

TEXARKANA COLLEGE

Texarkana, Texas

ANNUAL FINANCIAL REPORT

For The Years Ended

August 31, 2016 and 2015

TEXARKANA COLLEGE

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ORGANIZATIONAL DATA

TEXARKANA COLLEGE

ORGANIZATIONAL DATA

FOR THE YEAR ENDED AUGUST 31, 2016

Board of Trustees

Officers

Kyle Davis	President
Terry Taylor	Vice President
Jane Daines	Secretary

Members

		<u>Term Expires</u> <u>December 31</u>
Ernie Cochran	Texarkana, Texas	2018
Anne Farris	Texarkana, Texas	2018
Kaye Ellison	Texarkana, Texas	2020
Ken Reese	Texarkana, Texas	2022

Key Officers

James Henry Russell	President
Kimberly Jones	Vice President of Finance / Chief Financial Officer
Donna McDaniel	Vice President of Instruction
Mike Dumdei	Vice President of Information Technology
Katie Andrus	Executive Director – Development/Foundation
Phyllis Deese	Executive Director of Human Resources / Institutional Research and Effectiveness
Dixon Boyles	Dean – Business and Social Sciences
Ronda Dozier	Dean – Workforce and Continuing Education
Catherine Howard	Dean – Health Sciences
Robert Jones	Dean of Students
Mary Ellen Young	Dean – Liberal and Performing Arts
Suzy Irwin	Director of Institutional Advancement and Public Relations
Steve Mitchell	Director of Radio Station

INDEPENDENT AUDITOR'S REPORT

**INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION, SUPPLEMENTARY
INFORMATION, AND OTHER INFORMATION**

To the Board of Trustees
of Texarkana College and the
Texarkana College Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit (the Texarkana College Foundation, Inc., hereinafter referred to as the Foundation) of the Texarkana College (the College) as of and for the years ended August 31, 2016 and 2015, 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 the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the College as of August 31, 2016 and 2015, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 9, the schedule of the College's share of net pension liability on page 43, and the schedule of the College's contributions on page 44 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 the Texarkana College and the Texarkana College Foundation, Inc.'s basic financial statements.

The Statement of Income and Expenses – Auxiliary Enterprises and the Schedule of Insurance in Force are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Revenues, Schedule of Operating Expenses by Object, Schedule of Non-Operating Revenues and Expenses, Schedule of Net Position by Source and Availability, and the Schedule of Expenditures of State Awards presented on pages 47 through 55 are presented for purposes of additional analysis as required by the *Texas Higher Education Coordinating Board* and are also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

The Schedule of Operating Revenues, Schedule of Operating Expenses by Object, Schedule of Non-Operating Revenues and Expenses, Schedule of Net Position by Source and Availability, Schedule of Expenditures of Federal Awards, Schedule of Expenditures of State Awards, and Statement of Income and Expenses – Auxiliary Enterprises are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules referenced in the first sentence of this paragraph are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the College's internal control over financial reporting and compliance

Thomas C. Thomas, LLP

Certified Public Accountants

Texarkana, Texas
December 12, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2016 and 2015

This section of Texarkana College's annual financial report presents management's discussion and analysis of the financial performance of the College during the fiscal years ending 2016, 2015, and 2014. This discussion should be read in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental information. This discussion focuses on currently known facts, decisions, and conditions that have an impact on the financial activities for the College, and is intended to assist the reader in the interpretation of the financial statements. The financial statements, notes to the financial statements, supplemental information, and this discussion are the responsibility of Texarkana College's management.

A Brief Discussion of the Basic Financial Statements

This annual report contains financial statements prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities* and as amended by GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. These financial statements differ significantly, in both the form and the accounting principles utilized, from financial statements issued prior to 2002. The financial statements presented in years prior to 2002 focused on the accountability of fund groups, while these statements focus on the financial condition, the results of operations, and cash flows of the College as a whole.

The financial statements prescribed by GASB No. 35, 63, & 65 (the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows) present financial information similar to that used by commercial enterprises. The statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, when applicable. Decreases over time in the net position (the difference between assets, deferred outflows of resources, liabilities, and deferred inflows or resources) would be one indicator of the deterioration of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related financing, and investing activities. The statement helps measure the ability to pay operating expenses with operating revenues and the extent that capital assets are financed.

The financial statements for the College's discrete component unit, Texarkana College Foundation, Inc., are issued independent of the College. The Foundation's financial information is shown on separate pages behind the College's basic financial statements. Refer to Note 20 in the Notes to the Basic Financial Statements for more detail on the Foundation.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2016 and 2015

Financial Position Summary

Assets	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 17,708,079	\$ 15,366,719	\$ 13,762,412
Capital assets, net	21,752,004	23,434,502	23,599,973
Total assets	<u>39,460,083</u>	<u>38,801,221</u>	<u>37,362,385</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	1,420,991	560,673	-
Liabilities			
Current liabilities	5,988,068	6,710,625	5,978,582
Noncurrent liabilities	6,723,463	6,520,062	4,025,736
Total liabilities	<u>12,711,531</u>	<u>13,230,687</u>	<u>10,004,318</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	1,387,373	976,878	-
Net Position			
Invested in capital assets, net of debt	18,845,872	19,985,284	19,954,792
Restricted	1,572,004	1,725,929	1,846,193
Unrestricted	6,364,294	3,443,116	5,557,082
Total net position	<u>\$ 26,782,170</u>	<u>\$ 25,154,329</u>	<u>\$ 27,358,067</u>

The College's capital assets, net of accumulated depreciation, represent 55% and 60% of the total assets at August 31, 2016 and 2015, respectively. The largest component of capital assets is the College's investment in buildings. The buildings represent 79% of the capital assets at the end of the 2016 fiscal year, compared to 78% for 2015. Adequate facilities are an important factor in the ability of the College to meet the educational needs of current and future students.

Summary of Changes in Net Position

Operating Revenues:	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Tuition and Fees	\$ 5,356,317	\$ 5,412,105	\$ 4,446,599
Federal Grants and Contracts	354,693	586,917	748,894
State Grants and Contracts	771,862	949,216	495,866
Non-Governmental Grants	401,257	42,580	69,127
Sales and Services Activities	224,501	203,685	222,712
Net Auxiliary Enterprises	763,919	706,381	788,934
Other	283,557	138,037	422,045
Total Operating Revenue	<u>\$ 8,156,106</u>	<u>\$ 8,038,921</u>	<u>\$ 7,194,177</u>

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2016 and 2015

Summary of Changes in Net Position (continued)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Expenses:			
Instruction	\$ 11,876,083	\$ 11,741,367	\$ 11,433,463
Academic Support	2,125,582	2,056,780	2,355,149
Student Services	2,229,121	2,081,353	1,921,802
Institutional Support	4,286,972	4,343,979	5,331,547
Operation and Maintenance of Plant	2,468,503	2,292,714	2,326,517
Scholarships and Fellowships	3,042,814	4,140,758	3,755,534
Auxiliary Enterprises	2,014,707	2,080,647	2,252,769
Depreciation	1,777,010	1,774,956	1,862,287
Total Operating Expenses	<u>29,820,792</u>	<u>30,512,554</u>	<u>31,239,068</u>
Operating Loss	<u>(21,664,686)</u>	<u>(22,473,633)</u>	<u>(24,044,891)</u>
Non-Operating Income (Expenses)			
State Appropriations	8,843,810	8,551,082	8,116,276
Taxes	5,473,882	5,397,077	5,325,560
Federal Grants Non Operating	7,629,574	8,525,513	9,267,346
Gifts	1,001,592	1,266,327	1,314,860
Investment Income	100,435	82,426	74,221
Rent Income	240,985	114,413	122,007
Other Non-Operating Income	8,249	25,499	998
Gain on Exchange Transaction	-	-	-
Gain (Loss) on Disposal of Assets	74,604	14,000	-
Interest on Capital Related Debt	(80,604)	(88,277)	-
Net Non-Operating Revenues	<u>23,292,527</u>	<u>23,888,060</u>	<u>24,221,268</u>
Increase in Net Position	<u>1,627,841</u>	<u>1,414,427</u>	<u>176,377</u>
Net Position-Beginning of Year, as previously reported	25,154,329	27,358,067	27,181,690
Cumulative Effect of Change in Accounting Principle	-	(3,618,165)	-
Net Position-Beginning of Year, as restated	<u>25,154,329</u>	<u>23,739,902</u>	<u>-</u>
Net Position-End of Year	<u>\$ 26,782,170</u>	<u>\$ 25,154,329</u>	<u>\$ 27,358,067</u>

The College's net position increased \$1,627,841 for the year ended August 31, 2016, compared to an increase of \$1,414,427 for the year ended August 31, 2015. The increase between 2016 and 2015 of \$213,414 was from the continued focused objective of conservative budgeting and sound financial planning.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2016 and 2015

Summary of Changes in Net Position (continued)

The College's net position increased \$1,414,427 and \$176,377 for the years ended August 31, 2015 and 2014, respectively. The 2015 increase was predominately from cost savings as a result of the implementation of a new enterprise resource planning software in August 2014. The 2014 increase was primarily caused by absence during the year of the large gain on exchange transactions and the additional gifts, both recognized in the prior year.

As discussed in Note 2, the College implemented GASB 68, which required accounting changes related to pensions for the year ended August 31, 2015. However, information was not available for restatement of the years ended August 31, 2014.

The College's unrestricted net position increased by \$2,921,178 for the year ended August 31, 2016. The unrestricted net position is the assets that generate the College's investment income. This increase was due to the sale of College-owned property and a decrease in overall expenditures.

The College's cash and cash equivalents increased \$2,444,843 during the year ended August 31, 2016.

The College's cash and cash equivalents increased \$1,837,027 during the year ended August 31, 2015.

Analysis of College's Overall Financial Position and Results of Operation

Current and other assets, as of August 31, 2016, totaled \$17,708,079 which is 45% of the total assets. Approximately 74% of the current assets are in cash or are invested in certificates of deposit at August 31, 2016.

