

CLARENDON COLLEGE
Clarendon, Texas

ANNUAL FINANCIAL REPORT
August 31, 2016 and 2015

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**CLARENDON COLLEGE
ORGANIZATIONAL DATA
August 31, 2016**

Board of Regents

	<u>Officers</u>	Term Expires <u>May</u>
Jerry W. Woodard	Chairman	2018
Darlene Spier	Vice Chairman	2020
Delbert W. Robertson	Secretary	2018

	<u>Members</u>	
Douglas Lowe	Clarendon, Texas	2018
Jack A. Moreman	Clarendon, Texas	2020
Ruth Robinson	Clarendon, Texas	2022
Dr. William A. Sansing	Clarendon, Texas	2020
Lon Adams	Clarendon, Texas	2022
Mary Ellen Shields	Clarendon, Texas	2022

Principal Administrative Officers

Dr. Robert Riza	President
Brian Fuller	Vice President of Instruction
Tex Buckhaults	Executive Vice President of Academic and Student Affairs
Lana Ritchie	Vice President of Administrative Services

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Independent Auditor's Report

Board of Regents
Clarendon College
Clarendon, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Clarendon 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College'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 College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of August 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 the Management's Discussion and Analysis, the Schedule of the College's Proportionate Share of the Net Pension Liability, and the Schedule of the College's Contributions and Notes to Required Supplementary Information on pages 9-20 and pages 59-62 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 basic financial statements of the College. The accompanying supplemental information listed in the table of contents, Schedules A, B, C and D (Other Supplemental Information), is likewise presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, Schedule E, and Schedule of Expenditures of State of Texas Awards, Schedule F, 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 the State of Texas Single Audit Circular are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, the Schedule of Expenditures of State of Texas Awards, and the Other Supplemental Information 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 Schedule of Expenditures of Federal Awards, the Schedule of Expenditures of State of Texas Awards, and the Other Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 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.

Connor, McMillan, Mitchell & Shennum, PLLC

Amarillo, Texas
December 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**

Discussion of Currently Known Facts, Decisions, or Conditions:

Clarendon College has seen many positive things occur in the last three years. After three years of declining enrollment (2010-2013), the College continues to grow, posting another 10% growth in enrollment this fall and registering its second highest enrollment in the College's history.

The personnel changes made in the financial aid offices continue to improve operations, and the office is functioning extremely well. We have expanded offerings and this office has been instrumental in those operations. Financial Aid continues to offer staff development training resulting in greater efficiency for our students as well as fewer mistakes.

The College's strategic plan "One College...One Vision" is almost complete. We continue to focus on completing the remaining goals and initiatives and preparing for the next plan that will continue to carry the College forward into the future.

This year's College budget saw another decrease in planned revenue as the current administration carefully reviewed and prepared for a significant reduction in local ad valorem taxes from Gray County. Even with this reduction, the College did not raise tuition and fees for our students.

Clarendon College takes great pride in its role in our community as a leader and partner to increase the economic development and educational attainment of our communities.

Thank you for your assistance to the Bulldog Nation.

**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**

This section presents the management's discussion and analysis of the financial performance of Clarendon College (the College) during the fiscal years ending August 31, 2016 and 2015. This discussion and analysis focuses on current activities, resulting changes and currently known facts, and should be read in conjunction with the accompanying financial statements and footnotes. The financial analysis is for fiscal year 2016, with fiscal years 2015 and 2014 data for comparative purposes. The financial statements, footnotes and discussion are the responsibility of the College management.

Using the Annual Financial Report:

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 requires a comprehensive look at the entity as a whole and the depreciation of capital assets. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the provisions of Statement No. 34 to public colleges and universities.

The financial report for the College includes the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. These statements are prepared under the accrual basis of accounting and in accordance with GASB principles.

Condensed Statements of Net Position as of August 31, 2016, 2015, and 2014 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u> (restated)
Current Assets			
Cash and cash equivalents	\$ 702	\$ 370	\$ 720
Short-term investments	1,491	961	2,244
Accounts receivable, net	1,713	1,420	2,478
Other assets	194	149	148
Total current assets	<u>4,100</u>	<u>2,900</u>	<u>5,590</u>
Noncurrent Assets			
Restricted cash and cash equivalents	6	64	234
Restricted short-term investments	110	-	-
Endowment investments	1,195	1,195	1,195
Other long-term investments	1,608	2,547	1,292
Real estate held by endowments	503	503	341
Capital assets, net	17,167	16,294	16,494
Other noncurrent assets	51	20	20
Total noncurrent assets	<u>20,640</u>	<u>20,623</u>	<u>19,576</u>
Total Assets	<u>\$ 24,740</u>	<u>\$ 23,523</u>	<u>\$ 25,166</u>
Deferred Outflows of Resources	<u>\$ 380</u>	<u>\$ 260</u>	<u>\$ -</u>

**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u> (restated)
Current Liabilities			
Accounts payable and accrued liabilities	\$ 583	\$ 236	\$ 628
Unearned revenue	2,117	1,537	2,360
Other current liabilities	<u>773</u>	<u>834</u>	<u>645</u>
Total current liabilities	3,473	2,607	3,633
Noncurrent Liabilities	<u>6,647</u>	<u>5,550</u>	<u>4,553</u>
Total Liabilities	<u>\$ 10,120</u>	<u>\$ 8,157</u>	<u>\$ 8,186</u>
Deferred Inflows of Resources	<u>\$ 155</u>	<u>\$ 427</u>	<u>\$ -</u>
Net Position			
Net investment in capital assets	\$ 11,894	\$ 11,819	\$ 11,538
Nonexpendable	1,698	1,698	1,536
Restricted for expendable	1,660	1,716	1,775
Unrestricted	<u>(407)</u>	<u>(34)</u>	<u>2,131</u>
Total Net Position	<u>\$ 14,845</u>	<u>\$ 15,199</u>	<u>\$ 16,980</u>

There was an increase of \$1,200,000 in the total current assets for 2015-2016 when compared to 2014-2015. Cash and short-term investments showed an increase due to changes in investment strategy. Accounts receivable showed an increase of 20.6%. The increase in student accounts receivable of \$293,000 going from \$1,420,000 in 2014-2015 to \$1,713,000 in 2015-2016, is the result of a change in calculating unearned revenue. The overall change in calculation on unearned revenue had no material effect on the financial statements. The change in calculation is also reflected in the \$580,000 increase in current liabilities – unearned revenue, going from \$1,537,000 in 2014-2015 to \$2,117,000 in 2015-2016.

Noncurrent assets increased \$17,000 in 2015-2016. They went from \$20,623,000 in 2014-2015 to \$20,640,000 in 2015-2016. The change in restricted cash and cash equivalents was a decrease of \$58,000 in 2015-2016, going from \$64,000 in 2014-2015 to \$6,000 in 2015-2016. This decrease reflects the release of restriction for construction funds. There was an increase in restricted short-term investments which is the bond reserve on the new bond refunding that took place in 2015-16.

Net capital assets for 2015-2016 were \$17,167,000, for 2014-2015 were \$16,294,000, and for 2013-2014 were \$16,494,000. The capital additions for 2015-2016 totaled \$1,797,000, \$1,204,000 of this addition was a major renovation to increase efficiency in the infrastructure of the physical plant. At August 31, 2016, there was no construction in progress. Depreciation expense for 2015-2016 was \$924,000 and \$938,000 for 2014-2015.

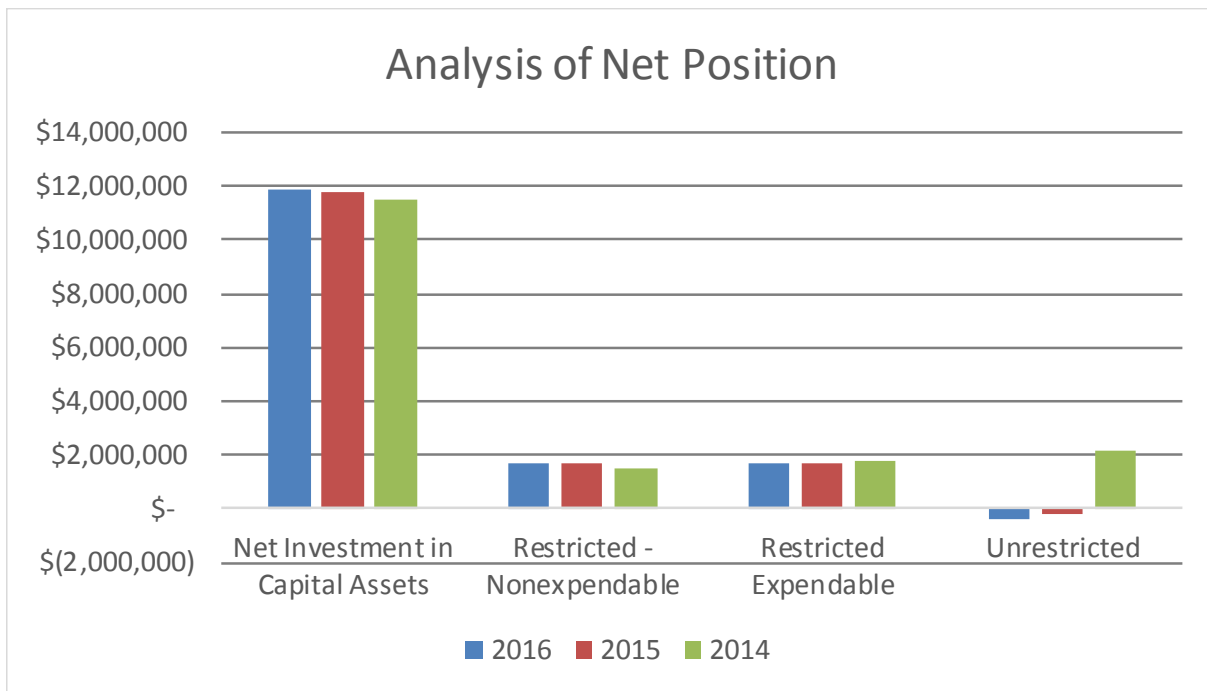
**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**

In 2014-2015 current liabilities were \$2,607,000 and increased to \$3,473,000 in 2015-2016. The \$866,000 increase was a combination of an increase of \$347,000 in accounts payable, a decrease of \$61,000 in other current liabilities, and an increase of \$580,000 in unearned revenue. Accounts payable increased \$347,000 in 2015-2016, going from \$236,000 in 2014-2015 to \$583,000 in 2015-2016. Unearned revenue showed an increase of \$580,000. This increase was due to a change in the calculation of unearned revenue, as discussed earlier. Other current liabilities decreased \$61,000 in 2015-2016 mainly due to refinancing bond debt at a lower rate.

Noncurrent liabilities increased by \$1,097,000 in 2015-2016 when compared to 2014-2015, \$6,647,000 compared to \$5,550,000, respectively. The increase is a result of the Public Property Finance Agreement utilized to fund Plant improvements totaling \$1,204,000.

The net of this activity resulted in a decrease in total net position of \$354,000, from \$15,199,000 in 2014-2015 compared to \$14,845,000 at the end of 2015-2016.

