

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

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED

AUGUST 31, 2016 AND 2015

PREPARED BY:

*ADMINISTRATIVE SERVICES DEPARTMENT
NORTHEAST TEXAS COMMUNITY COLLEGE*

MOUNT PLEASANT, TEXAS

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Northeast Texas Community College
Mt. Pleasant, Texas
Organizational Data
For the Fiscal Year 2016

Board of Trustees

Officers

Dr. Dan McCauley-Mount Pleasant, TX	(2012-2018)	Board Chairman
Mr. Chuck Johns, Pittsburg, TX	(2014-2020)	Board Vice Chairman
Mr. Sid Greer-Daingerfield, TX	(2012-2018)	Board Secretary

Members

Mr. Robin Sharp, Mount Pleasant, TX	(2014-2020)
Mr. Jerry Webster, Pittsburg, TX	(2014-2016)
Mr. John Bryan, Naples, TX	(2014-2020)
Gov. Bill Ratliff, Mount Pleasant, TX	(2014-2016)

Principal Administrative Officers

Dr. Brad Johnson	President
Dr. Ron Clinton	Executive Vice President for Instruction
Dr. Jonathan McCullough	Vice President for Institutional Advancement
Dr. Joshua Stuart	Vice President for Student and Outreach Services
Mr. Jeffrey W Chambers	Vice President for Administrative Services

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

Board of Trustees

*Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas*

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the College's and the Foundation's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of August 31, 2016, and 2015, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4-11, schedule of College's share of net pension liability page 46, and schedule of College's contributions page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Texas Community College and Northeast Texas Community College Foundation Inc. basic financial statements.

The introductory section and supplemental schedules other section, presented on pages 54 -55, are presented for purposes of analysis and are not a required part of the basic financial statements.

The supplemental schedules required by Texas Higher Education Coordinating Board section, presented on pages 50 – 53, are presented for purposes of additional analysis as required by the board and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards, pages 61 – 62, is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the financial statements.

The schedule of expenditures of state awards, pages 74 - 75, is presented for purposes of additional analysis as required by *State of Texas Single Audit Circular* and is not a required part of the financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 on our consideration of Northeast Texas Community College and Northeast Texas Community College Foundation Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Northeast Texas Community College and Northeast Texas Community College Foundation Inc.'s internal control over financial reporting and compliance.

Wilf & Henderson, P.C.

WILF & HENDERSON, P. C.
Certified Public Accountants
Texarkana, Texas
December 9, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A)

This section of Northeast Texas Community College's Annual Financial Report presents management's discussion and analysis of the College's financial activity during fiscal years ending 2014, 2015, and 2016. Since this management's discussion and analysis is designed to focus on current activities, resulting change, decisions or conditions of facts, please read it in conjunction with the College's basic financial statements (pages 11-17) and the footnotes (pages 18-46). The College endeavors to present an objective and easily readable analysis of the overall financial activities to students and the public. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

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

College Foundation as a Discrete Component Unit

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

Statement of Net Position (Balance Sheet)

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

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

Statement of Net Position For the Years Ended August 31, 2016, 2015, and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Assets</u>			
Current	\$ 4,795,562	\$ 4,734,557	\$ 5,739,728
Net Capital Assets	38,088,405	35,253,296	34,845,575
Other Non-Current	<u>18,233,790</u>	<u>11,435,344</u>	<u>2,013,725</u>
Total Assets	<u>\$ 61,117,757</u>	<u>\$ 51,423,197</u>	<u>\$ 42,599,028</u>
Deferred Outflows of Resources	\$ 1,309,895	\$ 1,221,999	\$ 737,407
<u>Liabilities</u>			
Current	5,190,307	4,427,407	4,536,331
Non-Current	<u>44,285,516</u>	<u>34,593,052</u>	<u>22,596,940</u>
Total Liabilities	<u>\$ 49,475,823</u>	<u>\$ 39,020,459</u>	<u>\$ 27,133,271</u>
Deferred Inflows	<u>576,521</u>	<u>966,861</u>	<u>-</u>
<u>Net Position</u>	<u>\$ 12,375,308</u>	<u>\$ 12,657,876</u>	<u>\$ 16,203,164</u>

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

Net Position is divided into three major categories:

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

As of August 31, 2016, 2015, and 2014, the College's net positions were 12,375,308, 12,657,876, and \$16,203,164 respectively. From the data presented, readers of the Statement of Net Position are able to determine the Net Assets available to continue the operations of the institution. They are also able to determine how much the College owes vendors, investors and lending institutions.