Current and other assets, as of August 31, 2015, totaled \$15,366,719 which is 40% of the total assets. Approximately 69% of the current assets are in cash or are invested in certificates of deposit at August 31, 2015.

Current and other assets, as of August 31, 2014, totaled \$13,762,412 which is 37% of the total assets. Approximately 64% of the current assets are in cash or are invested in certificates of deposit at August 31, 2014.

Current liabilities total \$5,988,068 for 2016 and \$6,710,625 for 2015. Unearned revenue is 66% for 2016 and 57% for 2015 of the total current liabilities. Unearned revenue is the tuition and fees collected prior to year-end for the fall classes. These are unearned because the revenue has not been earned as of the end of the year. These monies are for classes that will be primarily conducted in the next fiscal year.

The college incurred a net operating loss for the year ended August 31, 2016, 2015, and 2014, because state appropriations, Title IV funds, and property tax collections are classified as non-operating revenues.

Net operating loss is an excess of the cost to provide educational instruction to our students over income from grants and funds charged to students.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2016 and 2015

Analysis of College's Overall Financial Position and Results of Operation (continued)

Net operating income is an excess of grants and funds charged to students over the cost to provide educational instruction to our students.

State and Federal funds amounted to 56% and charges to students amounted to 17% of total revenues for the year ended August 31, 2016.

State and Federal funds amounted to 58% and charges to students amounted to 17% of total revenues for the year ended August 31, 2015.

Salaries and benefits are approximately 58% of total operating expenses for the year ended August 31, 2016.

Salaries and benefits are approximately 57% of total operating expenses for the year ended August 31, 2015.

Non-operating revenues primarily consist of state appropriations, property tax, federal grants and contracts, gifts, and investment income.

The College had negative cash flows from operating activities for the years ended August 31, 2016, 2015 and 2014 because a significant portion of the revenue, state appropriations, Title IV funds, and taxes, are considered non-operating revenue.

The College purchased capital assets during the years ended August 31, 2016 and 2015, totaling \$934,561 and \$1,609,485, respectively.

Changes in credit ratings

There has not been a change in the credit rating of Texarkana College.

Debt limitations that may affect the financing of planned facilities or services

In March of 2013, the College Board of Trustees authorized a maintenance note in the amount of \$3,500,000 to provide funds for an energy management and roofing project. A portion of the note is anticipated to be repaid by energy savings generated by the HVAC project.

In August of 2013, the College entered into an exchange Agreement with the Texas A&M University System. As part of the agreement Texarkana College agreed to lease the Academic Building from Texas A&M University. The lease began August, 1, 2013 and ended July 31, 2016. At the end of the term of the lease, Texarkana College fulfilled its obligation by paying \$340,000, and in return, the building became the property of Texarkana College.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2016 and 2015

Discussion of currently known facts, decisions, or conditions

Texarkana College has continued the focused objective of returning to the historically sound financial principles and stability for which the institution was known. Based on the actions taken by the board, administration, and the continued evaluations of performance measures, Texarkana College was able to once again add to the net assets during this past fiscal year.

With the continued decline in state appropriations, the college is forced to rely on tuition, fees and local taxes to support its mission. In November 2012, the College was able to successfully expand the taxing district through annexation of territory that lies within the state designated service area. The voters of Bowie County approved the annexation, which increased the college's appraised property values. This increase in tax revenue brought a much needed perpetual revenue source to the college however, additional reductions in expenditures are also necessary for the college to remain financially sound.

In August of 2013, the Board of Trustees approved the purchase of a new Enterprise Resource System (ERP). While the purchase of the new system required a one-time cash outlay of an estimated \$1.7 million over a period of two fiscal years, the college anticipated annual savings of approximately \$1 million per year over the current annual ERP expenditures after the initial year. The college was fully converted and successfully operating on the new ERP system as of August 31, 2014. The college realized the anticipated savings of the newly implemented ERP system during the fiscal year ended August 31, 2015, with total expenditures decreasing from \$31,239,068 in 2014 to \$30,542,554 in 2015.

The college is not aware of any additional facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the subsequent fiscal year.

Based on the continued evaluations, data-driven decisions and future plans, Texarkana College is well on its way to regaining its strong financial position and will continue to serve the constituents of this region with affordable, accessible, and high quality educational opportunities for future generations to come.

Texarkana College affirms, as its mission, the commitment to provide, within the resources available, educational programs and services that meet the individual and community needs.

FINANCIAL STATEMENTS

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TEXARKANA COLLEGE

EXHIBIT 1 – STATEMENTS OF NET POSITION AS OF AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 8,082,323	\$ 5,637,705
Investments - other	3,088,215	3,041,808
Accounts receivable, net of allowance for doubtful accounts	3,888,011	4,177,382
Prepaid expenses	5,000	-
Inventories	712,635	578,154
Total Current Assets	<u>15,776,184</u>	<u>13,435,049</u>
Noncurrent Assets		
Restricted cash and cash equivalents	1,931,895	1,931,670
Capital assets, net of accumulated depreciation	21,752,004	23,434,502
Total Noncurrent Assets	<u>23,683,899</u>	<u>25,366,172</u>
Total Assets	<u>39,460,083</u>	<u>38,801,221</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions	1,420,991	560,673
LIABILITIES		
Current Liabilities		
Accounts payable	414,197	1,200,654
Accrued liabilities	541,318	529,680
Accrued interest	22,365	23,928
Funds held for others	944,562	561,120
Deposits	2,542	18,502
Unearned revenues	3,854,271	3,833,656
Capital Lease Obligation - current portion	-	340,000
Notes payable - current portion	208,813	203,085
Total Current Liabilities	<u>5,988,068</u>	<u>6,710,625</u>
Noncurrent Liabilities		
Accrued compensable absences payable	396,543	420,503
Note payable - non-current portion	2,697,319	2,906,133
Net Pension Liability	3,629,601	3,193,426
Total Noncurrent Liabilities	<u>6,723,463</u>	<u>6,520,062</u>
Total Liabilities	<u>12,711,531</u>	<u>13,230,687</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	1,387,373	976,878
NET POSITION		
Invested in capital assets, net of related debt	18,845,872	19,985,284
Restricted for:		
Nonexpendable		
Student Aid	1,426,805	1,580,730
Expendable		
Student Aid	145,199	145,199
Unrestricted	6,364,294	3,443,116
Total Net Position	<u>\$ 26,782,170</u>	<u>\$ 25,154,329</u>

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

TEXARKANA COLLEGE FOUNDATION, INC.

COMPONENT UNIT

STATEMENT OF FINANCIAL NET POSITION

AS OF AUGUST 31, 2016 AND 2015

	ASSETS	
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 42,423	\$ 999
Investments	2,269,581	2,040,436
Accrued interest and dividends	11,928	9,685
Unconditional promises to Give	30,000	64,000
TOTAL CURRENT ASSETS	2,353,932	2,115,120
NONCURRENT ASSETS		
Investments - restricted	3,703,780	2,466,945
TOTAL NONCURRENT ASSETS	3,703,780	2,466,945
TOTAL ASSETS	6,057,712	4,582,065
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Due to College	6,220	27,715
TOTAL CURRENT LIABILITIES	6,220	27,715
TOTAL LIABILITIES	6,220	27,715
NET POSITION		
Unrestricted	2,293,217	2,083,855
Temporarily restricted	2,024,713	959,262
Permanently restricted	1,733,562	1,511,233
TOTAL NET POSITION	6,051,492	4,554,350
TOTAL LIABILITIES NET POSITION	\$ 6,057,712	\$ 4,582,065

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

TEXARKANA COLLEGE

EXHIBIT 2 – STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUES		
Operating Revenues		
Tuition and fees (net of grant and scholarship allowances of \$3,489,955 and \$3,042,866, respectively)	\$ 5,356,317	\$ 5,412,105
Federal grants and contracts	354,693	586,917
State grants and contracts	771,862	949,216
Non-Governmental grants and contracts	401,257	42,580
Sales and services of educational activities	224,501	203,685
Auxiliary enterprises (net of grant and scholarship allowances of \$1,307,743 and \$1,557,667, respectively)	763,919	706,381
Other operating revenues	283,557	138,037
Total Operating Revenues	<u>8,156,106</u>	<u>8,038,921</u>
EXPENSES		
Operating Expenses		
Instruction	11,876,083	11,741,367
Academic Support	2,125,582	2,056,780
Student Services	2,229,121	2,081,353
Institutional Support	4,286,972	4,343,979
Operation and maintenance of plant	2,468,503	2,292,714
Scholarships and fellowships	3,042,814	4,140,758
Auxiliary enterprises	2,014,707	2,080,647
Depreciation	1,777,010	1,774,956
Total Operating Expenses	<u>29,820,792</u>	<u>30,512,554</u>
Operating Loss	<u>(21,664,686)</u>	<u>(22,473,633)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	8,843,810	8,551,082
Maintenance ad-valorem taxes		
Taxes for maintenance & operations	5,473,882	5,397,077
Federal grants and contracts non-operating	7,629,574	8,525,513
Gifts	1,001,592	1,266,327
Investment income (net of investment expenses)	100,435	82,426
Rent income	240,985	114,413
Other non-operating revenues	8,249	25,499
Gain on disposal of fixed assets	74,604	14,000
Interest on capital related debt	(80,604)	(88,277)
Net non-operating revenues	<u>23,292,527</u>	<u>23,888,060</u>
Increase in Net Position	<u>1,627,841</u>	<u>1,414,427</u>
NET POSITION		
Net Position - Beginning of Year, as previously reported	25,154,329	27,358,067
Cumulative Effect of Change in Accounting Principle (Note 2)	-	(3,618,165)
Net Position - Beginning of Year, as restated	<u>25,154,329</u>	<u>23,739,902</u>
Net Position - End of Year	<u>\$ 26,782,170</u>	<u>\$ 25,154,329</u>

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

TEXARKANA COLLEGE FOUNDATION, INC.