The following is a comparison of net position and net investment in capital assets at August 31, 2016, 2015, and 2014:



**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**

Condensed Statements of Revenues, Expenses and Changes in Net Position as of August 31, 2016, 2015, and 2014 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenue			
Tuition & fees (net of discounts)	\$ 1,368	\$ 1,241	\$ 1,359
Federal grants and contracts	555	418	373
State grants and contracts	402	219	230
Local grants and contracts	1,487	1,458	1,328
Auxiliary enterprises (net of discounts)	420	501	462
Other operating revenues	50	38	168
	<u>4,282</u>	<u>3,875</u>	<u>3,920</u>
Operating expenses			
Instruction	3,616	3,580	3,173
Academic support	332	281	480
Student services	836	723	682
Institutional support	1,954	1,630	1,575
Operation and maintenance of plant	982	961	1,055
Scholarship expense	542	622	743
Auxiliary enterprises	1,046	1,188	1,148
Depreciation	924	938	909
	<u>10,232</u>	<u>9,923</u>	<u>9,765</u>
Operating loss	<u>(5,950)</u>	<u>(6,048)</u>	<u>(5,845)</u>
Nonoperating revenues (expenses)			
State appropriations	3,221	3,007	2,980
Ad valorem taxes	434	463	432
Federal revenue, nonoperating	1,907	2,258	2,417
Gifts	94	131	75
Investment income	128	209	74
Interest on capital related debt	(214)	(227)	(240)
Other gain/revenue (loss/expense)	26	7	7
	<u>5,596</u>	<u>5,848</u>	<u>5,745</u>
Decrease in net position	(354)	(200)	(100)
Net position – beginning of year	15,199	16,980	17,080
Prior period adjustment	-	(1,581)	-
Net position – end of year	<u>\$ 14,845</u>	<u>\$ 15,199</u>	<u>\$ 16,980</u>

**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**

Operating revenue includes tuition and fees, net of scholarship discounts and allowances, federal, state and local grants and contracts, auxiliary enterprises and other. The College's total operating revenue increased slightly, going from \$3,875,000 in 2014-2015 to \$4,282,000 in 2015-2016. Tuition and fees (net of discounts) showed an increase of \$127,000 in 2015-2016, from \$1,241,000 in 2014-2015 and \$1,368,000 in 2015-2016. The College's rate of tuition and fees increased \$10 per semester credit hour between 2014-2015 and 2015-2016. Contact hours went from 662,512 in 2013-2014, to 648,832 in 2014-2015 and 649,584 in 2015-2016. Total head count for the Fall term went from 1,199 in 2014-2015; 1,343 in 2015-2016, and to 1,482 in the fall of 2016. The increase in head count came from:

- The College has made a commitment to provide outstanding dual credit programs to the service area high schools. This has led to a major portion of the increase in enrollment. Another increase is in our Correctional Unit Education Program, as Clarendon College was chosen as one of seven colleges in Texas to pilot the 2nd Chance PELL Grant program to offer qualified offenders the opportunity to use their grant for tuition and fees. We also brought on a second unit (Roach Unit in Childress) and this has also led to increased enrollment.
- The Texas Higher Education Coordinating Board's latest data shows Clarendon College doing extremely well in graduation rates - 2nd in Texas at 33%; average hours to degree - best in Texas at 66 Semester Credit Hours with the state average being 90; and time to degree - also the best in Texas at 2.3 years with the state average at 4.5 years.
- Although the College has seen a 25% decrease in enrollment from Fall 2010 to 2013, the College has seen double digit growth the last three semesters, recovering all of the enrollment lost during the downturn.

All of these factors lead to a 1.6% increase in academic contact hours, going from 390,496 in 2014-2015 to 396,800 in 2015-2016. Technical contact hours decreased 2.1%, from 258,336 in 2014-2015 to 252,784 in 2015-2016.

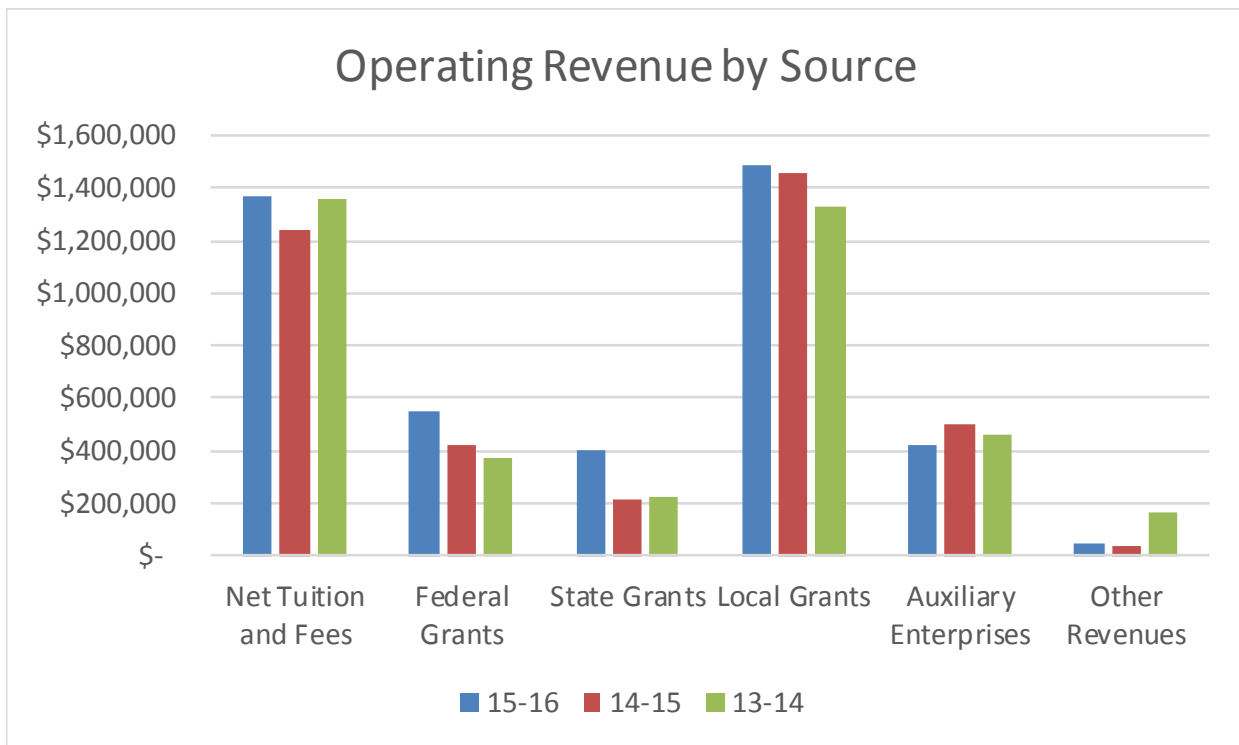
Federal grants and state grants increased \$320,000, up from \$637,000 in 2014-2015 to \$957,000 in 2015-2016. There was a decrease of \$81,000 in auxiliary revenue. There was an increase of \$29,000 in local grants and contracts. This increase is the result of a higher collection of the College maintenance tax in 2015-2016 when compared to 2014-2015. There was an increase of \$12,000, in other operating revenue.

Operating expenses increased \$309,000 in 2015-2016 over 2014-2015. Instruction increased \$36,000, and academic support increased by \$51,000. Institutional support increased \$324,000 while student services increased by \$113,000. Maintenance of plant expenses increased \$21,000 and depreciation decreased \$14,000. Decreases in expenditures were found in scholarship expense by \$80,000 and auxiliary enterprises by \$142,000.

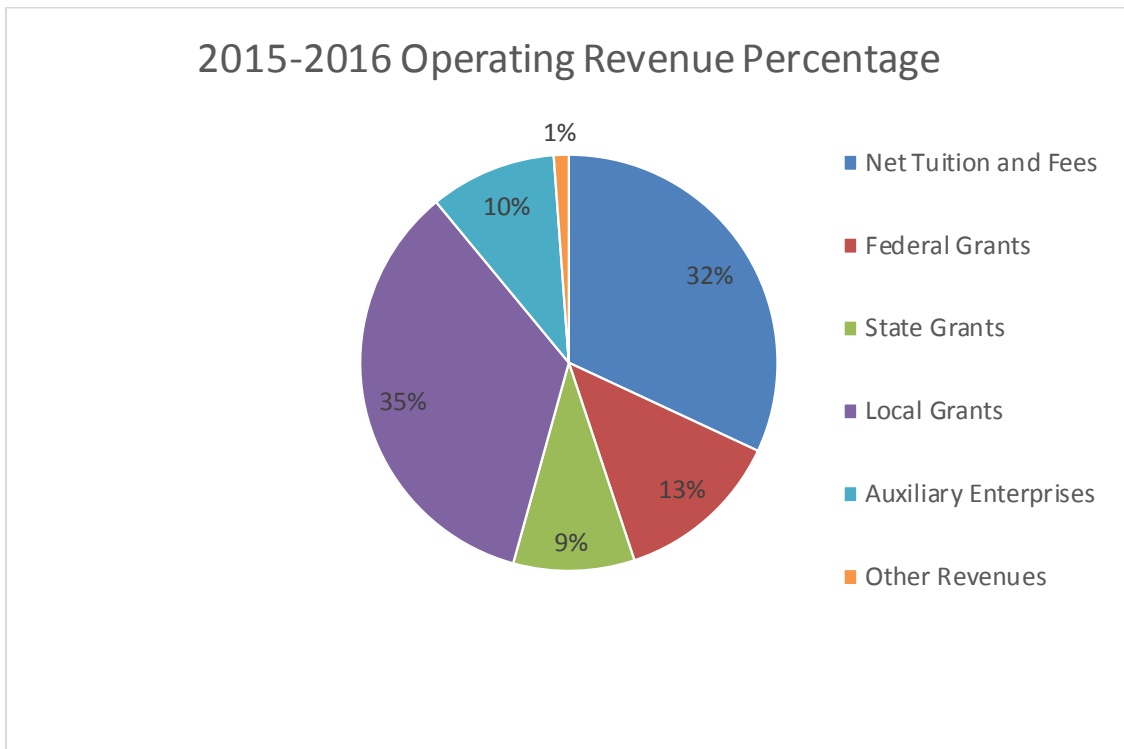
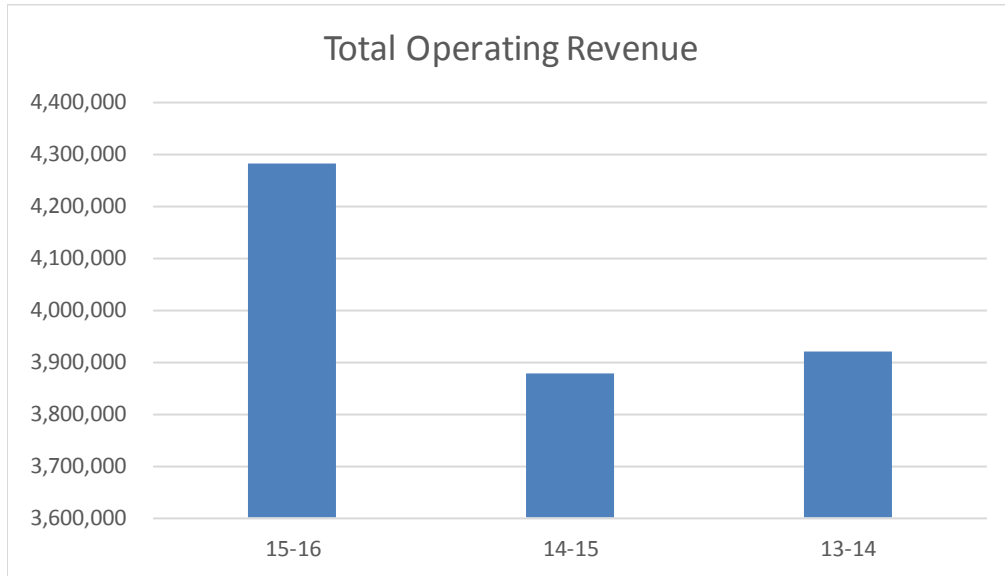
**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**

Total non-operating revenue for 2015-2016 decreased \$252,000 from \$5,848,000 in 2014-2015 to \$5,596,000 in 2015-2016. The federal aid received by the students, which is classified as federal revenue–non-operating, decreased \$351,000 in 2015-2016 when compared to 2014-2015 and down from \$2,258,000 in 2014-2015 compared to \$1,907,000 in 2015-2016. This is a 15.5% decline in the total amount awarded. State appropriations for 2015-2016 increased \$214,000. The total appropriations went from \$3,007,000 in 2014-2015 to \$3,221,000. Investment income for 2015-2016 decreased \$81,000. The College saw a decrease of \$37,000, in gifts for 2015-2016. Overall, total net position, end of year 2015-2016 decreased \$354,000.