Statement of Revenues, Expenses and Changes in Net Position

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

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended August 31, 2016, 2015, and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
SUMMARY OF REVENUES AND EXPENSES			
Total, Operating Revenues	\$ 8,581,370	\$ 7,265,474	\$ 7,728,075
Total, Operating Expenses	<u>24,049,375</u>	<u>24,497,445</u>	<u>24,353,197</u>
Total, Operating (Loss)	(15,468,005)	(17,231,971)	(16,625,122)
Net Non-Operating Revenues	14,781,287	16,412,281	16,877,317
Capital Contributions	<u>404,148</u>	<u>855,463</u>	<u>240,853</u>
Increase (Decrease) in Net Position	(282,570)	35,773	493,048
Net Position at Beginning of Year	12,657,876	16,203,164	15,710,116
Cumulative Effect of Change in Accounting Principal	-	(3,581,061)	-
Net Position at Beginning of Year Restated	<u>12,657,876</u>	<u>12,622,103</u>	<u>-</u>
Net Position - End of Year	<u>\$ 12,375,306</u>	<u>\$ 12,657,876</u>	<u>\$ 16,203,164</u>

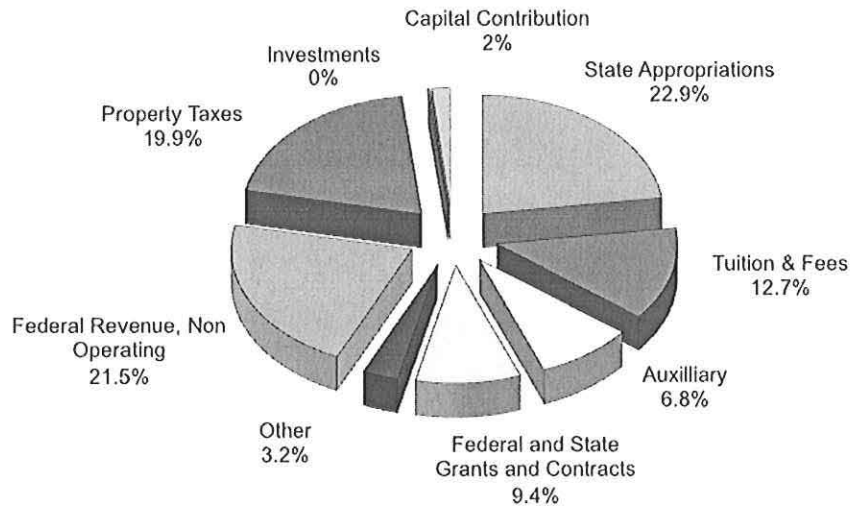
Operating and Non-Operating Revenues

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

Revenues: Operating and Non-Operating
For the Years Ended August 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues:			
Net tuition and fees	\$ 3,224,094	\$ 2,855,485	\$ 3,349,945
Federal grants and contracts	1,330,502	736,490	1,177,391
State grants and contracts	1,038,294	1,149,284	700,426
Non-governmental grants and contracts	184,493	206,944	163,286
Sales and services of educational activities	64,768	91,012	69,257
Net auxiliary enterprises	2,171,511	1,846,109	1,886,159
Other operating revenues	<u>567,710</u>	<u>380,150</u>	<u>381,611</u>
Total, Operating Revenues	<u>8,581,372</u>	<u>7,265,474</u>	<u>7,728,075</u>
Net Non-Operating Revenues:			
State appropriations	5,789,210	6,136,960	5,993,883
Property taxes	5,039,877	4,099,335	4,143,309
Federal revenue, non-operating	5,438,200	6,958,730	7,535,412
Contribution from Foundation	-	250,000	150,000
Investment and other Income	<u>40,723</u>	<u>5,831</u>	<u>12,014</u>
Total, Non-Operating Revenues	<u>16,308,010</u>	<u>17,450,856</u>	<u>17,684,618</u>
Capital Contributions	<u>404,148</u>	<u>855,463</u>	<u>240,853</u>
Total Revenues, Operating and Non-Operating	<u>\$ 25,293,530</u>	<u>\$ 25,571,793</u>	<u>\$ 25,803,546</u>