COMPONENT UNIT

STATEMENT OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
UNRESTRICTED NET POSITION		
Revenues and gains:		
Contributions and fund raising	\$ 1,178,549	\$ 1,347,067
Interest income	22,590	17,283
Dividend income	31,436	20,240
Net realized loss on investments	(6,230)	(47)
Net unrealized gain (loss) on investments	109,873	(63,378)
Total unrestricted revenues and gains	1,336,218	1,321,165
Changes in Net assets restrictions:		
Temporarily restricted assets	(950,000)	(10,000)
Permanently restricted assets	(68,969)	(3,135)
Satisfaction of scholarships and other restrictions	410,677	234,449
Total change in net assets restrictions	(608,292)	221,314
Total unrestricted support and gains	727,926	1,542,479
EXPENSES		
Program services:		
Donation to Texarkana College	87,156	301,620
Salaries	44,000	43,168
Scholarships	322,773	54,836
Advertising	188	61
Professional Fees	49,935	11,917
Miscellaneous	14,512	20,790
Total expenses	518,564	432,392
Increase in unrestricted net position	209,362	1,110,087
TEMPORARILY RESTRICTED NET POSITION		
Support:		
Contributions	300,441	262,169
Interest income	28,173	22,065
Dividend income	36,669	25,706
Net realized gain (loss) on investments	(7,499)	1,048
Net unrealized gain (loss) on investments	168,344	(80,747)
Changes in net assets restriction:		
Temporarily restricted assets	950,000	10,000
Satisfaction of scholarship and other restrictions	(410,677)	(234,449)
Increase in temporarily restricted net position	1,065,451	5,792
PERMANENTLY RESTRICTED NET POSITION		
Revenues and gains:		
Contributions	148,913	93,946
Interest income	606	775
Dividend income	840	924
Net realized loss on investments	(166)	(17)
Net unrealized gain (loss) on investments	3,167	(4,817)
Changes in net assets restriction:		
Permanently restricted assets	68,969	3,135
Increase in permanently restricted net position	222,329	93,946
INCREASE IN NET POSITION	1,497,142	1,209,825
NET POSITION, BEGINNING OF YEAR	4,554,350	3,344,525
NET POSITION, END OF YEAR	\$ 6,051,492	\$ 4,554,350

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

TEXARKANA COLLEGE

EXHIBIT 3 – STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Receipts from students and other customers	\$ 7,091,728	\$ 5,887,084
Receipts of grants and contracts	1,527,812	1,578,713
Other receipts	283,557	138,037
Payments to or on behalf of employees	(11,144,777)	(11,221,309)
Payments to suppliers for goods or services	(13,319,119)	(10,553,025)
Payments of scholarships	(3,042,814)	(4,140,758)
Net cash used by operating activities	<u>(18,603,613)</u>	<u>(18,311,258)</u>
Cash Flows From Non-capital Financing Activities		
Receipts from state appropriations	6,960,365	6,686,954
Ad valorem tax revenues	5,473,052	5,360,187
Federal revenue non-operating	7,629,574	8,525,513
Gifts and grants (other than capital)	1,001,592	1,266,327
Other receipts	249,234	139,912
Net cash provided by non-capital financing activities	<u>21,313,817</u>	<u>21,978,893</u>
Cash Flows From Capital and Related Financing Activities		
Payments on capital debt - principal	(203,086)	(195,963)
Payments on capital debt - interest	(82,167)	(89,785)
Proceeds from sale of capital assets	900,425	-
Purchases of capital assets	(934,561)	(1,595,485)
Net cash used by capital and related financing activities	<u>(319,389)</u>	<u>(1,881,233)</u>
Cash Flows From Investing Activities		
Investment earnings	100,435	82,426
Payments for purchase of investments	(46,407)	(31,801)
Net cash provided by investing activities	<u>54,028</u>	<u>50,625</u>
Increase in cash and cash equivalents	2,444,843	1,837,027
Cash and cash equivalents - September 1,	<u>7,569,375</u>	<u>5,732,348</u>
Cash and cash equivalents - August 31,	<u>\$ 10,014,218</u>	<u>\$ 7,569,375</u>

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

TEXARKANA COLLEGE

EXHIBIT 3 – STATEMENTS OF CASH FLOWS (continued)

FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (21,664,686)	\$ (22,473,633)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Staff benefits paid directly by state	1,883,445	1,864,128
Depreciation expense	1,791,238	1,774,956
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Accounts receivable, net	290,201	312,186
Prepaid expenses	(5,000)	-
Inventories	(134,481)	(10,775)
Deferred outflows of resources related to pensions	(860,318)	(611)
Accounts payable	(786,457)	289,060
Accrued Expenses	11,638	(18,009)
Funds held for others	383,442	(8,094)
Capital leases	(340,000)	-
Unearned revenue	20,615	(19,435)
Deposits held for others	(15,960)	(2,000)
Compensated absences	(23,960)	(11,108)
Deferred inflows of resources related to pensions	410,495	976,878
Net pension liability	436,175	(984,801)
Net cash used by operating activities	<u>\$ (18,603,613)</u>	<u>\$ (18,311,258)</u>

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

TEXARKANA COLLEGE FOUNDATION, INC.

COMPONENT UNIT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net position	\$ 1,497,142	\$ 1,209,825
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Net realized and unrealized investment gain (loss)	264,488	(143,124)
(Increase) decrease in assets:		
Accrued interest and dividends	(2,243)	(884)
Unconditional promises to Give - Net	34,000	(14,000)
Increase (decrease) in liabilities:		
Due to College	(21,495)	(122,713)
CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,771,892</u>	<u>929,104</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales of unrestricted investments	(1,730,468)	(935,421)
CASH USED FOR INVESTING ACTIVITIES	<u>(1,730,468)</u>	<u>(935,421)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,424	(6,317)
CASH AT BEGINNING OF YEAR	<u>999</u>	<u>7,316</u>
CASH AT END OF YEAR	<u>\$ 42,423</u>	<u>\$ 999</u>

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

NOTES TO THE FINANCIAL STATEMENTS

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 1 - Reporting Entity

Texarkana College (the College) was established in 1927 in accordance with the laws of the State of Texas to serve the educational needs of Texarkana 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 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The College Board of Trustees (the Board), a seven member group, has governance responsibilities over all activities related to the College. The Board receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

These statements include, as a component unit, Texarkana College Foundation, Inc. (the Foundation), as discussed in Note 20.

Note 2 - Summary of Significant Accounting Policies

Reporting Guidelines

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

Basis of Accounting

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

Inventories

Inventories consist of bookstore stock as of August 31, 2016 and 2015. Inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method and are charged to expense as consumed.

Texarkana College Foundation, Inc. – Net Position

Temporarily restricted net assets are available for the purposes designated by the donor, primarily scholarships. These net assets consist primarily of investment earnings from permanently restricted assets.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

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

Texarkana College Foundation, Inc. – Net Position (continued)

Permanently restricted net assets are to provide a permanent endowment. The investment income from these endowments is temporarily restricted to fund scholarship grants.

Tuition Discounting

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

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

The College also originates Direct Student loans under Title IV. These loans are not included as revenues in the accompanying financial statements. Student loans remitted to students are not recorded as revenues or expenses in the accompanying financial statements as they are not revenues of the College and instead are passed through from the Department of Education. The amounts passed through the College are included as a reconciling item in the notes to the supplemental Schedule E – Schedule of Expenditures of Federal Awards.

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 college records the amount as a tuition discount. If the amount is dispersed directly to the student, college records the amount as a scholarship expense.

Budgetary Data

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

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

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

Cash and Cash Equivalents

The College considers cash and cash equivalents as cash on-hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The College had no cash equivalents as of August 31, 2016 and 2015.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, the College reports investments at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at the time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase. The College's investments included certificates of deposit with original maturities greater than three months. These investments are carried at cost, which approximates fair value. The Foundation's investments consisted of money market funds, U.S. government agencies securities, corporate debt instruments, and exchange traded funds, which are recorded at fair value.

Deferred Inflows of Resources

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

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. Governments are permitted only to report deferred outflows in circumstances specifically authorized by the GASB. The College's sole deferred outflow of resources is related to pensions.

Operating and Non-Operating Revenues and Expenses

The College distinguishes operating revenues and expenses from non-operating items. The College's activities are shown as a business-type activity and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees, federal grants, state grants and auxiliary enterprises. The major non-operating revenues are state appropriations, property taxes, Title IV funds, gifts, and investment income. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation. For equipment, the College's capitalization policy requires capitalization of items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Renovations of \$100,000 or more to buildings, infrastructure and 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 is incurred.

Depreciation is computed under the half-year convention using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for depreciable assets are as follows:

Building	50 years
Facilities and Other Improvements	20 years
Library Books	15 years
Furniture, Machinery, Vehicles and Other Equipment	10 years
Telecommunications and Peripheral Equipment	5 years
Software Costs	3 years

Unearned Revenues

Tuition and fees of \$3,511,784 and \$3,222,392 and federal, state, and local grants of \$342,487 and \$611,264 have been reported as unearned revenues at August 31, 2016 and 2015, respectively.

Estimates

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

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. None of the reclassifications affect the previously reported change in net position.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

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

Pensions

For the year ended August 31, 2015, the College implemented the provisions of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The College participates in the Teacher Retirement System of Texas (TRS) pension plan, a multiple-employer cost sharing defined benefit pension plan with a special funding situation. The fiduciary net position of the Teacher Retirement System of Texas has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS’s fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Prior Year Restatement – August 31, 2015

Beginning net position as of September 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*:

Beginning net position, as previously reported	27,358,067
Prior period adjustment - Implementation of GASB 68:	
Net pension liability (measurement date of August 31, 2013; adopted as of August 31, 2014)	(3,921,264)
Deferred outflows - the College's contributions made during the year ended August 31, 2014	303,099
Adjustment to beginning net position	<u>(3,618,165)</u>
Beginning net position, as restated as of August 31, 2014	<u>23,739,902</u>

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The provisions of GASB 68 improve accounting and financial reporting by state and local governments for pensions. The Statement also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities, in part by requiring state or local government employers to recognize a net pension liability for defined benefit pension plans. GASB No. 68 was effective for fiscal years beginning after June 15, 2014. As discussed above, the adoption of this Statement by the College resulted in a reduction of \$3,618,165 in the beginning net position of the College as of September 1, 2014.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

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

Recently Issued Accounting Pronouncements (continued)

GASB Statement No. 71 (*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*), issued November 2013, amended GASB No. 68 to clarify the measurement date of the net pension liability required to be recognized and disclosed as part of GASB No. 68. This Statement was required to be applied simultaneously with GASB No. 68.