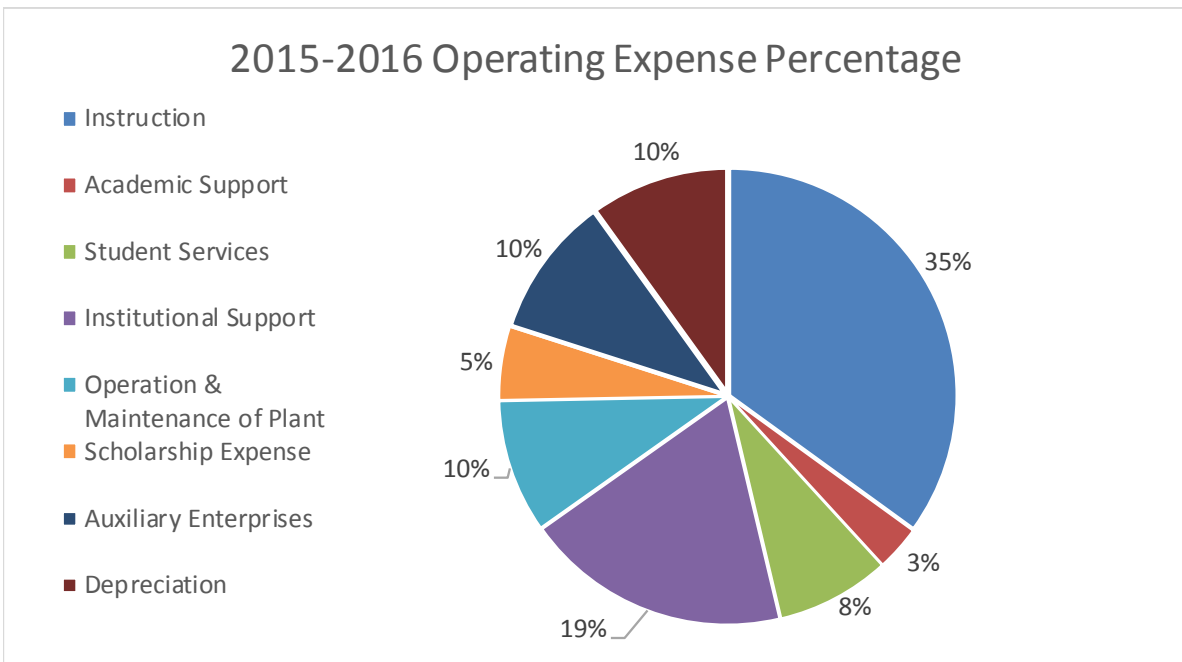
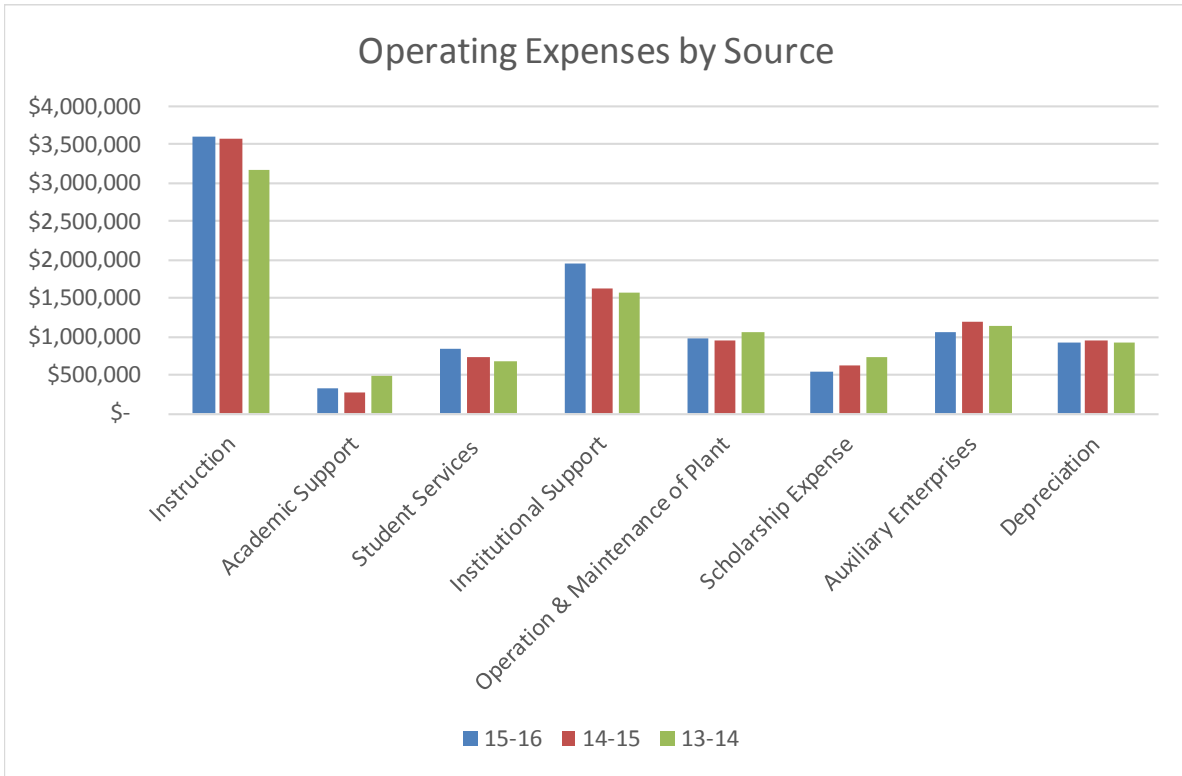
The following charts are an Analysis of Revenue and Expenses as of August 31, 2016, 2015, and 2014:



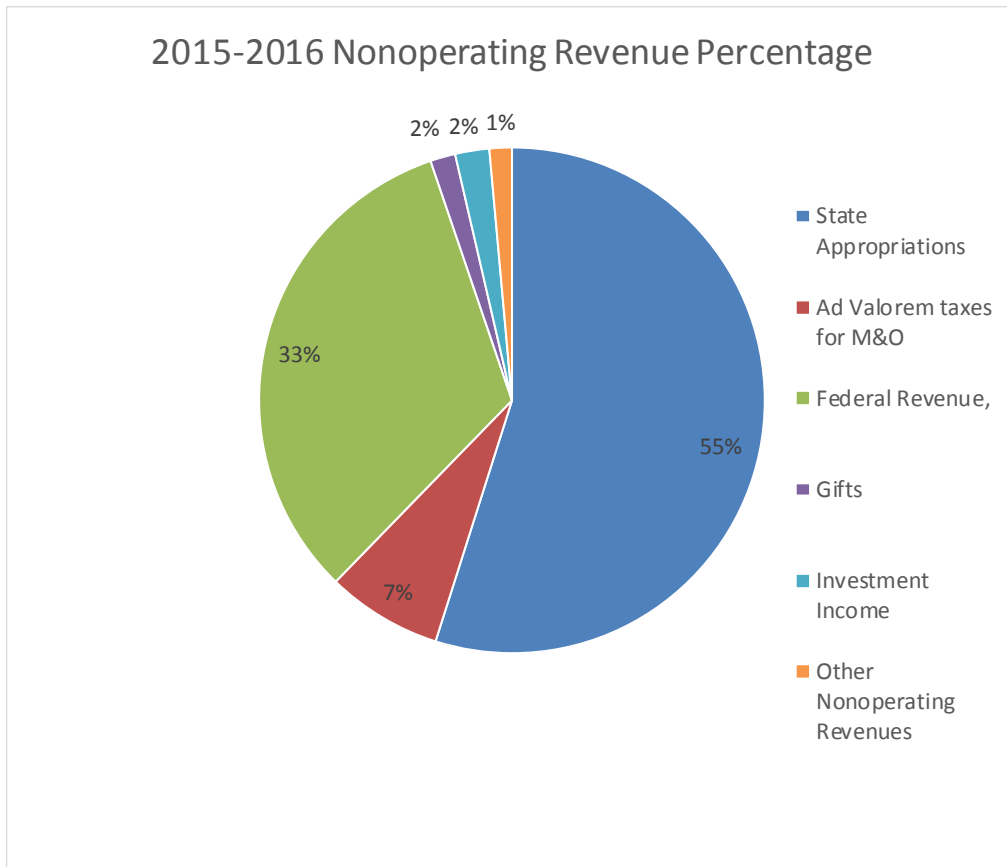
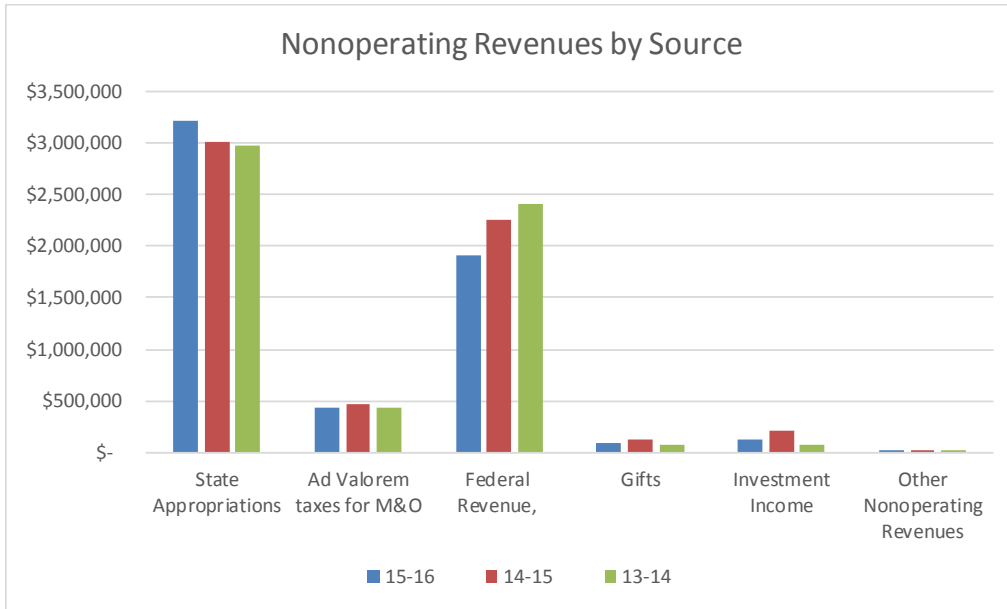
**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**



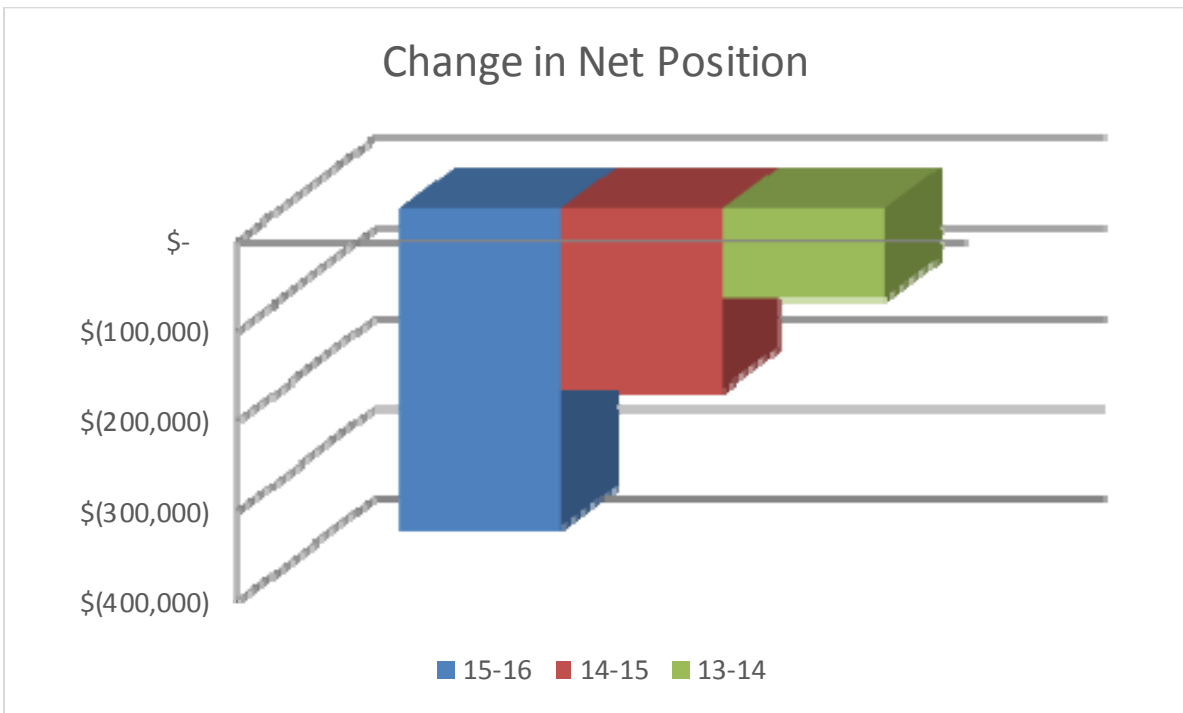
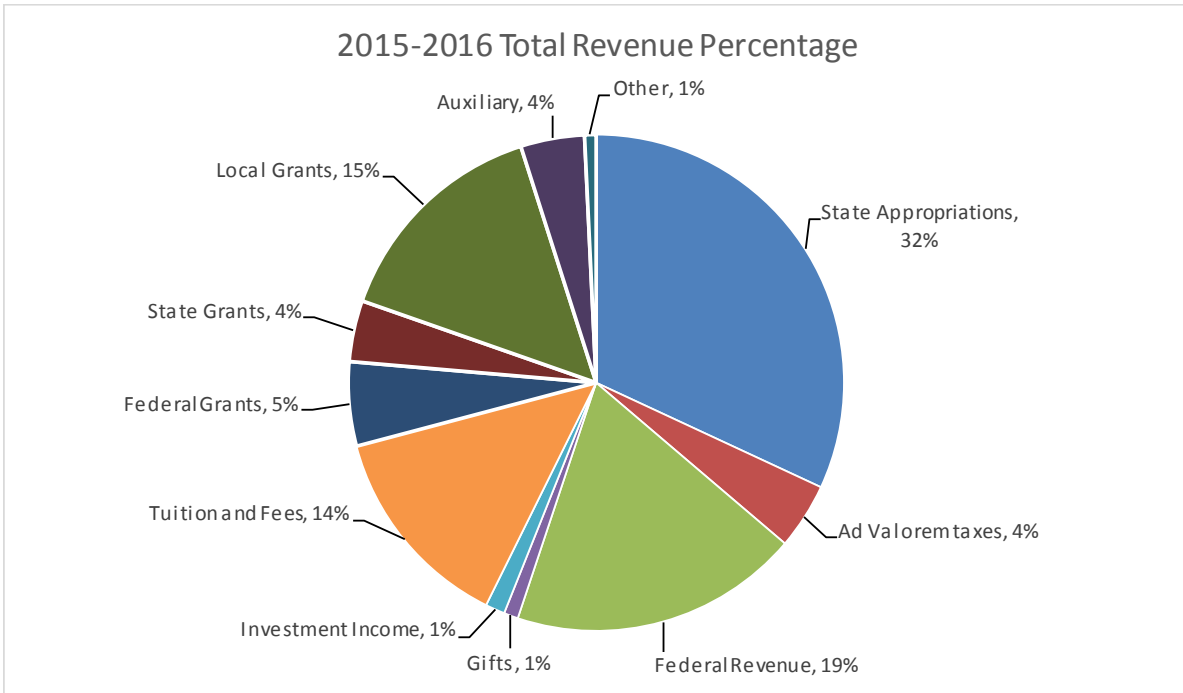
**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**