**Revenue by Source
Operating & Non-Operating**



In comparing the fiscal periods ended August 31, 2016 and 2015:

- Net Tuition and fee revenues increased \$368,609 or 12.91%. This is a result of several factors. Tuition and fees for credit students decreased 7.24% as a result of decrease in total enrollment in both the Fall and Spring semesters. Dual credit tuition increased due to increased enrollment and contact hours. An increase Continuing Education is primarily the result of Skills Development grant for two local industries.
- Federal Grants and Contracts increased \$594,012 or 80.65% primarily as a result of reductions in Federal Grants being used for capital projects as noted in the decrease in Capital Contributions of \$451,315.
- State Grants and Contracts decreased \$111,020 or 9.66% primarily as a result of a decrease in Texas Grant II award, a decrease in the Nursing Shortage Award, the absence of the JET Grant from previous year, however there was increases in awards from the Texas Workforce Commission.
- State Allocations decreased \$347,750 or 5.67% as a result of decreased State appropriations.
- Federal Revenue Non Operating decreased \$1,520,530 or 21.85% as a result of decreased student awards attributed to decrease in enrollment and award calculations for student financial aid.

In comparing the fiscal periods ended August 31, 2015 and 2014:

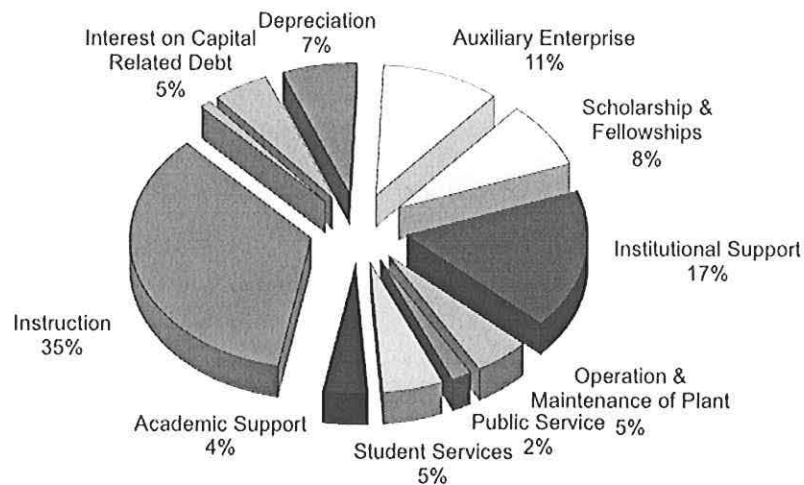
- Net Tuition and fee revenues decreased \$494,460 or 14.76% as a result of a 7% decrease in students primarily a result of the improved economy and a decrease in contact hours as a result of state mandated reductions in workforce hours to 60 to obtain certification.
- Federal Grants and Contracts decreased \$440,901 or 37.5% primarily as a result of reductions in Federal Student Financial Assistance Grants and work-study programs in the amount of \$87,789 and reductions in Adult Basic Education Grants in the amount \$74,125. In addition, more Federal Grants were used for capital projects as noted in the increase in Capital Contributions of \$614,610.
- State Grants and Contracts increased \$448,858 or 64.1% primarily as a result of an increase in the Texas Grant awards in the amount of \$120,130, an increase in the Nursing Shortage Award in the amount of \$65,431, increases in awards from the Texas Workforce Commission in the amount of \$101,664 and the receipt of a Jet Grant in the amount of \$294,776.
- State Allocations increased \$143,077 or 2.4% as a result of increased State appropriations.
- Federal Revenue Non Operating decreased \$481,645 or 6.5% as a result of decreased student awards due to changes in eligibility criteria and award calculations for student Pell awards and Loans.