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. The requirements of this statement enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. GASB No. 72 was effective for fiscal years beginning after June 15, 2015. The statement was implemented for the year ending August 31, 2016, and did not have an impact on the College’s financial statements.

GASB Statement No. 75 (*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*), issued in June 2015, will improve the usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire other postemployment benefit (OPEB) liability and a more comprehensive measure of OPEB expense. The statement is effective for fiscal years beginning after June 15, 2017. The College intends to implement this statement during the fiscal year ending August 31, 2018. The College expects the statement to have an impact on the financial statements, but the amount will not be determinable until the year of implementation.

Note 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.

The Foundation is not subject to the Public Funds Investment Act for contributions received from outside sources. Authorized investments of the Foundation are governed by an investment policy approved by the Board of Directors.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 4 - Deposits and Investments

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

	<u>2016</u>	<u>2015</u>
Bank Deposits		
Demand Deposits	\$ 10,011,413	\$ 7,566,570
Certificates of Deposit	3,088,215	3,041,808
Cash and Cash Equivalents		
Petty Cash on Hand	2,805	2,805
Total Cash and Deposits	<u>\$ 13,102,433</u>	<u>\$ 10,611,183</u>

Reconciliation of deposits and investments to the Statement of Net Position:

<u>Type of Security</u>	<u>Market Value</u> <u>2016</u>	<u>Market Value</u> <u>2015</u>
Total Cash and Investments	<u>\$ 13,102,433</u>	<u>\$ 10,611,183</u>
Cash and Cash Equivalents (Exhibit 1)	8,082,323	5,637,705
Restricted cash and cash equivalents (Exhibit 1)	1,931,895	1,931,670
Total Cash and Cash equivalents	<u>10,014,218</u>	<u>7,569,375</u>
Short-term investments (Exhibit 1)	3,088,215	3,041,808
Total Investments	<u>3,088,215</u>	<u>3,041,808</u>
Total Deposits and Investments	<u>\$ 13,102,433</u>	<u>\$ 10,611,183</u>

Cash and deposits for the Foundation reported on the Statement of Net Position consist of the following:

	<u>August 31,</u> <u>2016</u>	<u>August 31,</u> <u>2015</u>
Cash and Cash Equivalents		
Cash on Deposit	\$ 42,423	\$ 999
Total Cash and Deposits	<u>\$ 42,423</u>	<u>\$ 999</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 4 - Deposits and Investments (continued)

Investments for the Foundation reported on the Statements of Financial Net Position are as follows:

<u>Type of Security</u>	<u>Market Value</u> <u>August 31,</u> <u>2016</u>	<u>Market Value</u> <u>August 31,</u> <u>2015</u>
Money Market Funds	\$ 409,543	\$ 504,510
U.S. Government Agencies Securities	328,491	331,338
Corporate Debt Instruments	1,896,440	1,197,915
Municipal bonds	105,465	-
Exchange Traded Funds (ETFs)	3,233,422	2,473,618
Total Investments	\$ 5,973,361	\$ 4,507,381

As of August 31, 2016, the College had the following investments and maturities:

<u>Investment Type</u>	<u>Credit</u> <u>Rating</u>	<u>Cost</u>	<u>Market</u> <u>Value</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>(Years)</u>
Certificates of Deposit	N/A	\$ 3,088,215	\$ 3,088,215	1.66
Total Texarkana College		<u>\$ 3,088,215</u>	<u>\$ 3,088,215</u>	

As of August 31, 2016, the Foundation had the following investments and maturities:

<u>Investment Type</u>	<u>Credit</u> <u>Rating</u>	<u>Cost</u>	<u>Market</u> <u>Value</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>(Years)</u>
Money Market Funds	N/A	\$ 409,543	\$ 409,543	N/A
U.S. Government Agencies Securities	N/A	325,000	328,491	2.35
Corporate Debt Instruments	Baa1 to AAA	1,847,869	1,896,440	4.49
Municipal bonds	A1	100,000	105,465	3.64
Exchange Traded Funds (ETFs)	N/A	2,458,357	3,233,422	N/A
Total Texarkana College Foundation, Inc.		<u>\$ 5,140,769</u>	<u>\$ 5,973,361</u>	

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

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 4 - Deposits and Investments (continued)

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 as well.

Concentration of Credit Risk: The College and the Foundation do not place a limit on the amount that may be invested in any one issuer.

More than 5% of the Foundation's investments are in Vanguard (46%) and MSCI (12%).

Custodial Credit Risk: At August 31, 2016, the carrying amount of the College's bank deposits was \$13,102,433 and total bank balances equaled \$13,782,158. Bank balances totaling \$500,000 at two separate banks were secured by the Federal Deposit Insurance Corporation (FDIC) and \$16,200,000 were secured by collateral pledged in the College's name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

At August 31, 2015, the carrying amount of the College's bank deposits was \$10,611,183 and total bank balances equaled \$10,850,064. Bank balances of \$500,000 at two separate banks were secured by the FDIC and \$11,348,738 were secured by collateral pledged in the College's name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

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

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Note 4 - Deposits and Investments (continued)

The following tables set forth, by level within the fair value hierarchy, the Foundation's investments at fair value as of August 31, 2016 and 2015:

	August 31, 2016			Total	2015 Total
	Level 1	Level 2	Level 3		
Money Market Funds	\$ 409,543	\$ -	\$ -	\$ 409,543	\$ 504,510
U.S. Government Securities	277,846	50,645	-	328,491	331,338
Corporate Debt Instruments	-	1,896,440	-	1,896,440	1,197,915
Municipal bonds	-	105,465	-	105,465	-
Exchange Traded Funds	3,233,422	-	-	3,233,422	2,473,618
Total investments	\$ 3,920,811	\$ 2,052,550	\$ -	\$ 5,973,361	\$ 4,507,381

All investments have been valued using a market approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. There were no changes in the valuation techniques during the current year. These methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 5 - Delinquent Property Taxes and Taxes Receivable

The College's *ad valorem* property tax is levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the College's district. The Board contracted with the Bowie Central Appraisal District for the collection of district taxes. Collections of current taxes are remitted to the College daily; delinquent taxes are remitted monthly.

	August 31		
	2016	2015	
Assessed valuation of the District	\$ 5,275,145,179	\$ 5,196,828,352	
Less: Exemptions	(91,398,356)	(81,087,262)	
Net assessed Valuation of the District	\$ 5,183,746,823	\$ 5,115,741,090	
	Current Operations	Debt Service	Total
Tax rate authorized per \$100 valuation	1.0000	0.00000	1.00000
Tax rate assessed per \$100 valuation for 2016	0.10527	0.00000	0.10527
Tax rate assessed per \$100 valuation for 2015	0.10527	0.00000	0.10527

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Note 5 - Delinquent Property Taxes and Taxes Receivable (continued)

Taxes levied for the years ended August 31, 2016 and 2015, were \$5,454,270 and \$5,433,698, respectively, including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year in which imposed.

<u>Taxes Collected</u>	<u>Current Operations</u>	
	<u>2016</u>	<u>2015</u>
Current Taxes Collected	\$ 5,298,776	\$ 5,253,494
Delinquent Taxes Collected	112,054	84,604
Penalties and Interest Collected	63,052	58,979
Total Collections	<u>\$ 5,473,882</u>	<u>\$ 5,397,077</u>

Tax collections for the year ended August 31, 2016 and 2015, were 100.4% and 99.3%, respectively, of the current tax levy.

Note 6 – Capital Assets

Capital assets activity for the year ended August 31, 2016, was as follows:

	<u>2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>2016</u>
<u>Not Depreciated:</u>				
Land	\$ 1,549,157	\$ -	\$ (377,755)	\$ 1,171,402
Construction in Process	186,623	-	(186,623)	-
Total Not Depreciated	<u>1,735,780</u>	<u>-</u>	<u>(564,378)</u>	<u>1,171,402</u>
<u>Buildings and Other Capital Assets:</u>				
Infrastructure	462,825	-	-	462,825
Buildings	30,275,464	541,355	(528,185)	30,288,634
Land Improvements	3,323,236	-	-	3,323,236
Software	1,458,267	-	(968,158)	490,109
Library Books	2,440,627	22,138	-	2,462,765
Furniture and Equipment	5,546,142	557,691	(20,000)	6,083,833
Total Building and Other	<u>43,506,561</u>	<u>1,121,184</u>	<u>(1,516,343)</u>	<u>43,111,402</u>
<u>Accumulated Depreciation</u>				
Infrastructure	454,839	4,080	-	458,919
Buildings	12,040,858	1,114,810	(80,119)	13,075,549
Land Improvements	3,002,496	55,909	-	3,058,405
Software	1,099,891	100,327	(968,158)	232,060
Library Books	1,949,838	61,392	-	2,011,230
Furniture and Equipment	3,259,917	454,720	(20,000)	3,694,637
Total Accumulated Depreciation	<u>21,807,839</u>	<u>1,791,238</u>	<u>(1,068,277)</u>	<u>22,530,800</u>
Net Capital Assets	<u>\$ 23,434,502</u>	<u>\$ (670,054)</u>	<u>\$ (1,012,444)</u>	<u>\$ 21,752,004</u>

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Note 6 – Capital Assets (continued)

Capital assets activity for the year ended August 31, 2015, was as follows:

	<u>2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>2015</u>
<u>Not Depreciated:</u>				
Land	\$ 1,549,157	\$ -	\$ -	\$ 1,549,157
Construction in Process	-	186,623	-	186,623
Total Not Depreciated	<u>1,549,157</u>	<u>186,623</u>	<u>-</u>	<u>1,735,780</u>
<u>Buildings and Other Capital Assets:</u>				
Infrastructure	462,825	-	-	462,825
Buildings	29,685,859	589,605	-	30,275,464
Land Improvements	3,323,236	-	-	3,323,236
Software	1,381,772	76,495	-	1,458,267
Library Books	2,388,536	52,091	-	2,440,627
Furniture and Equipment	4,885,971	704,671	(44,500)	5,546,142
Total Building and Other	<u>42,128,199</u>	<u>1,422,862</u>	<u>(44,500)</u>	<u>43,506,561</u>
<u>Accumulated Depreciation</u>				
Infrastructure	450,446	4,393	-	454,839
Buildings	10,956,795	1,084,063	-	12,040,858
Land Improvements	2,937,493	65,003	-	3,002,496
Software	1,009,519	90,372	-	1,099,891
Library Books	1,885,535	64,303	-	1,949,838
Furniture and Equipment	2,837,595	466,822	(44,500)	3,259,917
Total Accumulated Depreciation	<u>20,077,383</u>	<u>1,774,956</u>	<u>(44,500)</u>	<u>21,807,839</u>
Net Capital Assets	<u>\$ 23,599,973</u>	<u>\$ (165,471)</u>	<u>\$ -</u>	<u>\$ 23,434,502</u>

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Note 7 – Noncurrent Liabilities

Noncurrent liability activity for the year ended August 31, 2016, was as follows:

	Balance August 31, 2015	Additions	Reductions	Balance August 31, 2016	Current Portion
Notes payable	\$ 2,906,133	\$ -	\$ (208,814)	\$ 2,697,319	\$ 208,813
Compensated absences	420,503	-	(23,960)	396,543	-
Net pension liability	3,193,426	436,175	-	3,629,601	-
Total long-term liabilities	<u>\$ 6,520,062</u>	<u>\$ 436,175</u>	<u>\$ (232,774)</u>	<u>\$ 6,723,463</u>	<u>\$ 208,813</u>

Noncurrent liability activity for the year ended August 31, 2015, was as follows:

	Balance August 31, 2014	Additions	Reductions	Balance August 31, 2015	Current Portion
Notes payable	\$ 3,107,218	\$ -	\$ (201,085)	\$ 2,906,133	\$ 203,085
Capital lease obligation	340,000	-	(340,000)	-	340,000
Compensated absences	431,611	-	(11,108)	420,503	-
Net pension liability	-	3,193,426	-	3,193,426	-
Total long-term liabilities	<u>\$ 3,878,829</u>	<u>\$ 3,193,426</u>	<u>\$ (552,193)</u>	<u>\$ 6,520,062</u>	<u>\$ 543,085</u>

The debt service requirements as of August 31, 2016, were as follows:

For the Year Ended August 31,	Maintenance Note		
	Principal	Interest	Total
2017	\$ 208,813	\$ 77,013	285,826
2018	214,231	71,479	285,710
2019	219,946	65,802	285,748
2020	225,700	59,973	285,673
2021	231,940	53,992	285,932
2022-2026	1,246,237	174,840	1,421,077
2027-2029	559,265	22,369	581,634
	<u>\$ 2,906,132</u>	<u>\$ 525,468</u>	<u>\$ 3,431,600</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 8 – Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *State and Local Governments*. Contracts and grant revenues are recognized on Exhibit 2 and Schedule A as funds are actually expended. For federal and non-federal contracts and grants awards, funds expended, but not collected, are reported as Accounts Receivables on Exhibit 1. Contracts and grant awards that are not funded and for which the institution has not performed services are not included in the financial statements. Contract and grant award funds already committed or funds awarded during the fiscal year 2016 for which monies have not been received nor funds expended totaled \$767,443 from federal contracts and grant awards and \$250,482 from state contracts and grant awards.

Federal funds receivable included in accounts receivable on Exhibit 1 are as follows:

	<u>2016</u>	<u>2015</u>
Pell Grant Program	\$ 47,722	\$ 50,084
Student Loan Program	84,771	65,773
Supplemental Educational Opportunity Grants	8,220	52,792
Federal Work-study Program	18,599	12,061
TRIO - Student Support Services Grant	40,048	126,944
TRIO - Talent Search Grant	57,785	144,093
Carl Perkins Grant	50,171	56,061
H2P Grant	-	22,196
Total	<u>\$ 307,316</u>	<u>\$ 530,004</u>

Note 9 – Employees' Retirement Plan

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

Teacher Retirement System of Texas – Defined Benefit Plan

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

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

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 9 – Employees’ Retirement Plan (continued)

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

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

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

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

	<u>Contribution Rates</u>	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contribution Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
FY 2015 Member Contributions	\$ 519,501	
FY 2015 State of Texas On-behalf Contributions	\$ 224,806	
FY 2015 College Contributions	\$ 304,041	

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 9 - Employees' Retirement Plan (continued)

The College's contributions to the TRS pension plan for the year ended August 31, 2016, were \$313,393 as reported in the Schedule of College Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for the year ended August 31, 2016, were \$232,105.

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

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

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

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

Actuarial Assumptions - The total pension liability in the August 31, 2015, actuarial valuation was determined using the following actuarial assumptions:

• Valuation Date	August 31, 2015
• Actuarial Cost Method	Individual Entry Age Normal
• Asset Valuation Method	Market Value
• Single Discount Rate	8.00%
• Long-term expected Investment Rate of Return*	8.00%
• Inflation	2.5%
• Salary Increases including inflation	3.5% to 9.5%
• Payroll Growth Rate	2.5%
• Benefit changes during the year	None
• Ad hoc post-employment benefit changes	None

* Includes inflation of 2.5%

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 9 - Employees' Retirement Plan (continued)

Actuarial methods and assumptions were updated based on a study of actual experience for the four year period ending August 31, 2014, and adopted on September 24, 2015, by the TRS Board of Trustees, who has sole authority to determine the actuarial assumptions used for the plan. The most significant changes were related to the update of the post-retirement mortality rates based on the most recent TRS member experience and the decrease in the assumption for general wage inflation from 3.0% to 2.5%. Other changes to overall assumptions and methods had a minor impact on the results of the actuarial valuation and the related pension liability.

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

Discount Rate - The discount rate used to measure the total pension liability was 8.0 percent. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the system's target asset allocation as of August 31, 2015, are summarized on the following page.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 9 - Employees' Retirement Plan (continued)

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100.0%		8.7%

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

Source: Teacher Retirement System of Texas 2015 Comprehensive Annual Financial Report

Discount Rate Sensitivity Analysis - The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
College's proportionate share of the net pension liability	\$ 5,686,901	\$ 3,629,601	\$ 1,915,998

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 9 - Employees' Retirement Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At August 31, 2016, the College reported a liability of \$3,629,601 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College were as follows:

College's proportionate share of the collective net pension liability	\$	3,629,601
State's proportionate share that is associated with College		2,682,914
Total	\$	<u>6,312,515</u>

The net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014, thru August 31, 2015.

At the measurement date of August 31, 2015, the employer's proportion of the collective net pension liability was 0.010268%, which was a decrease of 0.001687% from its proportion measured as of August 31, 2014.

For the year ended August 31, 2016, the College recognized pension expense of \$382,272 and revenue of \$382,272 for support provided by the State.

At August 31, 2016, the College reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 41,074	\$ 139,489
Changes in actuarial assumptions	172,634	129,488
Difference between projected and actual investment earnings	893,890	732,031
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	386,365
Contributions paid to TRS subsequent to the measurement date	313,393	-
Total	<u>\$ 1,420,991</u>	<u>\$ 1,387,373</u>

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Note 9 - Employees' Retirement Plan (continued)

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

Year ended August 31:	Pension Expense Amount
2017 (measurement date of August 31, 2016)	\$ (88,325)
2018 (measurement date of August 31, 2017)	(88,325)
2019 (measurement date of August 31, 2018)	(88,326)
2020 (measurement date of August 31, 2019)	155,683
2021 (measurement date of August 31, 2020)	(70,346)
Thereafter	(100,136)

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 6.6% in fiscal years 2016 and 2015 and 6.65% in fiscal years 2016 and 2015, respectively. The College contributes no amounts 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. SB 1812, effective September 1, 2013, limits the amount of the state's contribution to 50 percent of eligible employees in the reporting district.

The retirement expense related to ORP contributions paid by the state for the College was \$104,088 and \$128,996 for the fiscal years ended August 31, 2016 and 2015, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the College.

The total payroll for all of the College employees was \$13,004,261 and \$13,074,331 for fiscal years 2016 and 2015, respectively. The total payroll of employees covered by the Teacher Retirement System was \$8,023,502 and \$7,753,711, and the total payroll of employees covered by the Optional Retirement Program was \$3,485,816 and \$3,870,416 for fiscal years 2016 and 2015, respectively.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 10 – Compensable Absences

Sick leave is accumulated by employees of the institution at the rate of one day per thirty calendar days worked up to a maximum of ninety days. Effective September 1, 2000, upon retirement or termination, employees with ten years or more service with the College may be paid for any accumulated sick leave in excess of thirty days at a rate of one-half of the employee's current salary. Full-time non-contractual personnel or employees with twelve month contracts accrue vacation benefits from the date of employment at the rate of one day for each full calendar month worked up to ten vacation days per year. Employees may carry a maximum of 40 hours of accrued vacation forward from one fiscal year through September 30 of the next fiscal year. All vacation accrued in the prior fiscal year is forfeited on December 1 unless administrative approval is granted on a case-by-case basis. All accrued unused vacation time computed at the employee's daily rate of compensation is paid to the employee or his beneficiary in the event of termination, retirement, or death. Sick leave and vacation benefits of \$396,543 and \$420,503 have been accrued and reported in the accompanying Statement of Net Position as "accrued compensable absences payable" at August 31, 2016 and 2015, respectively.

Note 11 - Staff Benefits

The College provides staff benefits for its employees in the form of hospital/medical insurance, salary continuance insurance, and life insurance equal to twice the employee's annual contractual salary up to a maximum of \$45,000.

Note 12 - Deferred Compensation Plan

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 employees' investments are held in tax-deferred annuity plans pursuant to Internal Revenue Code Section 403(b).