**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**



**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**



**CLARENDON COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending August 31, 2016**

Statement of Cash Flows as of August 31, 2016, 2015, and 2014 (in thousands):

	2016	2015	2014
Cash provided by (used in):			
Operating activities	\$ (4,025)	\$ (4,465)	\$ (4,378)
Noncapital financing activities	5,067	5,327	5,427
Capital and related financing activities	(1,203)	(1,447)	(2,051)
Investing activities	436	64	(552)
Net increase (decrease) in cash and cash equivalents	275	(521)	(1,554)
Cash and cash equivalents, beginning of year	434	955	2,509
Cash and cash equivalents, end of year	<u>\$ 709</u>	<u>\$ 434</u>	<u>\$ 955</u>

This statement is used to determine the College's ability to meet its obligations and to determine if external financing is needed.

The net cash used by operating activities decreased by \$440,000, going from \$4,465,000 in 2014-2015 to \$4,025,000 in 2015-2016. The net cash provided by noncapital financing activities went from \$5,327,000 in 2014-2015 to \$5,067,000 in 2015-2016. The net cash that is provided by noncapital financing activities decreased \$260,000; the majority of this decrease is due to the decrease in federal financial aid received by our students. The net cash used by capital and related financing activities is due to the annual bond and lease payments and the purchase of capital assets in the amount of \$1,797,000. The change in net cash provided by investing activities is due to the investment practices of the College. Operating cash has been moved to a short-term investment account, and investment maturity dates on other investments were laddered out over a one-year period. The College will continue to watch this and invest the funds available in a safe and secure manner. Overall, there was a net cash increase of \$275,000.

Significant Capital Assets and Long-Term Debt Activity:

During 2015-2016 the College invested \$1,797,000 in buildings, computers, equipment, and facility improvements. A Public Property Finance Agreement was utilized to improve the energy efficiency of the physical plant.

The notes, lease and bond payable portions of noncurrent liabilities increased by \$1,097,000 in 2015-2016 when compared to 2014-2015, \$6,647,000 compared to \$5,550,000, respectively. Principal payments during 2015-2016 totaled \$338,000 and an additional \$442,000 was moved to current liabilities for the 2015-2016 year.

Please refer to the financial statement footnotes, Note 6 - Capital Assets, Note 7 - Noncurrent Liabilities, and Note 8 - Debt Obligations for more information.

FINANCIAL STATEMENTS

CLARENDON COLLEGE
STATEMENTS OF NET POSITION
August 31, 2016 and 2015
Exhibit 1

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 702,240	\$ 369,634
Short-term investments	1,490,940	961,374
Accounts receivable, net	1,713,030	1,419,832
Prepaid expenses	193,827	149,338
	<u>4,100,037</u>	<u>2,900,178</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	6,566	64,461
Restricted short-term investments	110,000	-
Endowment investments	1,195,372	1,194,944
Other long-term investments	1,608,221	2,547,082
Real estate held as investments by endowments	502,750	502,750
Prepaid expenses	31,155	-
Deposits	19,636	20,045
Capital assets, net	17,166,952	16,294,422
	<u>20,640,652</u>	<u>20,623,704</u>
TOTAL ASSETS	<u>\$ 24,740,689</u>	<u>\$ 23,523,882</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows on net pension liability	\$ 379,831	\$ 259,637
TOTAL DEFERRED OUTFLOWS	<u>\$ 379,831</u>	<u>\$ 259,637</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 214,642	\$ 236,161
Accrued liabilities	368,242	219,607
Funds held for others	269,131	235,754
Unearned revenues	2,117,403	1,537,145
Deposits	61,650	58,050
Leases payable - current portion	175,000	170,000
Bonds payable - current portion	157,000	150,000
Notes payable - current portion	109,726	-
	<u>3,472,794</u>	<u>2,606,717</u>
NONCURRENT LIABILITIES		
Leases payable - noncurrent portion	2,925,000	3,100,000
Bonds payable - noncurrent portion	778,000	1,055,000
Notes payable - noncurrent portion	1,127,929	-
Net pension liability	1,816,497	1,395,723
	<u>6,647,426</u>	<u>5,550,723</u>
TOTAL LIABILITIES	<u>\$ 10,120,220</u>	<u>\$ 8,157,440</u>

CLARENDON COLLEGE
STATEMENTS OF NET POSITION, CONTINUED
August 31, 2016 and 2015
Exhibit 1

LIABILITIES AND NET POSITION, CONTINUED

	2016	2015
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows on net pension liability	\$ 154,787	\$ 426,956
TOTAL DEFERRED INFLOWS	\$ 154,787	\$ 426,956
NET POSITION		
Net investment in capital assets	\$ 11,894,297	\$ 11,819,422
Restricted for:		
Nonexpendable:		
Endowment - True	1,698,121	1,697,690
Expendable:		
Student aid	446,741	408,456
Debt service	110,000	238,000
Other	1,103,638	1,069,560
Unrestricted (deficit)	(407,284)	(34,005)
TOTAL NET POSITION (Schedule D)	\$ 14,845,513	\$ 15,199,123

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

CLARENDON COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended August 31, 2016 and 2015
Exhibit 2

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Tuition and fees, net of discounts of \$2,238,855 and \$2,317,823 in 2016 and 2015, respectively	\$ 1,368,620	\$ 1,240,842
Federal grants and contracts	554,576	418,207
State grants and contracts	401,951	219,131
Local grants and contracts	1,487,154	1,457,969
Auxiliary enterprises, net of discounts of \$589,945 and \$706,687 in 2016 and 2015, respectively	419,997	501,377
Other operating revenues	49,738	38,451
	<u>4,282,036</u>	<u>3,875,977</u>
OPERATING EXPENSES		
Instruction	3,615,964	3,580,032
Academic support	331,800	280,948
Student services	836,425	723,226
Institutional support	1,954,165	1,630,005
Operation and maintenance of plant	981,949	961,148
Scholarship expense	541,741	622,750
Auxiliary enterprises	1,045,960	1,187,319
Depreciation	924,392	938,416
	<u>10,232,396</u>	<u>9,923,844</u>
Total operating expenses (Schedule B)	<u>10,232,396</u>	<u>9,923,844</u>
Operating loss	<u>(5,950,360)</u>	<u>(6,047,867)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	3,221,077	3,007,287
Ad valorem taxes for maintenance and operations	434,112	463,096
Federal revenue, nonoperating	1,907,130	2,258,161
Gifts	94,245	131,221
Investment income	128,090	209,033
Interest on capital-related debt	(213,775)	(227,602)
Gain on disposal of capital assets	-	4,171
Other nonoperating revenues (expenses)	25,871	2,702
	<u>5,596,750</u>	<u>5,848,069</u>
Net nonoperating revenues (Schedule C)	<u>5,596,750</u>	<u>5,848,069</u>
Decrease in net position	<u>(353,610)</u>	<u>(199,798)</u>
NET POSITION - BEGINNING OF YEAR	15,199,123	16,980,281
PRIOR PERIOD ADJUSTMENT	-	(1,581,360)
NET POSITION - BEGINNING OF YEAR, RESTATED	<u>15,199,123</u>	<u>15,398,921</u>
NET POSITION - END OF YEAR	<u>\$ 14,845,513</u>	<u>\$ 15,199,123</u>

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

CLARENDON COLLEGE
STATEMENTS OF CASH FLOWS
Years ended August 31, 2016 and 2015
Exhibit 3

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 2,084,854	\$ 2,028,744
Receipts from grants and contracts	2,447,528	2,105,139
Payments to or on behalf of employees	(5,051,261)	(5,020,143)
Payments to suppliers for goods or services	(2,964,312)	(2,956,427)
Payments of scholarships	(541,741)	(622,750)
	<u>(4,024,932)</u>	<u>(4,465,437)</u>
Net cash used by operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	2,577,949	2,485,092
Receipts from ad valorem tax revenues	461,409	449,899
Receipts from nonoperating federal revenue	1,907,130	2,258,161
Gifts and grants	94,245	131,221
Student organizations and other agency transactions	25,925	2,702
	<u>5,066,658</u>	<u>5,327,075</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposal of capital assets	-	17,926
Purchases of capital assets	(1,796,922)	(752,781)
Proceeds on note payable	1,237,655	-
Principal payments on capital debt	(270,000)	(145,000)
Principal payments on capital leases	(170,000)	(336,111)
Interest payments on capital debt	(204,122)	(231,031)
	<u>(1,203,389)</u>	<u>(1,446,997)</u>
Net cash used by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	158,050	86,001
Maturities of investments	3,079,283	5,056,257
Purchase of investments	(2,800,959)	(5,077,560)
	<u>436,374</u>	<u>64,698</u>
Net cash provided by investing activities		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	274,711	(520,661)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	434,095	954,756
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 708,806</u>	<u>\$ 434,095</u>
 Cash and cash equivalents are reported in the Statement of Net Position as follows:		
Cash and cash equivalents	\$ 702,240	\$ 369,634
Restricted cash and cash equivalents	6,566	64,461
Total cash and cash equivalents	<u>\$ 708,806</u>	<u>\$ 434,095</u>

CLARENDON COLLEGE
STATEMENTS OF CASH FLOWS, CONTINUED
Years ended August 31, 2016 and 2015
Exhibit 3

	2016	2015
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (5,950,360)	\$ (6,047,867)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	924,392	938,416
State-funded benefits	643,128	522,195
Change in allowance for bad debt	165,554	100,393
Deferred outflows of resources	(440,135)	(127,164)
Deferred inflows of resources	47,772	426,956
Changes in operating assets and liabilities:		
Receivables	(495,520)	980,423
Prepaid expenses	(75,644)	(1,402)
Accounts payable	(21,519)	(143,911)
Accrued liabilities	172,359	29,474
Unearned revenue	580,258	(822,910)
Deposits	4,009	(1,930)
Net pension liability	420,774	(318,110)
Net cash used by operating activities	<u>\$ (4,024,932)</u>	<u>\$ (4,465,437)</u>

Non-cash investing and financing activity:

During the year ended August 31, 2016, the College had net appreciation on the fair market value of investments of \$30,831.

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

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 1 - REPORTING ENTITY

Clarendon College (the College) was established in 1927 in accordance with the laws of the State of Texas, to serve the educational needs of Clarendon, Texas, and the surrounding communities. The College is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record-keeping requirements of these entities, it is not a component unit of any other governmental entity.

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. The College is reported as a special-purpose government engaged in business-type activities.

Tuition Discounting

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships 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 amount is recorded as tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Title IV, 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 disbursed directly to the student, the amount is recorded as a scholarship expense.

Other Tuition Discounts

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

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

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

Budgetary Data

Each community college in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Regents 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.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Governments are only permitted to report deferred inflows in circumstances specifically authorized by the GASB. The College has deferred inflows related to the recording of the net pension liability.

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are only permitted to report deferred outflows in circumstances specifically authorized by the GASB. The College has deferred outflows related to the net pension liability.

Cash and Cash Equivalents

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

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase or are funds which have donor-imposed restrictions (endowments).