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

**Expenses: Operating and Non-Operating
For the Years Ended August 31, 2016, 2015, and 2014**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Expenses:			
Instruction	\$ 8,953,353	\$ 9,170,271	\$ 8,639,365
Public service	451,117	423,775	377,181
Academic support	1,046,609	1,011,106	999,981
Student services	1,369,017	1,487,879	1,418,474
Institutional support	4,448,070	4,231,487	3,941,582
Operation and maintenance of plant	1,252,811	1,330,866	1,413,608
Scholarship & fellowships	2,105,894	2,715,611	3,368,587
Auxiliary enterprise	2,697,422	2,544,775	2,703,879
Depreciation	1,725,082	1,581,675	1,490,540
Total, Operating Expenses	<u>24,049,375</u>	<u>24,497,445</u>	<u>24,353,197</u>
Non-Operating Expenses:			
Interest on capital related debt	1,278,230	812,408	848,605
Bond Issue Costs	-	-	-
(Gain) Loss on disposal of capital assets	-	62,540	-
Other non-operating expenses	248,493	163,627	13,659
Total, non-operating expenses	<u>1,526,723</u>	<u>1,038,575</u>	<u>862,264</u>
Total Expenses, Operating and Non-Operating	<u>\$ 25,576,098</u>	<u>\$ 25,536,020</u>	<u>\$ 25,310,498</u>

**Expenses by Source
Operating & Non-Operating**



In comparing the fiscal periods ended August 31 2016 and 2015:

- Instruction decreased \$216,918 or 2.36% primarily as a result of closing of the Dental Hygiene program and re-allocation of faculty in off-campus sites.
- Institutional Support increased \$216,583 or 5.1% primarily as a result of increases in salary, benefits, and other expenditures related to operating of the Title V grant.
- Scholarships and Fellowships decreased \$609,717 or 22.45% primarily as a result of decreased awards of Pell and Loans due to changes in eligibility rules and caps on lifetime awards and decrease in the Texas Educational Opportunity Grant awards in the amount of \$99,731.
- Auxiliary Enterprises increased \$152,647 or 6.00% primarily as a result of a change in the benefits reported from previous years.
- Other Non-Operating expenses increased \$84,866 as a result of expending bond fees for Limited Tax Bonds issued in 2016.

In comparing the fiscal periods ended August 31 2015 and 2014:

- Instruction increased \$530,906 or 6.2% primarily as a result of a 3% salary increase for full time faculty and an increase of \$100 per course for adjuncts and overload pay.
- Institutional Support increased \$289,905 or 7.4% primarily as a result of increased bad debt reserves in the amount of \$446,676. \$119,223 of the reserve increase is a result of aging of student receivables. \$327,453 of the increase is an estimate of the uncollectable amount for return to Title IV amounts resulting from a DOE audit. One time special projects decreased \$242,921, salaries increased \$172,000 as a result of a 3% increase in base salaries and an increase in one position to support the College's new core software systems.
- Scholarships and Fellowships decreased \$652,976 or 19.4% primarily as a result of decreased awards of Pell and Loans due to changes in eligibility rules and caps on lifetime awards.
- Auxiliary Enterprises decreased \$159,104 or 5.9% primarily as a result of decreased expenditures of non-capital improvements to athletic facilities.
- Other Non-Operating expenses increased \$149,968 as a result of expending bond fees for Limited Tax Bonds issued in 2015.

Analysis of Net Position

Total Net Position of \$12,375,308 is comprised of the investment in capital assets net of related debt of \$13,075,188, reserve for debt service of \$47,956, and unrestricted net position of \$(747,836). The debt service reserve is set-aside in the event the pledged revenues in interest and sinking fund are not sufficient to pay the debt service payment in the future. The unrestricted net position is the inception-to-date net of current and non-current revenues and expenses.

Net Position
For the Years Ended August 31, 2016, 2015, and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Investment in Capital Assets, Net of Related Debt	\$ 13,075,188	\$ 13,422,387	\$ 11,716,678
Restricted for debt service	47,956	283,743	869,573
Temporarily Restricted	-	-	-
Unrestricted	<u>(747,836)</u>	<u>(1,048,254)</u>	<u>3,616,913</u>
Total Net Position	<u>\$ 12,375,308</u>	<u>\$ 12,657,876</u>	<u>\$ 16,203,164</u>

Long Term Debt

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

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

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

The College has revenue bonds, general obligation bonds, and other notes payable for which contractual payments have been made in the fiscal periods ended August 31, 2016 and 2015.

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

Capital Assets

In the fiscal period ended August 31, 2016, the College expended approximately \$250,000 in Federal grant funds to purchase equipment for use in our workforce education programs. The College also expended approximately 4,275,302 in bond funds for the repair and renovation of the main campus.

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

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

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

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

Statement of Cash Flows

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

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

Part 2 shows the cash flow from non-capital and related financing activities. Part of the ad-valorem local tax revenues pays for maintenance and operations of the College and the rest is for the settlement of general obligation bonds (note 9).

