798,821	3,798,821	-	3,798,821	3,662,876
State grants and contracts	-	461,706	461,706	-	461,706	478,715
Local grants and contracts	-	-	-	-	-	-
Non-governmental grants and contracts	-	-	-	-	-	8,000
Sales and services of educational activities	111,410	-	111,410	-	111,410	36,829
General operating revenues	74,235	-	74,235	-	74,235	157,277
Total additional operating revenues	185,645	4,260,527	4,446,171	-	4,446,171	4,343,697
Auxiliary Enterprises:						
Bookstore	-	-	-	1,697,380	1,697,380	3,078,866
Less Discounts	-	-	-	(225,535)	(225,535)	(162,146)
Housing	-	-	-	693,252	693,252	605,643
Less Discounts	-	-	-	(137,809)	(137,809)	(108,941)
Child Care Center	-	-	-	126,895	126,895	166,635
Student Programs	-	-	-	1,666	1,666	8,764
Total net auxiliary enterprises	-	-	-	2,155,848	2,155,848	3,588,821
Total Operating Revenues	\$ 3,244,119	\$ 4,260,527	\$ 7,504,646	\$ 2,164,498	\$ 9,669,144	\$ 12,669,758
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.033, \$237,000 for year August 31, FY13 and \$200,000 for year August 31 of FY12, of tuition was set aside for Texas Public Education grants (TPEG)

Coastal Bend College

Schedule B

Schedule of Operating Expenses by Object

Year Ended August 31, 2013 (with Memorandum Totals for the Year Ended August 31, 2012)

	Operating Expenses				2013 Total	2012 Total
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
Unrestricted - Educational Activities						
Instruction	\$ 6,573,604		\$ 526,541	\$ 593,546	\$ 7,693,691	\$ 8,473,989
Public Service				16,363	16,363	22,275
Academic Support	484,872		38,103	100,186	623,161	909,171
Student Services	765,121		71,430	211,684	1,048,235	803,907
Institutional Support	2,042,352		634,585	1,537,879	4,214,816	5,182,861
Operation and Maintenance of Plant	753,724		249,128	922,610	1,925,462	2,501,490
Scholarships and Fellowships				306,975	306,975	202,662
Total Unrestricted Educational Activities	10,619,673	-	1,519,786	3,689,243	15,828,703	18,096,355
Restricted - Educational Activities						
Instruction	388,143	890,937	34,587	130,372	\$ 1,444,039	\$ 1,253,666
Public Service					-	-
Academic Support	64,986	65,716	40	14,596	145,338	377,768
Student Services	1,366,199	103,699	258,204	882,983	2,611,084	2,911,102
Institutional Support		276,805	32	-	276,837	285,050
Operation and Maintenance of Plant		102,154		704,321	806,475	898,309
Scholarships and Fellowships			468	1,522,142	1,522,610	3,888,360
Total Restricted Educational Activities	1,819,328	1,439,311	293,330	3,254,414	6,806,383	9,614,255
Total Educational Activities	12,439,001	1,439,311	1,813,117	6,943,657	22,635,086	27,710,610
Auxiliary Enterprises	333,031		68,318	1,947,527	2,348,876	2,326,004
Depreciation Expense - Buildings and other real estate improvements				532,435	532,435	494,396
Depreciation Expense - Equipment and furniture				638,801	638,801	552,156
Total Operating Expenses	\$ 12,772,032	\$ 1,439,311	\$ 1,881,435	\$ 10,062,420	\$ 26,155,197	\$ 31,083,166
					(Exhibit 2)	(Exhibit 2)

Schedule of Non-Operating Revenues and Expenses

Year Ended August 31, 2013 (with Memorandum Totals for the Year Ended August 31, 2012)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2013 Total</u>	<u>2012 Total</u>
NON-OPERATING REVENUES:					
State Allocations	\$ 6,322,062	\$ -	\$ -	\$ 6,322,062	\$ 6,688,901
State Group Insurance		865,711		865,711	821,214
State Retirement Matching		573,600		573,600	579,824
Professional Nursing Shortage Reduction					
Maintenance ad valorem taxes	1,887,014	-	-	1,887,014	1,767,948
Federal Non-Operating		5,932,317		5,932,317	6,403,553
Gifts	129,442	-	-	129,442	128,547
Investment income	70,621	-	-	70,621	128,242
Gain on sale of investment		-	-	-	-
Contributions in aid of construction		-	-	-	-
Other non-operating revenue	52,527	-	-	52,527	37,859
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total non-operating revenues	8,461,667	7,371,627	-	15,833,294	16,556,088
NON-OPERATING EXPENSES:					
Interest on capital related debt	212,098	-	-	212,098	216,580
Loss on disposal of capital assets	-	-	-	-	-
Other non-operating expense	-	1,816	-	1,816	9,575
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total non-operating expenses	212,098	1,816	-	213,914	226,155
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net non-operating revenues	\$ 8,249,569	\$ 7,369,811	\$ -	\$ 15,619,380	\$ 16,329,933
				(Exhibit 2)	(Exhibit 2)

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Schedule Of Net Position by Source and Availability