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

There is no inventory at August 31, 2016 and 2015; the College has partnered with the E-Campus for textbooks. Materials and supplies are charged to expense when purchased.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The capitalization policy includes items valued at \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructures, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are charged to operating expense in the year in which the expense is incurred.

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

Buildings	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

Unearned Revenues

Tuition, fees, and other revenues received and related to the following fiscal year have been deferred. Tuition and fees of \$2,117,403 and \$1,537,145 have been reported as unearned revenue at August 31, 2016 and 2015, respectively.

Pensions

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

Estimates

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

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and Nonoperating Revenue and Expense Policy

The College distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major nonoperating revenues are state appropriations, federal Title IV revenue and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The College has contracted with Great Western Living for food service. Payments under this agreement were \$379,855 and \$425,094 for the years ended August 31, 2016 and 2015, respectively.

When both restricted and unrestricted resources are available for use, it is the College's practice to use restricted resources first and then unrestricted resources as they are needed.

Change in Accounting Principles

In 2015, the College implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement improves financial reporting by enhancing the reporting of the net pension liability and a more comprehensive measure of pension expense. With GASB 68, the College must assume their proportionate share of the Net Pension Liability of the Teachers Retirement System of Texas. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. There is added information available through new note disclosure and required supplementary information.

Restatement of Beginning Net Position

Due to the changes in accounting principles described above, beginning net position for 2015 was decreased by \$1,581,360 from \$16,980,281 to \$15,398,921. The difference represents the recording of the net pension liability as of the beginning of the 2015 year.

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.

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 4 - DEPOSITS AND INVESTMENTS

Cash and cash equivalents included on Exhibit 1, Statement of Net Position, as of August 31, 2016 and 2015, consist of the items reported below:

	<u>2016</u>	<u>2015</u>
Petty cash on hand	\$ 1,019	\$ 1,019
Demand deposits	<u>707,787</u>	<u>433,076</u>
Total cash and cash equivalents	<u>\$ 708,806</u>	<u>\$ 434,095</u>

The following represents a reconciliation of cash and cash equivalents, as of August 31, 2016 and 2015, as reported on Exhibit 1:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 702,240	\$ 369,634
Restricted cash and cash equivalents	<u>6,566</u>	<u>64,461</u>
Total cash and cash equivalents	<u>\$ 708,806</u>	<u>\$ 434,095</u>

The following represents a reconciliation of deposits and investments, as of August 31, 2016 and 2015, as reported on Exhibit 1:

<u>Type of Security</u>	<u>Market Value</u>	
	<u>2016</u>	<u>2015</u>
Money market funds	\$ 184,565	\$ -
Certificates of deposit	1,600,940	2,037,784
Other instruments	<u>2,619,028</u>	<u>2,665,616</u>
Total investments (Exhibit 1)	<u>\$ 4,404,533</u>	<u>\$ 4,703,400</u>
Cash and cash equivalents (Exhibit 1)	\$ 708,806	\$ 434,095
Investments (Exhibit 1)	<u>4,404,533</u>	<u>4,703,400</u>
Total deposits and investments	<u>\$ 5,113,339</u>	<u>\$ 5,137,495</u>

Investments, as of August 31, 2016 and 2015, are classified as follows:

<u>Type of Security</u>	<u>Market Value</u>	
	<u>2016</u>	<u>2015</u>
Short-term investments	\$ 1,490,940	\$ 961,374
Restricted short-term investments	110,000	-
Endowment investments	1,195,372	1,194,944
Other long-term investments	<u>1,608,221</u>	<u>2,547,082</u>
Total investments	<u>\$ 4,404,533</u>	<u>\$ 4,703,400</u>

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

<u>Investment Type</u>	<u>Market Value</u>	<u>Percent</u>	<u>Weighted Average Maturity (Years)</u>	<u>Security Rating</u>
Money market funds	\$ 184,565	4.19%	-	-
Corporate bonds	1,187,676	26.96%	1.04	Aa1-Aa3
Mortgage-backed securities	220,579	5.00%	1.37	AA+-Aaa
U.S. Government securities and other Government agencies	1,210,773	27.49%	2.50	-
Certificates of deposit	<u>1,600,940</u>	<u>36.36%</u>	<u>0.21</u>	-
Total investments	<u>\$ 4,404,533</u>	<u>100.00%</u>	<u>5.12</u>	

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

Concentration of Credit Risk - The College does not place a limit on the amount the College may invest with one issuer. All of the certificates of deposit are held at a local bank. The College has 8.54% with FHLMC and 10.94% in U.S. Treasuries NTS.

Credit Risk: In accordance with state law and the College's investment policy, with the exception of endowed investments, 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 of August 31, 2016, the College did not have any investments in commercial paper or no-load money market mutual funds.

Custodial Credit Risk: For investments and deposits, this is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College is not exposed to custodial credit risk for its investments as all are insured, registered and held by the College or by its agent in the College's name.

NOTE 5 - FAIR VALUE MEASUREMENTS

The College adopted Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, as guidance on fair value measurements. The standard established a three-level valuation hierarchy for disclosure based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset's fair value measurement level within the hierarchy is based on the lowest level of input that is significant to the valuation.

The three levels are defined as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets.

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The College uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the College measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

Assets Measured at Fair Value on a Recurring Basis

	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
August 31, 2016:				
Money market funds	\$ 184,565	\$ 184,565	\$ –	\$ –
Certificate of deposits	1,600,940	–	1,600,940	–
U.S. Government securities and other Government agencies	1,210,773	1,210,772	–	–
Mortgage-backed securities	220,579	220,579	–	–
Corporate bonds	<u>1,187,676</u>	<u>1,187,676</u>	<u>–</u>	<u>–</u>
Total	\$ 4,404,533	\$ 2,803,593	\$ 1,600,940	\$ –

	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
August 31, 2015:				
Certificate of deposits	\$ 2,037,784	\$ –	\$ 2,037,784	\$ –
U.S. Government securities and other Government agencies	1,108,966	1,108,966	–	–
Mortgage-backed securities	135,563	135,563	–	–
Corporate bonds	<u>1,421,087</u>	<u>1,421,087</u>	<u>–</u>	<u>–</u>
Total	\$ 4,703,400	\$ 2,665,616	\$ 2,037,784	\$ –

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

For the valuation of certain government and corporate bonds and notes, mortgage-backed securities, at August 31, 2016 and 2015, the College used quoted prices in principal active markets for identical assets as of the valuation date (Level 1).

For the valuation of certificates of deposit at August 31, 2016 and 2015, the College used significant observable inputs, particularly dealer market prices for comparable investments as of the valuation date (Level 2).

A summary of investments classified according to any restrictions at August 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted investments	\$ <u>3,099,161</u>	\$ <u>3,508,456</u>
Restricted investments:		
Temporarily restricted	110,000	
Permanently restricted	<u>1,195,372</u>	<u>1,194,944</u>
Total restricted investments	<u>1,305,372</u>	<u>1,194,944</u>
Total investments	<u>\$ 4,404,533</u>	<u>\$ 4,703,400</u>

Assets Measured at Fair Value on a Nonrecurring Basis

There were no fair values of assets and liabilities measured on a nonrecurring basis at August 31, 2016 and 2015.

NOTE 6 - CAPITAL ASSETS

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

	<u>Beginning Balance</u> <u>September 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u> <u>August 31, 2016</u>
Not depreciated:				
Land	\$ 1,313,633	\$ -	\$ -	\$ 1,313,633
Construction in progress	-	-	-	-
Total not depreciated	<u>1,313,633</u>	<u>-</u>	<u>-</u>	<u>1,313,633</u>
Other capital assets:				
Buildings	15,502,503	81,908	-	15,584,411
Facility and land improvements	2,915,336	1,360,955	-	4,276,291
Furniture, machinery, vehicles and other equipment	3,151,522	200,980	-	3,352,502
Telecommunications and peripheral equipment	2,142,070	144,945	-	2,287,015
Library books	551,391	8,134	-	559,525
Total other capital assets	<u>24,262,822</u>	<u>1,796,922</u>	<u>-</u>	<u>26,059,744</u>
Total cost of capital assets	<u>25,576,455</u>	<u>1,796,922</u>	<u>-</u>	<u>27,373,377</u>

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 6 - CAPITAL ASSETS (CONTINUED)

(Continued)	<u>Beginning Balance September 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance August 31, 2016</u>
Accumulated depreciation:				
Buildings	4,018,971	280,776	-	4,299,747
Facility and land improvements	1,148,980	165,393	-	1,314,373
Furniture, machinery, vehicles and other equipment	1,928,806	255,200	-	2,184,006
Telecommunications and peripheral equipment	1,685,594	216,071	-	1,901,665
Library books	499,682	6,952	-	506,634
Total accumulated depreciation	<u>9,282,033</u>	<u>924,392</u>	<u>-</u>	<u>10,206,425</u>
Capital assets, net	<u>\$ 16,294,422</u>	<u>\$ 872,530</u>	<u>\$ -</u>	<u>\$ 17,166,952</u>

Capital assets include gross assets acquired under capital leases of \$3,749,999 at August 31, 2016. Related amortization included in accumulated amortization was \$354,148. Capital leases are included as a component of building, equipment and land. Amortization of assets under capital leases is included in depreciation expense.

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

	<u>Beginning Balance September 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance August 31, 2015</u>
Not depreciated:				
Land	\$ 1,313,633	\$ -	\$ -	\$ 1,313,633
Construction in progress	182,032	133,545	315,577	-
Total not depreciated	<u>1,495,665</u>	<u>133,545</u>	<u>315,577</u>	<u>1,313,633</u>
Other capital assets:				
Buildings	15,085,889	416,614	-	15,502,503
Facility and land improvements	2,915,336	-	-	2,915,336
Furniture, machinery, vehicles and other equipment	2,877,152	329,356	54,986	3,151,522
Telecommunications and peripheral equipment	1,958,222	183,848	-	2,142,070
Library books	546,396	4,995	-	551,391
Total other capital assets	<u>23,382,995</u>	<u>934,813</u>	<u>54,986</u>	<u>24,262,822</u>
Total cost of capital assets	<u>24,878,660</u>	<u>1,068,358</u>	<u>370,563</u>	<u>25,576,455</u>
Accumulated depreciation:				
Buildings	3,743,662	275,309	-	4,018,971
Facility and land improvements	1,014,940	134,040	-	1,148,980
Furniture, machinery, vehicles and other equipment	1,718,123	251,922	41,239	1,928,806
Telecommunications and peripheral equipment	1,415,311	270,283	-	1,685,594
Library books	492,820	6,862	-	499,682
Total accumulated depreciation	<u>8,384,856</u>	<u>938,416</u>	<u>41,239</u>	<u>9,282,033</u>
Capital assets, net	<u>\$ 16,493,804</u>	<u>\$ 129,942</u>	<u>\$ 329,324</u>	<u>\$ 16,294,422</u>

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 7 - NONCURRENT LIABILITIES

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

	<u>Balance September 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance August 31, 2016</u>	<u>Current Portion</u>
Bonds payable	\$ 1,205,000	\$ 1,103,000	\$ 1,373,000	\$ 935,000	\$ 157,000
Long-term capital lease	3,270,000	-	170,000	3,100,000	175,000
Note payable	-	1,237,655	-	1,237,655	109,726
Net pension liability	1,395,723	727,415	306,641	1,816,497	-
Noncurrent liabilities	<u>\$ 5,870,723</u>	<u>\$ 3,068,070</u>	<u>\$ 1,849,641</u>	7,089,152	<u>\$ 441,726</u>
Current portion				(441,726)	
				<u>\$ 6,647,426</u>	

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

	<u>Balance September 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance August 31, 2015</u>	<u>Current Portion</u>
	(restated)				
Bonds payable	\$ 1,350,000	\$ -	\$ 145,000	\$ 1,205,000	\$ 150,000
Long-term capital lease	3,606,111	-	336,111	3,270,000	170,000
Net pension liability	1,713,833	329,123	647,233	1,395,723	-
Noncurrent liabilities	<u>\$ 6,669,944</u>	<u>\$ 329,123</u>	<u>\$ 1,128,344</u>	5,870,723	<u>\$ 320,000</u>
Current portion				(320,000)	
				<u>\$ 5,550,723</u>	

NOTE 8 - DEBT OBLIGATIONS

Debt service requirements for bonds payable at August 31, 2016, were as follows:

<u>For the Year Ended August 31,</u>	<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 157,000	\$ 22,627	\$ 179,627
2018	161,000	18,828	179,828
2019	165,000	14,931	179,931
2020	169,000	10,938	179,938
2021	283,000	6,849	289,849
Total	<u>\$ 935,000</u>	<u>\$ 74,173</u>	<u>\$ 1,009,173</u>

Details of bonds and notes payable as of August 31, 2016 and 2015, are as follows:

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 8 - DEBT OBLIGATIONS (CONTINUED)

Refunding Revenue Bonds, Series 2005

- To refund the 2006 through 2022 maturities of the Series 2002 Improvement and Refunding Revenue Bonds.
- Issued April 15, 2005
- Original principal amount of \$2,380,000
- Secured by a pledge of revenues, including certain tuition and fees, 20% of the gross revenues received from the cafeteria and 60% of the gross revenues received from the dormitory system.
- These bonds were redeemed in 2015 with Refunding Revenue Bonds, Series 2015.