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

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

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

Financial Condition and Outlook

Unrestricted fund balance increased in the current year by \$300,418. The College does not anticipate significant increases in fund balance in the near future. Given the current economic climate, we anticipate ongoing minimal earnings of interest on our temporary investments. We also anticipate no increase in operating maintenance and operations tax revenues over the next two to three years as a result of minimal declines in appraisal values as a result of economic conditions. We also expect no significant increases in state funding. We anticipate adjusting our ongoing operating spending to compensate for these reduced revenues. The college experienced flat enrollment in the Fall of 2016, compared to Fall 2015, and does not anticipate significant growth in enrollment levels in the next few years.

FINANCIAL STATEMENTS

NORTHEAST TEXAS COMMUNITY COLLEGE
EXHIBIT 1
STATEMENTS OF NET POSITION
August 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents (Note 4)	\$ 2,305,443	\$ 1,539,721
Accounts receivable (Note 13)	1,799,895	1,626,656
Inventories	412,443	597,728
Prepaid expense	259,938	305,097
Due from component unit	17,843	665,355
Total Current Assets	<u>4,795,562</u>	<u>4,734,557</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 4)	16,474,676	10,333,588
Unrestricted long-term investments (Note 4)	515,717	101,554
Restricted long-term investments (Note 4)	1,028,864	841,477
Notes receivable (net of allowance for doubtful accounts of \$77,952 in 2016 and 2015)	-	-
Prepaid bond insurance	172,893	121,585
Other assets	41,640	37,140
Capital assets, net of accumulated depreciation (Note 7)	38,088,405	35,253,296
Total Noncurrent Assets	<u>56,322,195</u>	<u>46,688,640</u>
Total Assets	<u>61,117,757</u>	<u>51,423,197</u>
Deferred Outflows of Resources		
Deferred outflows pension related (Note 10)	722,660	565,809
Deferred charge on bond refunding (Note 6)	587,235	656,190
Total Deferred Outflows of Resources	<u>1,309,895</u>	<u>1,221,999</u>
LIABILITIES		
Current Liabilities		
Accounts payable (Note 13)	1,024,266	876,213
Accrued liabilities (Note 13)	724,859	639,691
Accrued compensated absences (Note 12)	151,168	169,275
Deposits payable (Note 13)	156,808	160,458
Funds held for others	94,282	95,988
Unearned revenues	1,506,778	1,178,820
Notes and leases payable - current portion (Note 8 and 9)	85,703	82,215
Bonds payable - current portion (Note 8 and 9)	1,446,443	1,224,747
Total Current Liabilities	<u>5,190,307</u>	<u>4,427,407</u>
Noncurrent Liabilities		
Bonds payable (Note 8 and 9)	38,712,033	29,821,182
Premium on Bonds Payable	1,148,419	820,112
Notes and leases payable (Note 8 and 9)	706,631	791,080
Net pension liability (Note 8 and 10)	3,718,433	3,160,678
Total Noncurrent Liabilities	<u>44,285,516</u>	<u>34,593,052</u>
Total Liabilities	<u>49,475,823</u>	<u>39,020,459</u>
Deferred Inflows of Resources		
Deferred inflows pension related (Note 10)	576,521	966,861
Total Deferred Outflows of Resources	<u>576,521</u>	<u>966,861</u>
NET POSITION		
Invested in capital assets, net of related debt	13,075,188	13,422,387
Restricted for		
Expendable	-	
Debt service	47,956	283,743
Unrestricted	(747,836)	(1,048,254)
Total Net Position	<u>\$ 12,375,308</u>	<u>\$ 12,657,876</u>

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

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
EXHIBIT 1A
STATEMENTS OF FINANCIAL POSITION
August 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents (Note 4)	\$ 999,175	\$ 1,049,501
Accounts receivable (Note 13)	1,007	85,562
Other assets	-	9,600
Total Current Assets	<u>1,000,182</u>	<u>1,144,663</u>
Noncurrent Assets		
Long - term investments (Note 4)	3,206,190	2,954,014
Property, plant, and equipment, net of accumulated depreciation (Note 7)	560,330	651,673
Other assets	31,882	34,130
Total Noncurrent Assets	<u>3,798,402</u>	<u>3,639,817</u>
 Total Assets	 <u><u>4,798,584</u></u>	 <u><u>4,784,480</u></u>
 LIABILITIES		
Current Liabilities		
Deferred revenue	111,449	92,234
Due to Northeast Texas Community College	17,843	665,355
Total Current Liabilities	<u>129,292</u>	<u>757,589</u>
 Total Liabilities	 <u><u>129,292</u></u>	 <u><u>757,589</u></u>
 Net Position		
Restricted		
Nonexpendable:		
Permanently	3,285,354	2,570,165
Expendable:		
Temporarily	903,546	905,015
Unrestricted	480,392	551,711
Total Net Assets	<u><u>\$ 4,669,292</u></u>	<u><u>\$ 4,026,891</u></u>