Year Ended August 31, 2013 (with Memorandum Totals for the Year Ended August 31, 2013)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ (612,208)				\$ (612,208)	\$ (612,208)	
Board Designated					-	-	
Restricted		311,989			311,989	311,989	
Auxiliary enterprises					-	-	
Loan					-	-	
Endowment:							
Quasi:							
Unrestricted					-	-	
Restricted			531,670		531,670		531,670
Endowment					-	-	
True					-	-	
Term (per instructions at maturity)					-	-	
Life Income Contracts					-	-	
Annuities					-	-	
Plant:							
Unexpended					-	-	
Renewals					-	-	
Debt Service		880,661			880,661		880,661
Investment in Plant				8,496,431	8,496,431		8,496,431
Total Net Position, August 31, 2013	\$ (612,208)	\$ 1,192,650	\$ 531,670	\$ 8,496,431	\$ 9,608,543	\$ (300,219)	\$ 9,908,762
					(Exhibit 1)		
Total Net Position, August 31, 2012	1,214,094	962,441	531,670	7,767,011	10,475,216	1,616,740	8,858,476
					(Exhibit 1)		
Net Increase (Decrease) in Net Position	\$ (1,826,302)	\$ 230,209	\$ -	\$ 729,420	\$ (866,673)	\$ (1,916,959)	\$ 1,050,286
					(Exhibit 2)		

COASTAL BEND COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2013

Schedule E

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
U.S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster			
SEOG	84.007		\$ 92,321
Federal College Workstudy Program	84.033		79,118
Federal Pell Grant	84.063		5,839,996
Direct Loans	84.268		3,175,153
21st Century	84.267		125,075
Title V	84.031		272,676
STEM	84.120		893,823
TRIO Cluster			
TRIO Student Support Services	84.042		277,723
TRIO Upward Bound	84.047		375,855
TRIO Educational Talent Search	84.044		521,371
TRIO Upward Bound GOST	84.047M		229,000
Pass-Through From:			
Del Mar College			
Title V Celebrando Educ	84.031S		416,819
Federal Correctional Institution			
Prison Program	16.000		147,092
Texas Education Agency			
Adult Basic Education	84.002		165,628
Texas Higher Education Coordinating Board			
Carl Perkins Vocational I	84.048		257,743
Total Department of Education			<u>12,869,392</u>
Department of Health and Human Services			
TANF	93.558		36,899
Total U.S. Department of Health and Human Services			<u>36,899</u>
Total Federal Financial Assistance			<u>\$ 12,906,291</u>

Notes to Schedule on Following Page.

SCHEDULE E (Continued)

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts revenue - per Schedule A	\$	3,798,821
Add: Non-Operating Revenue from Schedule C		5,932,317
Add: Direct Student Loans		3,175,153
Total Federal Revenues per Schedule of Expenditures of Federal Awards	\$	<u>12,906,291</u>

Note 2: Significant accounting policies used in preparing the schedule.

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

COASTAL BEND COLLEGE

SCHEDULE F

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2013**

<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Pass-Thru from Harris County Department of Education Adult Education WIA Incentive Project		\$ 5,985
Pass-Thru from Alamo Community Colleges VAST Grant		35,143
Texas Department of Human Services State Adult Education	88010044-1	46,276
Texas Higher Education Coordinating Board		
Texas Education Opportunity Grant	PCA13399	356,948
Texas College Work Study	9920050M	17,354
Total Texas Higher Education Coordinating Board		374,302
Total State Financial Assistance		\$ 461,706

Notes to Schedule on Following Page.

SCHEDULE F (Continued)

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A	
State Financial Assistance	
Per Schedule of expenditures of state awards	\$ 461,706
State Financial Assistance	
Continuing Education tuition and fees included in Schedule A captioned "Tuition and Fees"	<u>0</u>
Total State Revenues per Schedule A	\$ <u>461,706</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

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

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Single Audit Section

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Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees
Coastal Bend College
Beeville, Texas 78102

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Coastal Bend College (College) as of and for the years ended August 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Coastal Bend College's basic financial statements, and have issued our report thereon dated December 19, 2013.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 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 that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Coastal Bend College'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*.

Public Funds Investment Act

We have performed tests designed to verify Coastal Bend College's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2013, no instances of noncompliance were found.

Purpose of this Report

This 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.

Respectfully submitted,



Lovvorn & Kieschnick, LLP
December 19, 2013



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

418 Peoples Street, Suite 308 tele 361-884-8897
Corpus Christi, TX 78401 fax 361-884-3457

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance in Required with OMB Circular A-133

Board of Trustees
Coastal Bend College
Beeville, Texas 78102

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Coastal Bend College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Coastal Bend College's major federal programs for the year ended August 31, 2013. Coastal Bend College's major federal and programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Coastal Bend College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Coastal Bend College's

compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Coastal Bend College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2013.

Report on Internal Control Over Compliance

Management of Coastal Bend College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Coastal Bend College's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal or program that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Coastal Bend College's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Lovvorn & Kieschnick, LLP

Lovvorn & Kieschnick, LLP
December 19, 2013

COASTAL BEND COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weakness(es) identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weakness(es) identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Programs Cluster:
	Federal Supplemental Education Opportunity Grant Program
84.007	Federal Work Study Program
84.033	Federal Pell Grant Program
84.063	Federal Direct Loan Program
84.268	Prison Program
16.000	

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

COASTAL BEND COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2013

B. Financial Statement Findings

NONE

C. Federal/State Award Findings and Questioned Costs

NONE

COASTAL BEND COLLEGE
SCHEDULE OF CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2013

Corrective Action Plan

N/A No corrective action required

COASTAL BEND COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2013

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
N/A - No Prior Findings		