Refunding Revenue Bonds, Series 2015

- To refund the 2016 through 2022 maturities of the Refunding Revenue Bonds, Series 2005.
- Issued October 21, 2015.
- Original principal amount \$1,103,000.
- Secured by a pledge of revenues, including certain tuition and fees, 20% of the gross revenues received from the cafeteria and 60% of the gross revenue received from the dormitory system.
- Bonds payable are due in annual installments varying from \$157,000 to \$283,000 with an interest rate of 2.42% with the final installment due in 2021.

On October 21, 2015, the Clarendon College District issued refunding revenue bonds in the amount of \$1,103,000 with an interest rate of 2.42%. As a result of the refunding, the College reduced its total debt service requirements by \$252,844 which resulted in an economic gain of \$54,386.

Notes Payable

Debt service requirements for notes payable at August 31, 2016, were as follows:

For the Year Ended August 31,	Notes Payable		
	Principal	Interest	Total
2017	\$ 109,726	\$ 35,361	\$ 145,087
2018	110,894	34,193	145,087
2019	114,255	30,832	145,087
2020	117,719	27,368	145,087
2021	121,223	23,865	145,088
2022-2025	663,838	61,597	725,435
Total	\$ 1,237,655	\$ 213,216	\$ 1,450,871

**CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015**

NOTE 8 - DEBT OBLIGATIONS (CONTINUED)

Notes Payable (Continued)

Note payable to Public Property Finance Contract provided by Prosperity Bank to finance upgrades to the infrastructure of campus buildings. Note dated December 23, 2015. Original principal of note \$1,237,655. Secured by a security interest in all property listed in Schedule B of the finance contract. Notes payable are due in annual installments of \$145,087 with an interest rate of 2.99% with the final installment due December 1, 2025.

Lease Payable to Gray County

Lease payable to Gray County, Texas, issued on September 1, 2009, in the amount of \$4,175,000, interest varies from 2.5% to 5.125%, annual principal installments varying from \$170,000 to \$315,000 plus interest due semi-annually, with a maturity date of August 1, 2029. The loan proceeds were used for the construction of two new buildings and equipment at the Pampa, Texas, Campus. The College paid \$330,981 and \$332,581 lease expense, principal and interest, in the years ended August 31, 2016 and 2015, respectively.

Lease Payable to an Individual

Lease payable to an individual, signed July 1, 2013, in the amount of \$280,000, 0% interest, monthly installments of \$7,778, with a maturity of June 30, 2016. This was for the purchase of land and a building for the College's Amarillo Cosmetology Center. The College paid the remaining principal balance of \$171,111 in the year ended August 31, 2015.

Obligations under capital leases at August 31, 2016 were as follows:

<u>For the Year</u> <u>Ended August 31,</u>	<u>Total</u>
2017	\$ 328,331
2018	330,456
2019	331,669
2020	327,406
2021	327,406
2022-2026	1,652,719
2027-2029	<u>993,788</u>
Total minimum lease payments	4,291,775
Less: Amount representing interest costs	<u>(1,191,775)</u>
Present value of minimum lease payments	<u><u>\$ 3,100,000</u></u>

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 9 - DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Accounts receivable at August 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Taxes receivable	\$ 136,075	\$ 129,366
Student receivables	2,290,863	1,772,523
Grants receivable	28,415	32,262
Other receivables	<u>33,575</u>	<u>62,025</u>
Allowance for doubtful accounts	<u>(775,898)</u>	<u>(576,344)</u>
Total accounts receivable, net	<u>\$ 1,713,030</u>	<u>\$ 1,419,832</u>

Accounts payable at August 31, 2016 and 2015, consisted of amounts payable to vendors.

Accrued liabilities at August 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Accrued interest payable	\$ 46,666	\$ 37,013
Accrued liability to U.S. Department of Education	61,547	61,547
Other accrued liabilities	<u>260,029</u>	<u>121,047</u>
Total accrued liabilities	<u>\$ 368,242</u>	<u>\$ 219,607</u>

NOTE 10 - CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedules A and C. For federal and nonfederal contract and grant awards, funds expended, but not collected, are reported as accounts receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards or funds awarded during fiscal years 2016 and 2015 for which monies have not been received nor funds expended, totaled \$874,824 and \$1,617,010, respectively. All of these funds are on federal contract and grant awards. Additionally, the College deferred state grant awards in the amount of \$290,712 in 2016 and \$203,283 in 2015 and deferred federal awards of \$18,905 for 2016. These funds are to be spent in the year following their deferral.

NOTE 11 - EMPLOYEES' RETIREMENT PLANS

Plan Description

The College participates in the TRS, a cost-sharing, multiple-employer defined benefit pension plan (the Plan) that has a special funding situation. TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 11 - EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Plan Description (Continued)

public, state-supported educational institutions in Texas. It operates primarily under the provisions of 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 (IRC). TRS also administers proportional retirement benefits and service credit transfers under Texas Government Code, Title 8, Chapters 803 and 805, respectively.

The Texas Legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. 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. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by downloading the report from the TRS internet website, www.trs.state.tx.us, by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698, or by calling (512) 542-6592.

Benefits Provided

Benefits are established or amended primarily under the authority of the provisions of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the Texas Government Code, Title 8, Subtitle C. The pension's Board of Trustees does not have the authority to establish or amend benefits. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with five years of credited service or when the sum of the member's age and years of credited service equals or exceeds 80 or more years. Early retirement is at age 55 with five years of credited service and any age below 55 with 30 years of credited service. 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. A member is fully vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc postemployment 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 the following state laws: (1) Article XVI, Section 67 of the Texas Constitution 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

**CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015**

NOTE 11 - EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Contributions (Continued)

Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in this manner are determined by the system's actuary.

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 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, GAA established the employer contribution rates for fiscal years 2016 and 2017. Contributions are as follows:

	<u>Contributions Required and Made</u>
2016 Member (Employee) Contributions	\$ 278,528
2015 Non-employer contributing agency (State)	109,426
2016 College (Employer) Contributions	159,045

Contribution rates for Plan fiscal years (September to August) 2015 and 2016 follow:

	<u>Contribution Rates Plan Fiscal Year</u>	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Employer	6.8%	6.8%
Non-Employer Contributing Entity	6.8%	6.8%

Contributors to the plan include members, employers, and the State of Texas as the only non-employer contributing entity. As the non-employer contributing entity, 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 members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities, or the State of Texas as the employer for senior universities and medical schools) 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.

**CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015**

NOTE 11 - EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Contributions (Continued)

- 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 TRS, the employer shall pay both the member contribution and the state contribution as an employment-after-retirement surcharge.

Actuarial Assumptions

The total pension liability as of August 31, 2015, was determined using the following actuarial assumptions:

Valuation date	August 31, 2015
Actuarial cost method	Individual entry age normal
Amortization method	Level percentage of payroll, open
Asset valuation method	5-year smoothed market
Remaining amortization period	33 years
Actuarial assumptions:	
Discount rate	8.00%
Long-term expected investment rate of return**	8.00%
Inflation	2.50%
Salary increases**	3.50% to 9.50% including inflation
Weighted-average at valuation date	4.79%
Payroll growth rate	2.50%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

** Includes inflation of 3%

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

Changes Since the Prior Actuarial Valuation

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

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 11 - EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Changes Since the Prior Actuarial Valuation (Continued)

Economic Assumptions

- The inflation assumption was decreased from 3.00% to 2.50%.
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.5%.

Mortality Assumptions

- 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.
- 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.
- 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 continued to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

- 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.
- 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.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 11 - EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Changes Since the Prior Actuarial Valuation (Continued)

- 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.
- For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

- 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.

Discount Rate

The discount rate used to measure the total pension liability was 8.0 %. There was no change in the discount rate since the previous fiscal 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 with no cross-over point to a municipal bond rate.

The long-term expected rate of return on pension plan investments is 8.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. 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 below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return *</u>
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. developed	13%	5.1%	0.8%
Emerging markets	9%	5.9%	0.7%
Directional hedge funds	4%	3.2%	0.1%
Private equity	13%	7.0%	1.1%

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 11 - EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Discount Rate (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Stable Value			
U.S. treasuries	11%	0.7%	0.1%
Absolute return	0%	1.8%	0.0%
Stable value hedge funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global inflation linked bonds	3%	0.9%	0.0%
Real assets	16%	5.1%	1.1%
Energy and natural resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Sensitivity of the College's Share of the Net Pension Liability

The following schedule shows the impact of the Net Pension Liability if the discount rate used 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability:

	<u>1% Decrease in Discount Rate</u> 7%	<u>Current Discount Rate</u> 8%	<u>1% Increase in Discount Rate</u> 9%
College's proportionate share of the net pension liability	\$ 2,846,109	\$ 1,816,497	\$ 958,895

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 for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the College. The net pension liability was measured as of August 31, 2015, and the total pension liability used to

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 11 - EMPLOYEES' RETIREMENT PLANS (CONTINUED)

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

calculate the net pension liability was determined by an actuarial valuation as of that date. 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 net pension liability	\$ 1,816,497
State's proportionate share of the net pension liability associated with the College	<u>1,258,424</u>
Total	<u>\$ 3,074,921</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 College's proportion of the net pension liability was based on the College's contributions to the pension plan relative to the contributions of all participating entities to the Plan for the period September 1, 2014, through August 31, 2015. At August 31, 2015, the College's proportion of the collective net pension liability was .0051388%, which is a decrease of .0000864% from its proportion measured as of August 31, 2014.

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

For the measurement period August 31, 2015, the College recognized pension expense of \$179,305 and revenue of \$179,305 for support provided by the State.

At August 31, 2016, the College reported 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 experience	\$ 17,944	\$ 69,810
Changes of assumptions	75,420	64,807
Net difference between projected and actual earnings on pension plan investments	127,422	-
Changes in proportion and differences between College contributions and proportionate share of contributions	-	20,170
College contributions subsequent to the measurement date	<u>159,045</u>	<u>-</u>
Total	<u>\$ 379,831</u>	<u>\$ 154,787</u>

**CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015**

NOTE 11 - EMPLOYEES' RETIREMENT PLANS (CONTINUED)

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

At August 31, 2015, the College reported 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 experience	\$ 21,585	\$ -
Changes of assumptions	90,724	-
Net difference between projected and actual earnings on pension plan investments	-	426,590
Changes in proportion and differences between College contributions and proportionate share of contributions	-	366
College contributions subsequent to the measurement date	<u>147,328</u>	<u>-</u>
Total	<u>\$ 259,637</u>	<u>\$ 426,956</u>

The \$159,045 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31,

2017	\$ (2,092)
2018	(2,092)
2019	(2,092)
2020	104,555
2021	(8,648)
Thereafter	<u>(23,630)</u>
Total	<u>\$ 66,001</u>

Optional Retirement Plan – Defined Contribution Plan

Plan Description. Participation in the Optional Retirement Program (ORP) is in lieu of participation in the TRS. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

Funding Policy. Contribution requirements are not actuarially determined, but are established and amended by the Texas State Legislature. The percentage of participant salaries currently

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 11 - EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Optional Retirement Plan – Defined Contribution Plan (Continued)

contributed by the state is 6.6% for fiscal years 2016 and 2015. The participant contribution rate is 6.65% for both years. Benefits fully vest after one year plus one day of employment.

Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. S.B. 1812, effective September 1, 2013, limits the amounts of the state's contribution to 50% of eligible employees in the reporting district.

The ORP expense to the state for the College was \$2,299, \$3,078, and \$4,140 for the fiscal years ended August 31, 2016, 2015, and 2014, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the College.

The total payroll of employees covered by the ORP was \$70,000, \$93,000, and \$125,000, for fiscal years 2016, 2015, and 2014, respectively.

College-Sponsored Benefit Plans

The College has a voluntary employee defined contribution 403(b) plan administered by the Plan's trustee. The Plan is funded by employee deferrals of compensation. Plan funds are held in trust and are administered by the College's Vice-President of Business Affairs with oversight by the Board of Regents. Full-time employees and certain part-time employees are eligible to participate and are fully vested at all times. At August 31, 2016, 2015, and 2014, there were 4, 3, and 3, respectively, Plan participants.