The accompanying Notes to the Financial Statements are an integral part of these financial statements.

NORTHEAST TEXAS COMMUNITY COLLEGE
EXHIBIT 2
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended August 31, 2016 and 2015

REVENUES	<u>2016</u>	<u>2015</u>
Operating Revenues		
Tuition and fees (net of grant and scholarship allowances of \$4,258,780, 2016 and \$4,819,496, 2015)	\$ 3,224,094	\$ 2,855,485
Federal grants and contracts	1,330,502	736,490
State grants and contracts	1,038,294	1,149,284
Non-Governmental grants and contracts	184,493	206,944
Sales and services of educational activities	64,768	91,012
Auxiliary enterprises (net of grant and scholarship allowances of \$835,907, 2016 and \$1,250,406, 2015)	2,171,511	1,846,109
Other operating revenues	<u>567,710</u>	<u>380,150</u>
Total Operating Revenues (Schedule A)	<u>8,581,372</u>	<u>7,265,474</u>
EXPENSES		
Operating Expenses		
Instruction	8,953,353	9,170,271
Public service	451,117	423,775
Academic support	1,046,609	1,011,106
Student services	1,369,017	1,487,879
Institutional support	4,448,070	4,231,487
Operation and maintenance of plant	1,252,811	1,330,866
Scholarships and fellowships	2,105,894	2,715,611
Auxiliary enterprises	2,697,422	2,544,775
Depreciation	<u>1,725,082</u>	<u>1,581,675</u>
Total Operating Expenses (Schedule B)	<u>24,049,375</u>	<u>24,497,445</u>
Operating Income (Loss)	<u>(15,468,003)</u>	<u>(17,231,971)</u>
NON-OPERATING REVENUES (EXPENSES)		
State allocations	5,789,210	6,136,960
Ad-valorem taxes		
Taxes for maintenance & operations	3,710,237	2,954,515
Taxes on general obligations bonds	1,329,640	1,144,820
Federal revenue, non operating	5,438,200	6,958,730
Contribution from Foundation	-	250,000
Investment income (net of investment expenses)	40,723	5,831
Interest on capital related debt	(1,278,230)	(812,408)
Loss on disposal of fixed assets	-	(62,540)
Other non - operating expenses	<u>(248,493)</u>	<u>(163,627)</u>
Net non-operating revenues (Schedule C)	<u>14,781,287</u>	<u>16,412,281</u>
Capital Contributions		
Component Unit	154,492	76,644
Federal grants capital contributions	<u>249,656</u>	<u>778,819</u>
	<u>404,148</u>	<u>855,463</u>
Increase (Decrease) in Net Position	<u>(282,568)</u>	<u>35,773</u>
Net Position - Beginning of Year	<u>12,657,876</u>	<u>16,203,164</u>
Cumulative Effect of Change in Accounting Principle (Note 2)		<u>(3,581,061)</u>
Net Position - Beginning of Year as Restated (Note 2)	<u>12,657,876</u>	<u>12,622,103</u>
Net Position - End of Year	<u><u>\$ 12,375,308</u></u>	<u><u>\$ 12,657,876</u></u>