As of August 31, 2016 and 2015, the College had 34 and 35 employees, respectively, participating in the program. A total of \$170,175 and \$175,113 in payroll deductions were invested in approved plans during the years ended August 31, 2016 and 2015, respectively.

Note 13 - Post Retirement Health Care 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 those benefits if they reach normal retirement age while working for the College. Those 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 and retiree was \$576.54 per month plus fifty percent of spouse and/or dependent coverage as of August 31, 2016, and totaled \$1,396,818 for the year then ended. The cost of providing those benefits for 141 retirees was \$535,296 and for 216 active employees was \$835,437.

The state's contribution per full-time employee and retiree was \$537.66 per month plus fifty percent of spouse and/or dependent coverage as of August 31, 2015, and totaled \$1,298,756 for the year then ended. The cost of providing those benefits for 141 retirees was \$505,562 and for 221 active employees was \$793,195.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Note 14 - Post Employment Benefits Other than Pensions

Plan Description

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

The ERS issues a 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 and 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.

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

The College's contributions to SRHP for the years ended August 31, 2016, 2015, and 2014, were \$3,269,591, \$3,052,861, and \$2,793,770, respectively, which equaled the required contribution each year.

Note 15 - Risk Management - Claims and Judgments

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

The College attempts to cover these losses by the purchase of insurance. Significant risks are covered by commercial insurance for property and liability programs. There has been no significant reduction in coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years. In management's estimation, there are no current loss claims that exceed the maximum coverage or any material unfunded claim benefit obligation for the self-funded programs.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Note 16 - Commitments and Contingencies

Grant Programs

The College participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability may be impaired of any related receivable at August 31, 2016. In the opinion of management, 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 financial statements for such contingencies.

Note 17 – Fund Endowments

The fund balances of the various Endowment Funds included in the Statement of Net Position are as follows:

	<u>2016</u>	<u>2015</u>
Endowment Funds		
Palmer Foundation	\$ 109,618	\$ 109,618
Endowed Chair for Teaching Excellence	184,030	185,110
J.R. Johnson	310,909	310,909
Parker-Akin Memorial	8,284	8,284
B & PW Scholarship	27,879	27,879
Leonard Scholarship	188,378	193,128
Teachers Credit Union Scholarship	23,733	23,733
Music Scholarship	27,707	27,707
General Scholarship	283,684	283,684
Al Barton Bladesmithing	5,128	5,128
Elizabeth Shaw Memorial	5,496	5,496
Conner Student Loan	251,941	400,036
Business Administration	18	18
Quasi Endowment Funds		
Eldridge Scholarship	<u>145,199</u>	<u>145,199</u>
Totals	<u>\$ 1,572,004</u>	<u>\$ 1,725,929</u>

Note 18 - Contingent Liability

The College entered into an agreement with the Texas Community College Employee Benefits Consortium to self-fund their workers' compensation plan. The agreement was effective September 1, 1991, and is administered by Hibbs - Hallmark & Company.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 18 - Contingent Liability (continued)

The College agreed to pay into the fund a fixed cost amount of \$30,846 and a maximum loss fund amount of \$94,777 for the year ended August 31, 2016. The loss fund amount was for Texarkana College's claims and for claims of other group members in excess of their loss fund maximum.

The College agreed to pay into the fund a fixed cost amount of \$29,644 and a maximum loss fund amount of \$91,085 for the year ended August 31, 2015. The loss fund amount was for Texarkana College's claims and for claims of other group members in excess of their loss fund maximum.

The College incurred expenses under the plan as follows:

	<u>2016</u>	<u>2015</u>
Fixed cost	\$ 30,846	\$ 29,644
Actual claims	15,983	10,285
Increase (decrease) in accrued liabilities	<u>(36,605)</u>	<u>11,054</u>
Total Expense	<u>\$ 10,224</u>	<u>\$ 50,983</u>

The College's maximum liability for the three years ended August 31, 2016 under this agreement is \$293,135 computed as follows:

2013-2014 Maximum loss fund	\$ 107,273
2014-2015 Maximum loss fund	91,085
2015-2016 Maximum loss fund	<u>94,777</u>
Total	<u>\$ 293,135</u>

The administration of the Plan has estimated the liability for claims that have been reported but not paid and claims incurred but not reported to be \$78,408 and \$115,013 as of August 31, 2016 and 2015, respectively. This liability has been accrued in the financial statements as of August 31, 2016 and 2015.

Note 19 – Disaggregating of Receivables and Payables Balances

Receivables were as follows:

	<u>2016</u>	<u>2015</u>
Student Receivables	\$ 5,290,476	\$ 5,198,339
Due from Foundation	6,220	6,479
Taxes Receivable	153,424	152,594
Federal Receivable	307,316	530,004
Other Receivables	57,585	36,976
Allowance for Uncollectible	<u>(1,927,010)</u>	<u>(1,747,010)</u>
Total Accounts Receivable	<u>\$ 3,888,011</u>	<u>\$ 4,177,382</u>

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Note 19 – Disaggregating of Receivables and Payables Balances (continued)

Payables were as follows:

	<u>2016</u>	<u>2015</u>
Accounts Payable		
Vendors Payable	\$ 414,197	\$ 1,200,654
Accrued Liabilities:		
Salaries & Benefits Payable	\$ 443,000	\$ 461,947
Sales Tax Payable	60,262	52,233
Other Liabilities	38,056	15,500
Total Accrued Liabilities	\$ 541,318	\$ 529,680

Note 20 - Component Unit

The Foundation is a separate nonprofit corporation organized under the Texas Nonprofit Corporation Act in 1959. The purpose of the Foundation is to solicit and manage funds for the sole benefit of Texarkana College. The Foundation primarily provides scholarships to students at the College. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Under GASB Statement No. 39 (*Determining Whether Certain Organizations are Component Units*), an organization should report as a discretely presented component those organizations that raise and hold economic resources for the direct benefit of a government unit. Accordingly, the Foundation financial statements are included in the College's annual report as a discretely presented component unit.

Note 21 – Related Party Transactions and Balances

During the year ended August 31, 2016, the Foundation provided support to the College in the aggregate of \$87,156, of which \$6,220 was receivable by the College as of August 31, 2016.

Note 22 – Construction in Process

During 2015, the College began a remodel of the KTXK radio station facilities located on campus. The construction was incomplete as of August 31, 2015, and was therefore recorded in the financial statements as construction in process at that time. The project was completed during the year ended August 31, 2016, and was transferred to permanent property, plant, and equipment at that time.

Note 23 – Income Taxes

The College is exempt from income taxes under Internal Revenue Code Section 115, "Income of States, Municipalities, Etc.," although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable Organizations*. The College had no unrelated business income tax liability for the years ended August 31, 2016 and 2015.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

Note 24 – Pending Lawsuits and Claims

As of August 31, 2016, there were no known pending lawsuits or claims involving the College. While unasserted lawsuits and claims may exist, for which a liability cannot be reasonably estimated, any potential liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

Note 25 – Capital Lease

During the fiscal year ended August 31, 2013, the College entered into an exchange agreement which involved the lease of the Academic Building from the Texas A&M University System. The lease period ended July 31, 2016, at which time the College paid \$340,000 and assumed ownership of the building. The lease of the building was in essence a purchase and was shown as a capital lease obligation in the statement of financial position.

Note 26 – Texas Community College Consortium

In December 2014, the College entered into an interlocal agreement with two other area community colleges, Kilgore College and Northeast Texas Community College, whereby the Texas Community College Consortium (TC3) was created.

Effective September 1, 2015, TC3 entered into an agreement with the University of Texas Health Science Center at Tyler (on behalf of Northeast Texas Network) (referred to hereinafter as "UT Entity"). The agreement with UT Entity establishes a group arrangement for the collective licensing, implementation, and maintenance of administrative software, hardware, and services for use in internal operations. The project is organized to create a consistent, identifiable structure to facilitate joint purchasing, training, and implementation of enterprise software, as well as shared services, when mutually beneficial.

The agreement with UT Entity provides a budget not to exceed \$2,500,000 to TC3, funded by Texas appropriations provided to UT Entity for special item support. This amount is to be paid in installments over the term of the contract, which expires August 30, 2017, based on certain deliverables required by the contract.

The College has agreed to act as the fiscal agent for the project. The budget of \$2,500,000 includes \$350,000 in development assistance to the members of TC3, which are expected to increase to five members, and \$50,000 to the fiscal agent, in addition to various other expenses. As of August 31, 2016, the College held approximately \$327,000 in cash on behalf of TC3. In addition, the College recognized revenues of \$25,000 in its role as fiscal agent, which were recorded as a receivable as of August 31, 2016.

Note 27 – Subsequent Events

The College has evaluated events through December 12, 2016, the date the financial statements were available to be issued, and has determined that no additional disclosures are necessary. No events occurring after this date have been evaluated for inclusion in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

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TEXARKANA COLLEGE

SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

Last Two Fiscal Years*

Fiscal year ending August 31*,	2016	2015
College's proportionate share of the collective net pension liability (%)	0.0102680%	0.0119553%
College's proportionate share of the collective net pension liability (\$)	\$ 3,629,601	\$ 3,193,426
State's proportionate share of the net pension liability associated with the College	2,682,914	2,306,110
Total	\$ 6,312,515	\$ 5,499,536
College's covered payroll amount	\$ 7,753,711	\$ 7,614,974
College's share of the net pension liability as a percentage of covered payroll	46.81%	41.94%
Plan fiduciary net position as a percentage of total pension liability	78.43%	83.25%

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

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

TEXARKANA COLLEGE
SCHEDULE OF COLLEGE CONTRIBUTIONS
For the Year Ended August 31, 2016

Fiscal year ending August 31*,	2016	2015
Legally required contributions	\$ 313,393	\$ 303,710
Actual contributions	313,393	303,710
Contributions deficiency (excess)	\$ -	\$ -
College's covered payroll amount	\$ 8,023,502	\$ 7,753,711
College's actual contributions as a percentage of covered payroll	3.91%	3.92%

* The amounts presented above are as of the College's respective fiscal year-end.