NOTE 12 - HEALTH CARE AND LIFE INSURANCE BENEFITS

Certain healthcare and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums.

For the year ended August 31, 2016, the state's contribution per full-time employee and retiree was \$576 per month and totaled approximately \$462,000 for the year. The cost of providing those benefits for 35 retirees was approximately \$149,000 and for 85 active employees was approximately \$313,000.

For the year ended August 31, 2015, the state's contribution per full-time employee and retiree was \$538 per month and totaled approximately \$417,000 for the year. The cost of providing those benefits for 37 retirees was approximately \$147,000 and for 87 active employees was approximately \$270,000.

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

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

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

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

Funding Policy

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

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

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

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

The College's contributions to SRHP for the years ended August 31, 2016, 2015, and 2014 were \$294,292, \$294,592, and \$268,928, respectively, which equaled the required contributions each year.

NOTE 14 - DEFERRED COMPENSATION PROGRAM

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001.

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 15 - ENDOWMENTS

The College has received several contributions of endowed funds over the years. These endowments include land, cash, and investments. Most of the endowed funds are to be used for scholarships while maintaining the corpus. The College currently holds land valued at \$502,750 and investments of \$1,195,372 as endowments.

NOTE 16 - AD VALOREM TAX

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

At August 31, 2016:

Assessed valuation of the College	\$ 235,076,743
Less: Exemptions	19,508,650
Less: Abatements	<u> —</u>
Net assessed valuation of the College	<u>\$ 215,568,093</u>

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax rate per \$100 valuation for authorized	\$.850000	\$ -	\$.850000
Tax rate per \$100 valuation for assessed	.220802	-	.220802

<u>Taxes Collected</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 457,821	\$ -	\$ 457,821
Delinquent taxes collected	12,113	-	12,113
Penalties and interest collected	<u>7,807</u>	<u>-</u>	<u>7,807</u>
Total collections	<u>\$ 477,741</u>	<u>\$ -</u>	<u>\$ 477,741</u>

At August 31, 2015:

Assessed valuation of the College	\$ 230,471,018
Less: Exemptions	18,410,562
Less: Abatements	<u> —</u>
Net assessed valuation of the College	<u>\$ 212,060,456</u>

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax rate per \$100 valuation for authorized	\$.850000	\$ -	\$.850000
Tax rate per \$100 valuation for assessed	.220802	-	.220802

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 16 - AD VALOREM TAX (CONTINUED)

<u>Taxes Collected</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 449,393	\$ —	\$ 449,393
Delinquent taxes collected	11,727	—	11,727
Penalties and interest collected	<u>3,036</u>	<u>—</u>	<u>3,036</u>
Total collections	<u>\$ 464,156</u>	<u>\$ —</u>	<u>\$ 464,156</u>

Taxes levied for the year ended August 31, 2016 and 2015, were approximately \$476,000 and \$468,000, respectively, (which included penalty and interest assessed, if applicable).

Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Tax collections for the year ended August 31, 2016 and 2015, were 96% and 96%, respectively, of the current tax levy for the year. Property tax revenues are recognized in the year for which they are levied. The use of tax proceeds is restricted for the maintenance and operations of the College.

NOTE 17 - EXTENSION CENTER MAINTENANCE TAX

A maintenance tax was established by election in 2009 and is levied by Gray County tax office and Childress County Appraisal District. It is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the College. Collections are transferred to the College to be used for operation of a campus at Gray and Childress counties. This revenue is reported under local grants and contracts. Collections in fiscal years 2016 and 2015 (including penalties and interest) from Gray County totaled approximately \$902,000 and \$921,000, respectively, and from Childress County totaled approximately \$229,000 and \$199,000, respectively.

NOTE 18 - 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, Etc. Organizations*. The College had no significant unrelated business income tax liability for the year ended August 31, 2016 and 2015.

NOTE 19 - RELATED PARTIES

The Clarendon College Foundation (CCF) is a nonprofit organization with the sole purpose of supporting the educational and other activities of the College. The College does not appoint a

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 19 - RELATED PARTIES (CONTINUED)

voting majority of CCF's Board of Directors, and it does not fund, nor is it obligated to pay, debt related to CCF. CCF solicits donations and acts as coordinator of gifts made by other parties as well as providing scholarships to students attending the College. During the fiscal year, the College furnished certain services, i.e., office space, utilities, and some staff assistance, to CCF for which CCF did not reimburse the College. CCF is controlled by an autonomous Board of Directors and is not considered a component unit of the College for financial reporting purposes. During the years ended August 31, 2016 and 2015, the College received funds consisting of donations and scholarships for students from CCF totaling \$13,250 and \$14,115, respectively.

The Pampa Center Foundation (PCF) was organized by the residents of the city of Pampa, Texas, for the purpose of providing educational support for the Pampa Center of Clarendon College. PCF is controlled by an autonomous Board of Directors and is not considered a component unit of the College for financial reporting purposes.

NOTE 20 - COMMITMENTS, CONTINGENCIES AND LAWSUITS

The College participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. In the opinion of the College's 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. Additionally, the College's students participate in the Federal Direct Loan Program for which the proceeds are used for tuition and education-related costs. Regulations require that default rates pertaining to loans to persons attending the College not exceed certain levels at the College. In the event that specific levels were exceeded, the program could be discontinued at the College; however, the College does not anticipate this occurring. The total amount of Direct Loans made during 2016 and 2015 was \$1,939,298 and \$2,060,814, respectively.

On August 31, 2016, claims involving the College were pending. While the ultimate liability with respect to claims asserted against the College cannot be reasonably estimated at this time, this liability, if any, to the extent not provided for by insurance, is not likely to have a material effect on the College.

NOTE 21 - NEW GASB PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued several new pronouncements that the College has reviewed for application to their accounting and reporting.

Recently Issued and Adopted Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value and

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 21 - NEW GASB PRONOUNCEMENTS (CONTINUED)

Recently Issued and Adopted Accounting Pronouncements (Continued)

describes how fair value should be measured, what assets and liabilities should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. Before the issuance of Statement No. 72, state and local governments have been required to disclose how they arrived at their measures of fair value if not based on quoted market prices. Under the new guidance, those disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. The implementation of this statement added note disclosures, but did not have a significant impact on the College's financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*, complete the suite of pension standards. Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2015. The implementation of this statement did not have a significant impact on the College's financial statements.

Recently Issued Accounting Pronouncements

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016. The College is currently evaluating the effect of this statement on their financial statements.

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 21 - NEW GASB PRONOUNCEMENTS (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Among other things, Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017. The College is currently evaluating the effect of this statement on their financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2015. This statement is not expected to have a significant impact on the College's financial statements.

GASB Statement No. 78, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. GASB 78 is effective for financial statements for reporting periods beginning after December 15, 2015. The College is currently evaluating the effect of this statement on their financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes and provides guidance that will allow many pools to continue to qualify for amortized cost accounting. Existing standards provide that external investment pools may measure their investments at amortized cost for financial reporting purposes, if they follow substantially all of the provisions of the SEC's Rule 2a-7. Likewise, participants in those pools are able to report their investments in the pool at amortized cost per share. GASB 79 replaces the reference in existing GASB literature to Rule 2a-7 with criteria that are similar in many respects to those in Rule 2a-7. GASB 79 is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those

CLARENDON COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 21 - NEW GASB PRONOUNCEMENTS (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The implementation of this pronouncement had no effect on the College's financial statements.

GASB Statement No. 80, *Blending Requirement for Certain Component Units*, clarifies the display requirements in GASB Statement No. 14, *The Financial Reporting Entity*, by requiring these component units to be blended into the primary state or local government's financial statements in a manner similar to a department or activity of the primary government. The guidance addresses diversity in practice regarding the presentation of not-for-profit corporations in which the primary government is the sole corporate member. Although GASB 80 applies to a limited number of governmental units, such as, for example, public hospitals, the GASB intends for it to enhance the comparability of financial statements among those units and improve the value of this information for users of state and local government financial statements. GASB 80 is effective for financial statements for reporting periods beginning after June 15, 2016. The College is currently evaluating the effect of this statement on their financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB 81 requires that a government recognize revenue when the resources become applicable to the reporting period. GASB 81 is effective for financial statements for reporting periods beginning after June 15, 2016. The College is currently evaluating the effect of this statement on their financial statements.

GASB Statement No. 82, *Pension Issues*, is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, the practice issues raised by stakeholders during implementation relate to GASB 67, 68, and 73. GASB 82 is effective for financial statements for reporting periods beginning after June 15, 2016. The College is currently evaluating the effect of this statement on their financial statements.

NOTE 23 - SUBSEQUENT EVENTS

The College has evaluated for inclusion as a subsequent event disclosure only those events that occurred prior to December 15, 2016, the date the financial statements were available to be issued.

This information is an integral part of the accompanying financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CLARENDON COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHERS RETIREMENT SYSTEM OF TEXAS
For the Years Ended August 31**

	<u>2016</u>	<u>2015</u>
College's proportionate share (percentage) of the net pension liability	0.0051388%	0.0052252%
College's proportionate share (amount) of the net pension liability	\$ 1,816,497	\$ 1,395,723
State's proportionate share (amount) of the net pension liability associated with the College	<u>1,258,424</u>	<u>1,097,788</u>
Total	<u>\$ 3,074,921</u>	<u>\$ 2,493,511</u>
College's covered-employee payroll (for measurement year)	\$ 3,707,746	\$ 3,461,395
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	48.99%	40.32%
Plan's fiduciary net pension as a percentage of the total pension liability	78.43%	83.25%
Plan's net pension liability as a percentage of covered-employee payroll	91.94%	72.89%

Note 1: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note 2: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "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."

**CLARENDON COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
TEACHERS RETIREMENT SYSTEM OF TEXAS
For the Years Ended August 31**

	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 159,045	\$ 152,162
Contributions in relation to the contractually required contributions	<u>(159,045)</u>	<u>(152,162)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	<u>\$ 3,868,441</u>	<u>\$ 3,707,746</u>
Contributions as a percentage of covered-employee payroll	4.11%	4.10%

Note 1: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of College's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

Note 2: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "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."

CLARENDON COLLEGE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended August 31, 2016 and 2015

NOTE 1 - CHANGES OF BENEFIT TERMS

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

NOTE 2 - 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

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

Mortality Assumptions

- 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.
- 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.
- 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

- 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.

CLARENDON COLLEGE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended August 31, 2016 and 2015

NOTE 2 - CHANGES OF ASSUMPTIONS (CONTINUED)

Other Demographic Assumptions (Continued)

- 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.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- 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.
- For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

- 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.

OTHER SUPPLEMENTAL INFORMATION

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**CLARENDON COLLEGE
SCHEDULE A
SCHEDULE OF OPERATING REVENUES
YEAR ENDED AUGUST 31, 2016
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2016</u>	<u>2015</u>
TUITION						
State-funded courses						
In-district resident tuition	\$ 103,024	\$ -	\$ 103,024	\$ -	\$ 103,024	\$ 120,653
Out-of-district resident tuition	910,790	-	910,790	-	910,790	854,285
Non-resident tuition	225,336	-	225,336	-	225,336	201,697
TPEG - Credit (set aside)*	71,505	-	71,505	-	71,505	66,731
Non-state funded continuing education	-	-	-	-	-	3,010
Total tuition	<u>1,310,655</u>	<u>-</u>	<u>1,310,655</u>	<u>-</u>	<u>1,310,655</u>	<u>1,246,376</u>
FEES						
Building use fee	470,689	-	470,689	-	470,689	561,262
Out-of-district fee	457,027	-	457,027	-	457,027	482,180
General fee	742,498	-	742,498	-	742,498	658,314
Laboratory fee	328,789	-	328,789	-	328,789	390,127
Other fees	297,817	-	297,817	-	297,817	220,406
Total fees	<u>2,296,820</u>	<u>-</u>	<u>2,296,820</u>	<u>-</u>	<u>2,296,820</u>	<u>2,312,289</u>
SCHOLARSHIP ALLOWANCES AND DISCOUNTS						
Scholarship allowances	(356,601)	-	(356,601)	-	(356,601)	(337,130)
Bad debt allowance	(172,518)	-	(172,518)	-	(172,518)	(100,393)
Remissions and exemptions	(80,599)	-	(80,599)	-	(80,599)	(65,788)
TPEG allowances	(44,419)	-	(44,419)	-	(44,419)	(56,509)
Federal grants to students	(1,272,029)	-	(1,272,029)	-	(1,272,029)	(1,529,281)
Other federal grants	(312,689)	-	(312,689)	-	(312,689)	(228,782)
Total scholarship allowances and discounts	<u>(2,238,855)</u>	<u>-</u>	<u>(2,238,855)</u>	<u>-</u>	<u>(2,238,855)</u>	<u>(2,317,883)</u>
Total net tuition and fees	<u>1,368,620</u>	<u>-</u>	<u>1,368,620</u>	<u>-</u>	<u>1,368,620</u>	<u>1,240,782</u>