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

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
STATEMENTS OF ACTIVITIES
For the Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUES		
Operating Revenues		
Federal Grants and Contracts	\$ 141,723	\$ 141,348
State Grants and Contracts	562,459	517,341
Local Grants and Contracts	908,068	899,956
Total Operating Revenues	<u>1,612,250</u>	<u>1,558,645</u>
EXPENSES		
Operating Expenses		
Public Service	1,989,272	2,305,772
Scholarships	281,236	189,837
Depreciation	10,748	9,817
Total Operating Expenses	<u>2,281,256</u>	<u>2,505,426</u>
Operating (Loss)	<u>(669,006)</u>	<u>(946,781)</u>
Non-Operating Revenues		
Investment income	149,929	172,618
Net non-operating revenues	<u>149,929</u>	<u>172,618</u>
(Loss) Before Other Revenues, Expenses, Gains, Losses	<u>(519,077)</u>	<u>(774,163)</u>
OTHER REVENUES, (EXPENSES), GAINS, LOSSES		
Additions to Endowments	621,623	116,241
Gains (loss) on investments	78,834	(188,945)
Loss on disposal of assets	-	-
Contributions	461,021	415,681
Total Other Revenues, Expenses, Gains, Losses	<u>1,161,478</u>	<u>342,977</u>
Increase (Decrease) in Net Position	642,401	(431,186)
Net Position - Beginning of Year	<u>4,026,891</u>	<u>4,458,077</u>
Net Position - End of Year	<u>\$ 4,669,292</u>	<u>\$ 4,026,891</u>

The accompanying Notes to the Financial Statements are an integral part of these financial statements.

NORTHEAST TEXAS COMMUNITY COLLEGE

EXHIBIT 3

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Receipts from students and other customers	\$ 5,590,933	\$ 3,767,465
Receipts of grants and contracts for operating activities	2,528,711	2,292,583
Other receipts	632,478	479,197
Payments to or on behalf of employees	(9,021,745)	(9,180,106)
Payments to suppliers for goods or services	(9,917,719)	(10,731,375)
Payments of scholarships	(2,105,894)	(2,715,611)
Net cash provided (used) by operating activities	<u>(12,293,236)</u>	<u>(16,087,847)</u>
Cash Flows From Noncapital Financing Activities		
State allocations	5,511,623	5,845,599
Federal revenues	5,438,200	6,958,730
Ad valorem tax revenues	5,000,846	4,145,212
Contribution from Foundation	-	250,000
Net cash provided (used) by non-capital financing activities	<u>15,950,669</u>	<u>17,199,541</u>
Cash Flows From Capital and Related Financing Activities		
Interest and other expense on capital related debt	(900,071)	(627,144)
Purchases of capital assets	(4,405,699)	(1,998,290)
Capital contributions	249,656	778,819
Proceeds from sale of fixed assets	23,000	-
Proceeds on issuance of capital debt	10,322,631	9,815,679
Payments on capital debt and leases	(1,479,313)	(1,408,856)
Net cash provided (used) by capital and related financing activities	<u>3,810,204</u>	<u>6,560,208</u>
Cash Flows From Investing Activities		
Investment earnings	40,723	5,831
Purchases of investments	(601,550)	569,722
Net cash provided (used) by investing activities	<u>(560,827)</u>	<u>575,553</u>
Increase (Decrease) in cash and cash equivalents	<u>6,906,810</u>	<u>8,247,455</u>
Cash and cash equivalents - September 1,	<u>11,873,309</u>	<u>3,625,854</u>
Cash and cash equivalents - August 31,	<u>\$ 18,780,119</u>	<u>\$ 11,873,309</u>
Noncash investing, capital, and financing activities		
Contributions of Capital Assets	154,492	76,644
Bond issuance cost paid out of bond proceeds	241,691	182,762
Total Noncash investing, capital, and financing activities	<u>\$ 396,183</u>	<u>\$ 259,406</u>
Reconciliation of operating income to net cash provided		
by operating activities:		
Operating income (loss)	\$ (15,468,003)	\$ (17,231,971)
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Depreciation expense	1,725,082	1,581,675
Payments made directly by state for benefits	277,587	291,361
Bad debts	486,271	429,082
Changes in assets and liabilities		
Receivables, net	(643,479)	(478,330)
Inventories	185,285	(144,491)
Prepaid expense	45,159	103,045
Due from component unit	647,512	(666,761)
Other assets	(4,500)	16,521
Accounts payable	148,053	233,934
Accrued liabilities	(25,369)	471,967
Deposits payable	(3,650)	(11,722)
Funds held for others	(1,706)	14,155
Pension Related	10,564	(19,331)
Deferred revenue	327,958	(676,981)
Net cash provided (used) by operating activities	<u>\$ (12,293,236)</u>	<u>\$ (16,087,847)</u>