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

TEXARKANA COLLEGE

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION

For the Year Ended August 31, 2016

Changes of Benefit Terms

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

Changes of Assumptions

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

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

TEXARKANA COLLEGE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (continued)

For the Year Ended August 31, 2016

Changes of Assumptions (continued)

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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SUPPLEMENTAL INFORMATION

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TEXARKANA COLLEGE

SCHEDULE A - SCHEDULE OF OPERATING REVENUES

For the Year Ended August 31, 2016 (With Memorandum Totals for the Year Ended August 31, 2015)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	Total 8/31/16	Totals 8/31/15
Tuition						
State funded courses						
In-district resident tuition	\$ 1,882,920	\$ -	\$ 1,882,920	\$ -	\$ 1,882,920	\$ 1,557,929
Out-of-district resident tuition	310,586	-	310,586	-	310,586	507,450
TPEG (set aside)	-	151,741	151,741	-	151,741	121,970
Non-resident tuition	708,598	-	708,598	-	708,598	512,309
State funded continuing education	1,299,185	-	1,299,185	-	1,299,185	924,082
Non-State funded educational programs	452,653	-	452,653	-	452,653	466,852
Total Tuition	4,653,942	151,741	4,805,683	-	4,805,683	4,090,592
Fees						
General Fees	1,793,248	-	1,793,248	-	1,793,248	2,087,761
Student Service fees	299,217	-	299,217	-	299,217	339,443
Course Fees	731,816	-	731,816	-	731,816	669,792
Out-of-District Fees	1,216,308	-	1,216,308	-	1,216,308	1,267,383
Total Fees	4,040,589	-	4,040,589	-	4,040,589	4,364,379
Scholarship allowances and discounts						
Scholarship allowances	(10,952)	(564,567)	(575,519)	-	(575,519)	(434,154)
Remissions and exemptions	(163,700)	-	(163,700)	-	(163,700)	(168,680)
TPEG allowances	-	(74,824)	(74,824)	-	(74,824)	(141,629)
Title IV allowances	-	(2,675,912)	(2,675,912)	-	(2,675,912)	(2,298,403)
Total Scholarship Allowances	(174,652)	(3,315,303)	(3,489,955)	-	(3,489,955)	(3,042,866)
Total Net Tuition and Fees	8,519,879	(3,163,562)	5,356,317	-	5,356,317	5,412,105

TEXARKANA COLLEGE

SCHEDULE A – SCHEDULE OF OPERATING REVENUES (continued)

For the Year Ended August 31, 2016 (With Memorandum Totals for the Year Ended August 31, 2015)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	Total 8/31/16	Totals 8/31/15
Other Operating Revenues						
Federal grants and contracts	63,142	291,551	354,693	-	354,693	586,917
State grants and contracts	6,296	765,566	771,862	-	771,862	949,216
Nongovernmental grants and contracts	25,000	376,257	401,257	-	401,257	42,580
Sales and Services of educational activities	224,501	-	224,501	-	224,501	203,685
Other operating revenues	283,557	-	283,557	-	283,557	138,037
Total Other Operating Revenues	602,496	1,433,374	2,035,870	-	2,035,870	1,920,435
Auxiliary Enterprises						
Bookstore	-	-	-	1,707,763	1,707,763	1,862,695
Less discounts	-	-	-	(1,299,943)	(1,299,943)	(1,544,467)
Residential Life	-	-	-	19,800	19,800	23,131
Less discounts	-	-	-	(7,800)	(7,800)	(13,200)
Cafeteria	-	-	-	101,963	101,963	110,202
Radio	-	-	-	242,136	242,136	268,020
Total Net Auxiliary Enterprises	-	-	-	763,919	763,919	706,381
Total Operating Revenues	\$ 9,122,375	\$ (1,730,188)	\$ 7,392,187	\$ 763,919	\$ 8,156,106	\$ 8,038,921

TEXARKANA COLLEGE

SCHEDULE B – SCHEDULE OF OPERATING EXPENSES BY OBJECT

For the Year Ended August 31, 2016 (With Memorandum Totals for the Year Ended August 31, 2015)

	Operating Expenses						Total 8/31/15
	Salaries and Wages	Benefits		Other Expenses	Total 8/31/16	Total 8/31/15	
		State	Local				
Unrestricted - Educational Activities							
Instruction	\$ 7,103,898	\$ -	\$ 1,098,024	\$ 1,774,296	\$ 9,976,218	\$ 9,715,952	
Academic Support	1,080,512	-	247,497	603,732	1,931,741	1,864,303	
Student Services	955,432	-	244,965	115,698	1,316,095	1,242,688	
Institutional Support	2,061,899	-	457,387	1,419,921	3,939,207	4,002,273	
Operation and Maintenance of Plant	700,332	-	232,927	1,535,244	2,468,503	2,292,714	
Total Unrestricted Educational Activities	11,902,073	-	2,280,800	5,448,891	19,631,764	19,117,930	
Restricted - Educational Activities							
Instruction	288,437	1,194,439	78,516	338,473	1,899,865	2,025,415	
Academic Support	-	181,676	-	12,165	193,841	192,477	
Student Services	522,025	160,645	99,167	131,189	913,026	838,665	
Institutional Support	1,000	346,685	80	-	347,765	341,706	
Scholarships and Fellowships	-	-	-	3,042,814	3,042,814	4,140,758	
Total Restricted Educational Activities	811,462	1,883,445	177,763	3,524,641	6,397,311	7,539,021	
Total Educational Activities	12,713,535	1,883,445	2,458,563	8,973,532	26,029,075	26,656,951	
Auxiliary Enterprises	290,726	65,929	-	1,658,052	2,014,707	2,080,647	
Depreciation Expense:							
Building & Improvements	-	-	-	1,167,976	1,167,976	1,153,459	
Software	-	-	-	100,327	100,327	90,372	
Equipment & Furniture	-	-	-	447,313	447,313	466,822	
Library Books	-	-	-	61,394	61,394	64,303	
Total Auxiliary Activities & Depreciation	290,726	65,929	-	3,435,062	3,791,717	3,855,603	
Total	\$ 13,004,261	\$ 1,949,374	\$ 2,458,563	\$ 12,408,594	\$ 29,820,792	\$ 30,512,554	

TEXARKANA COLLEGE

SCHEDULE C – SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES

For the Year Ended August 31, 2016 (With Memorandum Totals for the Year Ended August 31, 2015)

	Unrestricted	Restricted	Auxiliary Enterprises	Total 8/31/16	Total 8/31/15
Non-operating revenues					
Education and general state support	\$ 6,960,365	\$ -	\$ -	\$ 6,960,365	\$ 6,686,954
State group insurance	-	1,396,818	-	1,396,818	1,298,756
State retirement matching	-	486,627	-	486,627	565,372
Total State Appropriation	6,960,365	1,883,445	-	8,843,810	8,551,082
Other non-operating revenues					
Ad-valorem taxes	5,473,882	-	-	5,473,882	5,397,077
Federal Revenue non operating	-	7,629,574	-	7,629,574	8,525,513
Gifts	1,000,000	1,592	-	1,001,592	1,266,327
Investment income	100,435	-	-	100,435	82,426
Rent Income	240,985	-	-	240,985	114,413
Other non-operating revenues	8,249	-	-	8,249	25,499
Total Other Non-operating Revenues	6,823,551	7,631,166	-	14,454,717	15,411,255
Total Non-operating Revenues	13,783,916	9,514,611	-	23,298,527	23,962,337
Non-Operating (Expenses)					
Gain on disposal of fixed assets	74,604	-	-	74,604	14,000
Interest on capital related debt	-	(80,604)	-	(80,604)	(88,277)
Total Non Operating (Expenses)	74,604	(80,604)	-	(6,000)	(74,277)
Net Non-Operating Revenues	\$ 13,858,520	\$ 9,434,007	\$ -	\$ 23,292,527	\$ 23,888,060

TEXARKANA COLLEGE

SCHEDULE D – SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY

For the Year Ended August 31, 2016 (With Memorandum Totals for the Year Ended August 31, 2015)

	Detail By Source				Total	Capital Assets		Available for	
	Restricted		Non Expendable	Net of Depreciation & Related Debt		Current Operations		Yes	No
	Unrestricted	Expendable				Yes	No		
Current:									
Unrestricted	4,732,939				4,732,939			4,732,939	
Restricted									
Auxiliary	1,631,355				1,631,355			1,631,355	
Endowment:									
Restricted		145,199	1,426,805		1,572,004				1,572,004
Plant:									
Unexpended									
Investment in Plant				18,845,872	18,845,872				18,845,872
Total Net Position,									
August 31, 2016	6,364,294	145,199	1,426,805	18,845,872	26,782,170			6,364,294	20,417,876
Total Net Position,									
August 31, 2015	3,443,116	145,199	1,580,730	19,985,284	25,154,329			3,443,116	21,711,213
Net Increase (Decrease)									
in Net Position	\$ 2,921,178	\$ -	\$ (153,925)	\$ (1,139,412)	\$ 1,627,841			\$ 2,921,178	\$ (1,293,337)