**CLARENDON COLLEGE
SCHEDULE A, CONTINUED
SCHEDULE OF OPERATING REVENUES
YEAR ENDED AUGUST 31, 2016
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2016</u>	<u>2015</u>
ADDITIONAL OPERATING REVENUES						
Federal grants and contracts	-	554,576	554,576	-	554,576	418,207
State grants and contracts	-	401,951	401,951	-	401,951	219,131
Local grants and contracts	1,131,576	355,578	1,487,154	-	1,487,154	1,457,969
Other operating revenues	27,850	-	27,850	21,888	49,738	38,451
Total additional operating revenues	<u>1,159,426</u>	<u>1,312,105</u>	<u>2,471,531</u>	<u>21,888</u>	<u>2,493,419</u>	<u>2,133,758</u>
AUXILIARY ENTERPRISES						
Bookstore	-	-	-	79,726	79,726	125,925
Less: Discounts	-	-	-	(84,617)	(84,617)	(164,898)
Residential	-	-	-	930,216	930,216	1,082,139
Less: Discounts	-	-	-	(505,328)	(505,328)	(541,789)
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>419,997</u>	<u>419,997</u>	<u>501,377</u>
TOTAL OPERATING REVENUES	<u>\$ 2,528,046</u>	<u>\$ 1,312,105</u>	<u>\$ 3,840,151</u>	<u>\$ 441,885</u>	<u>\$ 4,282,036</u>	<u>\$ 3,875,917</u>

(Exhibit 2)

**CLARENDON COLLEGE
SCHEDULE B
SCHEDULE OF OPERATING EXPENSES BY OBJECT
YEAR ENDED AUGUST 31, 2016
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)**

	Operating Expenses				2016	2015
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
UNRESTRICTED EDUCATIONAL ACTIVITIES						
Instruction	\$ 2,283,962	\$ -	\$ 511,286	\$ 386,575	\$ 3,181,823	\$ 3,224,244
Academic support	210,831	-	49,641	32,948	293,420	254,128
Student services	548,849	-	107,924	79,737	736,510	654,354
Institutional support	489,174	-	124,459	674,247	1,287,880	1,211,073
Operation and maintenance of plant	280,663	-	66,601	634,685	981,949	961,148
Total unrestricted educational activities	<u>3,813,479</u>	<u>-</u>	<u>859,911</u>	<u>1,808,192</u>	<u>6,481,582</u>	<u>6,304,947</u>
RESTRICTED EDUCATIONAL ACTIVITIES						
Instruction	-	415,782	-	18,359	434,141	355,788
Academic support	-	38,380	-	-	38,380	26,820
Student services	-	99,915	-	-	99,915	68,872
Institutional support	402,950	89,051	36	174,248	666,285	418,932
Scholarship expense	-	-	-	541,741	541,741	622,750
Total restricted educational activities	<u>402,950</u>	<u>643,128</u>	<u>36</u>	<u>734,348</u>	<u>1,780,462</u>	<u>1,493,162</u>
Total educational activities	<u>4,216,429</u>	<u>643,128</u>	<u>859,947</u>	<u>2,542,540</u>	<u>8,262,044</u>	<u>7,798,109</u>
AUXILIARY ENTERPRISES	<u>174,055</u>	<u>-</u>	<u>3,667</u>	<u>868,238</u>	<u>1,045,960</u>	<u>1,187,319</u>
DEPRECIATION EXPENSE						
Buildings and other real estate improvements	-	-	-	446,169	446,169	409,350
Equipment and furniture	-	-	-	478,223	478,223	529,066
Total depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>924,392</u>	<u>924,392</u>	<u>938,416</u>
TOTAL OPERATING EXPENSES	<u>\$ 4,390,484</u>	<u>\$ 643,128</u>	<u>\$ 863,614</u>	<u>\$ 4,335,170</u>	<u>\$ 10,232,396</u>	<u>\$ 9,923,844</u>

(Exhibit 2)

**CLARENDON COLLEGE
SCHEDULE C
SCHEDULE OF NONOPERATING REVENUES AND EXPENSES
YEAR ENDED AUGUST 31, 2016
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2016</u>	<u>2015</u>
NONOPERATING REVENUES:					
State appropriations:					
Education and general state support	\$ 2,577,949	\$ -	\$ -	\$ 2,577,949	\$ 2,485,092
State group insurance	-	461,936	-	461,936	417,184
State retirement matching	-	181,192	-	181,192	105,011
Total state appropriations	<u>2,577,949</u>	<u>643,128</u>	<u>-</u>	<u>3,221,077</u>	<u>3,007,287</u>
Ad valorem taxes for maintenance and operations, net	434,112	-	-	434,112	463,096
Federal revenue, nonoperating	1,907,130	-	-	1,907,130	2,258,161
Gifts	94,245	-	-	94,245	131,221
Investment income	128,090	-	-	128,090	209,033
Other nonoperating revenues	<u>25,871</u>	<u>-</u>	<u>-</u>	<u>25,871</u>	<u>2,702</u>
Total nonoperating revenues	<u>5,167,397</u>	<u>643,128</u>	<u>-</u>	<u>5,810,525</u>	<u>6,071,500</u>
NONOPERATING EXPENSES:					
Interest on capital-related debt	213,775	-	-	213,775	227,602
(Gain) loss on disposal of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,171)</u>
Total nonoperating expenses	<u>213,775</u>	<u>-</u>	<u>-</u>	<u>213,775</u>	<u>223,431</u>
NET NONOPERATING REVENUES	<u>\$ 4,953,622</u>	<u>\$ 643,128</u>	<u>\$ -</u>	<u>\$ 5,596,750</u>	<u>\$ 5,848,069</u>
				(Exhibit 2)	

**CLARENDON COLLEGE
SCHEDULE D
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
YEAR ENDED AUGUST 31, 2016
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)**

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Nonexpendable				
CURRENT							
Unrestricted	\$ 2,026,700	\$ -	\$ -	\$ -	\$ 2,026,700	\$ 2,026,700	\$ -
Restricted	-	1,550,379	-	-	1,550,379	1,550,379	-
Auxiliary enterprises	(2,433,984)	-	-	-	(2,433,984)	(2,433,984)	-
LOAN	-	-	-	-	-	-	-
ENDOWMENT							
Quasi:							
Unrestricted	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Endowment							
True	-	-	1,698,121	-	1,698,121	-	1,698,121
Term (per instructions at maturity)	-	-	-	-	-	-	-
Life income contracts	-	-	-	-	-	-	-
Annuities	-	-	-	-	-	-	-
PLANT							
Unexpended	-	-	-	-	-	-	-
Renewals	-	-	-	-	-	-	-
Debt service	-	110,000	-	-	110,000	-	110,000
Investment in plant	-	-	-	11,894,297	11,894,297	-	11,894,297
Total net position, August 31, 2016	<u>(407,284)</u>	<u>1,660,379</u>	<u>1,698,121</u>	<u>11,894,297</u>	<u>14,845,513</u>	<u>1,143,095</u>	<u>13,702,418</u>
					(Exhibit 1)		
Total net position, August 31, 2015	<u>(34,005)</u>	<u>1,716,016</u>	<u>1,697,690</u>	<u>11,819,422</u>	<u>15,199,123</u>	<u>1,444,011</u>	<u>13,755,112</u>
NET INCREASE (DECREASE) IN NET POSITION	<u>\$ (373,279)</u>	<u>\$ (55,637)</u>	<u>\$ 431</u>	<u>\$ 74,875</u>	<u>\$ (353,610)</u>	<u>\$ (300,916)</u>	<u>\$ (52,694)</u>
					(Exhibit 2)		

**CLARENDON COLLEGE
SCHEDULE E
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016**

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures and Pass-Through Disbursements</u>
U.S. Department of Education				
Direct Programs:				
Student Financial Aid Cluster				
Federal Supplemental Educational Opportunity Grant	84.007	-	-	\$ 21,869
Federal Work Study Program	84.033	-	-	31,940
Federal Pell Grant Program	84.063	-	-	1,853,321
Federal Direct Student Loans	84.268	-	-	<u>1,939,298</u>
Total Student Financial Aid				<u>3,846,428</u>
Title III - Strengthening Institutions	84.031 A	-	-	<u>471,307</u>
Total Direct Programs				<u>8,164,163</u>
Pass-Through From:				
Texas Higher Education Coordinating Board				
Carl Perkins Vocational Education - Basic	84.048	104210		<u>83,269</u>
Total Pass-Through from Texas Higher Education Coordinating Board				<u>83,269</u>
Total U.S. Department of Education				<u>8,247,432</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u>\$ 8,247,432</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

CLARENDON COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
August 31, 2016

NOTE 1 - FEDERAL ASSISTANCE RECONCILIATION

Federal grants and contracts revenue - per Schedule A	\$ 554,576
Nonoperating federal revenue - per Schedule C	1,907,130
Federal Direct Student Loans	<u>1,939,298</u>
Total federal revenues per Schedule of Expenditures of Federal Awards	<u>\$ 4,401,004</u>

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

The expenditures included in the schedule are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which 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 elected not to use the 10% de minimis indirect cost rate as permitted in the Uniform Guidance, section 200.414. The College has followed all applicable guidelines issued by various entities in the preparation of the schedule.

**CLARENDON COLLEGE
SCHEDULE F
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
YEAR ENDED AUGUST 31, 2016**

<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Texas Workforce Commission		
Workforce Investment Act Program	-	\$ 17,532
Total Texas Workforce Commission		<u>17,532</u>
Texas Department of Assistive and Rehabilitative Services		
Tuition Waiver	-	23,034
Total Texas Department of Assistive and Rehabilitative Services		<u>23,034</u>
Texas Higher Education Coordinating Board		
Texas Grant Program	-	1,368
Texas Educational Opportunity Grant	-	93,024
Texas College Work-Study Program	-	7,603
Developmental Education Scaling and Sustaining Success (S3)	-	183,040
Professional Nursing	-	76,350
Total Texas Higher Education Coordinating Board		<u>361,385</u>
TOTAL STATE FINANCIAL ASSISTANCE		<u>\$ 401,951</u>

See accompanying notes to Schedule of Expenditures of State of Texas Awards.

CLARENDON COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
August 31, 2016

NOTE 1 - STATE ASSISTANCE RECONCILIATION

A reconciliation of state financial assistance per the schedule of operating revenues to the Schedule of Expenditures of State of Texas Awards is as follows:

State Grants and Contracts Revenue per Schedule A	<u>\$ 401,951</u>
Total state revenues per Schedule of Expenditures of State Awards	<u>\$ 401,951</u>

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

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

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SINGLE AUDIT SECTION

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

Board of Regents
Clarendon College
Clarendon, 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 Clarendon 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 15, 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*.

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Purpose of this Report

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

Connor, McMillan, Mitchell & Shennum, PLLC

Amarillo, Texas
December 15, 2016

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**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Regents
Clarendon College
Clarendon, Texas

Report on Compliance for Each Major Federal Program

We have audited Clarendon College's (the College) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Program

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

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Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the 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.

Conner, McMillon, Mitchell ; Shennum, PLLC

Amarillo, Texas
December 15, 2016

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**CLARENDON COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended August 31, 2016**

SECTION I - Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued:

The Auditor's report expresses an unmodified opinion on the financial statements of Clarendon College.

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported
- Noncompliance material to financial statements noted? yes X no

Federal and State Awards

Internal control over major programs:

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

Type of Auditor's report issued on compliance for major programs: Unmodified

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

 yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal/State Program or Cluster</u>
<i>Federal programs</i>	U.S. Department of Education
	<i>Student Financial Aid Cluster</i>
84.007	Federal Supplemental Educational Opportunity Grant
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans

Dollar threshold used to distinguish between Type A and Type B programs was: \$ 750,000 – Federal
\$ 750,000 - State

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

**CLARENDON COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended August 31, 2016**

SECTION II - Financial Statement Findings

None reported.

SECTION III - Federal and State Award Findings and Questioned Costs

None reported.

**CLARENDON COLLEGE
SCHEDULE OF CORRECTIVE ACTION
FOR AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended August 31, 2016**

None reported.

**CLARENDON COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended August 31, 2016**

Significant Deficiencies

None reported.

**STATISTICAL SUPPLEMENT
(Unaudited)**

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