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TEXARKANA COLLEGE

SCHEDULE E – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2016

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
<u>U.S. Department of Education</u>			
Direct Programs:			
<i>Student Financial Assistance Cluster:</i>			
Federal Supplemental Education			
Opportunity Grants (FSEOG)	84.007 *	P007A154134	\$ 58,058
Federal Work Study Program (FWS)	84.033 *	P033A154134	78,599
Direct Student Loans	84.268 *	P268K162318	5,233,305
Federal Pell Grant	84.063 *	P063P152318	6,981,744
Allocated Indirect Costs - Federal Pell Grant	84.063 *	P063P152318	10,810
<i>Subtotal Student Financial Assistance Cluster</i>			<u>12,362,516</u>
<i>TRIO Cluster:</i>			
TRIO - Student Support Services (SSS)	84.042	P042A110002	229,161
Allocated Indirect Costs - SSS	84.042	P042A110002	18,333
TRIO - Talent Search (TS)	84.044	P044A110012	281,899
Allocated Indirect Costs - TS	84.044	P044A110012	21,649
<i>Subtotal TRIO Cluster</i>			<u>551,042</u>
Passed Through the Texas Higher Education			
Coordinating Board			
Vocational Education - Basic Grant	84.048	1642020601	248,707
Allocated Indirect Costs - Vocational Education	84.048	1642020601	12,350
Total Passed Through the Texas Higher			<u>261,057</u>
Education Coordinating Board			
Total U.S Department of Education			<u><u>13,174,615</u></u>
<u>U.S. Department of Labor</u>			
Direct Programs:			
Health Professional Pathways Consortium (HPPC)	17.282	TC-22486-11-60-A-39	1,622
Allocated Indirect Costs - HPPC	17.282	TC-22486-11-60-A-39	114
Total Direct Programs			<u>1,736</u>
Total U.S. Department of Labor			<u><u>1,736</u></u>
<u>U.S. Department of Health and Human Services</u>			
Passed Through the Texas Workforce			
Commission			
Temporary Assistance for Needy Families	93.558	N/A	41,221
Total Passed Through the Texas Workforce			<u>41,221</u>
Commission			
Total U.S. Department of Health and Human Services			<u><u>41,221</u></u>
Total Federal Financial Assistance			<u><u>\$ 13,217,572</u></u>

* Major Program

TEXARKANA COLLEGE

SCHEDULE E – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

For the Year Ended August 31, 2016

Notes to the Schedule of Expenditures of State Awards

Note 1 – Federal Assistance Reconciliation

Federal Grants and Contract Revenue -

Per Schedule of Operating Revenues (Schedule A)	\$ 354,693
Per Schedule of Operating Revenues (Schedule C)	<u>7,629,574</u>
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Assets	<u>\$ 7,984,267</u>

Reconciling item:

Add: Direct Student Loans	\$ 5,233,305
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 13,217,572</u>

Note 2 – Significant Accounting Policies

The expenditures included in the schedule are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported 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. Since the College has agency approved Indirect Recovery Rate it has elected not to use the 10% de minimis cost rate as permitted in the Uniform Guidance, section 200.414.

Note 3 – Expenditures Not Subject to Federal Single Audit

None

Note 4 – Student Loans Processed and Administrative Costs Recovered

None

Note 5 – Amounts Passed Through by the College

None

TEXARKANA COLLEGE

SCHEDULE F – SCHEDULE OF EXPENDITURES OF STATE AWARDS (continued)

For the Year Ended August 31, 2016

Federal Grantor/Pass Through Grantor/Program Title	Pass Through Grantors Number	Expenditures and Pass Through Disbursements
<u>Texas Higher Education Coordinating Board</u>		
Texas Grant Program	N/A	\$ -
Texas Educational Opportunity Grant	N/A	195,282
Nursing Innovation Grant	N/A	15,957
Texas College Work Study	N/A	11,627
Innovative Grant - Accelerate Texas	N/A	111,119
Professional Nursing Shortage Reduction	N/A	60,555
Total Texas Higher Education Coordinating Board		394,540
<u>Texas Workforce Commission</u>		
Mayo Manufacturing-Skills Development Fund	0715SDF000	106,593
Small Skills for Business Program	0715SSD000	450
JCM Industries-Skills Development Fund	0715SDF002	61,600
Allocated Indirect Costs - JCM Industries-Skills Development Fund	0715SDF002	6,296
Alumax Mill Products Inc.-Skills Development Fund	0716SDF000	330
Total Texas Workforce Commission		175,269
<u>Texas Commission of Agriculture</u>		
Parallel Pathways to Success	N/A	43,932
Total Texas Commission of Agriculture		43,932
<u>Texas Military Preparedness Commission</u>		
Defense Economic Adjustment Assistance Grant	N/A	34,162
Total Texas Military Preparedness Commission		34,162
<u>Texas Commission of Environmental Quality</u>		
Passed Through Sulphur River Basin Authority		
Clean Rivers Grant	N/A	96,055
Total Texas Commission on Environmental Quality		96,055
Total State Financial Assistance		\$ 743,958

Notes to the Schedule of Expenditures of State Awards

Note 1 – State Assistance Reconciliation

State Grants and Contract Revenue - Per Schedule of Operating Revenues (Schedule A)	\$ 771,862
Reconciling item:	
Subtract: Income earned from grants	(15,926)
Subtract: Grants from other states	(11,978)
Total Expenditures of State Awards	\$ 743,958

TEXARKANA COLLEGE

SCHEDULE F – SCHEDULE OF EXPENDITURES OF STATE AWARDS (continued)

For the Year Ended August 31, 2016

Notes to the Schedule of Expenditures of State Awards (continued)

Note 2 – Significant Accounting Policies

The accompanying schedule of expenditures of state awards has been prepared on the accrual basis of accounting. The expenditures included in this schedule are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported represent funds which have been expended by the College for the purposes of the award. The College has followed the applicable guidelines issued by the various entities in the preparation of the schedule.

TEXARKANA COLLEGE

SCHEDULE G – AUXILIARY ENTERPRISES - STATEMENT OF INCOME AND EXPENDITURES

For the Year Ended August 31, 2016 (With Comparative Figures for the Year Ended August 31, 2015)

	2016				2015					
	Cafeteria	Bookstore	Housing	Radio	Total	Cafeteria	Bookstore	Housing	Radio	Total
Sales and Gross Profit										
Sales	\$ 101,963	\$ 1,707,763	\$ 19,800	\$ 242,136	\$ 2,071,662	\$ 110,202	\$ 1,862,695	\$ 23,131	\$ 268,020	\$ 2,264,048
Total Sales	101,963	1,707,763	19,800	242,136	2,071,662	110,202	1,862,695	23,131	268,020	2,264,048
Less Direct Cost										
Cost of goods sold	70,444	1,389,302	-	-	1,459,746	77,205	1,462,932	-	-	1,540,137
Salaries	5,550	153,681	-	131,495	290,726	5,000	154,903	-	132,167	292,070
Total Direct Cost	75,994	1,542,983	-	131,495	1,750,472	82,205	1,617,835	-	132,167	1,832,207
Gross Profit	25,969	164,780	19,800	110,641	321,190	27,997	244,860	23,131	135,853	431,841
Operating Expenditures										
Benefits	402	37,497	-	28,030	65,929	402	39,455	-	29,443	69,300
Supplies	8,287	4,673	2,151	744	15,855	7,200	11,959	2,036	325	21,520
Travel	-	-	-	502	502	-	-	-	420	420
Contracted Services	275	8,018	-	157,089	165,382	3,155	7,283	-	146,548	156,986
Capital Outlay	-	-	-	-	-	-	-	-	-	-
Student Aid	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	14,228	14,228	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-
Miscellaneous	94	2,245	-	-	2,339	-	214	-	-	214
Total Operating Expenditures	9,058	52,433	2,151	200,593	264,235	10,757	58,911	2,036	176,736	248,440
Excess (Deficiency) of Income Over Expense	\$ 16,911	\$ 112,347	\$ 17,649	\$ (89,952)	\$ 56,955	\$ 17,240	\$ 185,949	\$ 21,095	\$ (40,883)	\$ 183,401

TEXARKANA COLLEGE
SCHEDULE H – INSURANCE IN FORCE
As of August 31, 2016

Company	Policy Number	Coverage	Coverage (in thousands)	Expiration Date
Texas Association of Public Schools	TX-10093-O	Property	\$ 102,407	September 1, 2016
Texas Association of Public Schools	TX-10093-O	Automobile Liability	\$ 1,000	September 1, 2016
Texas Association of Public Schools	TX-10093-O	Crime	\$ 250	September 1, 2016
Texas Association of Public Schools	TX-10093-O	Mobile Equipment	\$ 111	September 1, 2016
Texas Association of Public Schools	TX-10093-O	General Liability	\$ 1,000	September 1, 2016
Texas Association of Public Schools	TX-10093-O	Board Liability	\$ 1,000	September 1, 2016

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***FEDERAL FINANCIAL ASSISTANCE INFORMATION
SINGLE AUDIT***

**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***

To the Board of Trustees of
Texarkana College
Texarkana, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of Texarkana College (the College), as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine 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 the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Thomas & Thomas, LLP
Certified Public Accountants

Texarkana, Texas
December 12, 2016

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

To the Board of Trustees
of Texarkana College
Texarkana, Texas

Report on Compliance for Each Major Federal Program

We have audited the Texarkana College's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended August 31, 2016. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, Texarkana College, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

Report on Internal Control over Compliance

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

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

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

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

Thomas & Thomas, LLP
Certified Public Accountants

Texarkana, Texas
December 12, 2016

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2016

Section I – Summary of Auditor’s Results

Financial Statements

The Type of auditor’s report issued on the financial statements:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to the financial statements noted?	None Reported

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	None Reported

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.007	Student Financial Assistance Cluster – FSEOG
84.033	Student Financial Assistance Cluster – FWS
84.063	Student Financial Assistance Cluster – PELL
84.268	Student Financial Assistance Cluster – Direct Loans

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

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2016

Section II – Federal Award Findings and Questioned Costs

During the year ended August 31, 2016, there were no findings or questioned costs reported for federal major programs.

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2016

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

Prior Year Findings and Questioned Costs Relating to Federal Awards

Finding 2015-001 – Special Tests and Provisions – Return of Title IV Funds

To address this deficiency, management has established additional control procedures to ensure accurate and timely calculations and returns of Title IV funds. Internal reports utilized in preparing the calculations for returns of Title IV funds have been updated to provide reliable and sufficient data. Personnel have received extensive training on the preparation of the calculations, and management has implemented detailed review procedures.

Finding 2015-002 – Eligibility

To address this deficiency, management informed staff that the new financial aid system defaults student enrollment to full-time. Additional manual reviews have been implemented to ensure that student enrollment status is correct, and system reports provide management with information regarding student information that may need further review.

Finding 2015-003 – Special Tests and Provisions – Disbursements to Students

To address this deficiency, management implemented additional reviews and training to ensure that student credit balances are refunded to the student within the required 14-day timeframe.

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