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

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Receipts from grants and contracts for operating activities	\$ 1,107,581	\$ 1,127,794
Payments of scholarships and support of college	(928,748)	476,924
Payments on grants and contract costs	<u>(1,157,337)</u>	<u>(1,646,221)</u>
Net cash provided (used) by operating activities	<u>(978,504)</u>	<u>(41,503)</u>
Cash Flows From Noncapital Financing Activities		
Additions to permanent and term endowment and other contributions	<u>1,025,490</u>	<u>463,461</u>
Net cash provided (used) by noncapital financing activities	<u>1,025,490</u>	<u>463,461</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	631,588	152,201
Investment income (loss)	149,929	172,618
Purchase of capital assets	(73,900)	(183,551)
Purchase of investments	<u>(804,930)</u>	<u>(411,895)</u>
Net cash provided (used) by investing activities	<u>(97,313)</u>	<u>(270,627)</u>
Net increase (decrease) in cash and cash equivalents	(50,327)	151,331
Cash and cash equivalents at beginning of year	<u>1,049,501</u>	<u>898,170</u>
Cash and cash equivalents at end of year	\$ <u>999,174</u>	\$ <u>1,049,501</u>
Noncash investing, capital, and financing activities		
Inkind contributions	\$ <u>665,593</u>	\$ <u>627,227</u>
Reconciliation of operating loss to net cash used by by operating activities		
Operating loss	\$ (669,006)	\$ (946,781)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	10,748	9,817
Non cash transfer to college	154,492	76,644
Amortization and expense of inkind contributions	69,004	29,961
Change in assets and liabilities		
Accounts receivable	84,555	166,718
Due to college	(647,512)	666,761
Deferred revenue	19,215	(38,803)
Accounts payable	<u>-</u>	<u>(5,820)</u>
Net cash provided (used) by operating activities	\$ <u>(978,504)</u>	\$ <u>(41,503)</u>

The accompanying Notes to the Financial Statements are an integral part of these financial statements.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 1 - Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants: Certain tuition amounts are required to be set aside for use as scholarships for qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code Sec. 56.0333). When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

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

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

Basis of Accounting

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

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

Budgetary data

Each community college in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendments must be filed with Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1. The budget for the year ended August 31, 2016 was adopted by the Board of Trustees on August 25, 2015.

Cash and cash equivalents

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

Restricted cash

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

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenues) until that time. Governments are only permitted to report deferred inflows in circumstances specifically authorized by the GASB. A typical deferred inflow for community colleges is pension related.

Deferred Outflows

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

Investments

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

Inventories

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

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

Capital Assets

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

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

Unearned Revenue and Expenditure

Tuition and Fees of \$1,245,207 and \$994,380 and federal, state and local grants of \$261,571 and \$184,440 have been reported as unearned revenues at August 31, 2016 and 2015, respectively.

Estimates

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

Operating and Non-Operating Revenues and Expenses

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

Pensions

For the year ended August 31, 2015 Northeast Texas Community College implemented Governmental Accounting Standards Board (GASB) Number 68 *Accounting and Reporting for Pensions* as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* to assume its proportionate share of the Net Pension Liability of the Teachers Retirement System of Texas (TRS) in the current year.

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

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

Prior Year Restatements and Reclassifications

During fiscal year 2015, the College adopted GASB Statement No. 68 for Accounting and Reporting for Pensions as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. With GASB 68 and GASB 71, 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. A restatement to beginning net position will be required for the recording of the beginning net pension liability and for recording of deferred outflows of resources for contributions made after the measurement date of the beginning net pension liability and beginning of the reporting entity's fiscal year.

Beginning net position as of September 1, 2014, has been restated as follows for the implementation of GASB No.68 and GASB No. 71.

Beginning net position		\$	16,203,164
Prior period adjustment - implementation of GASB 68			
Net pension liability (measurement date as of August 31, 2014)	\$		(3,881,054)
Deferred outflow - college contribution made during FY 2014			299,993
Prior period adjustment - implementation of GASB 68			(3,581,061)
Beginning net position as restated		\$	12,622,103

In accordance with GASB No. 68 the college is restating net position as of September 1, 2014, because the college does not have all of the audited beginning balances to restate the statements for the year ended August 31, 2014.

Certain reclassifications have been made to the prior year to conform with the current year presentation.

Subsequent Events

Management has evaluated subsequent events through the date of this report which is the date the financial were available to be issued which was December 9, 2016.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 3 - Authorized Investments

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

Note 4 - Deposits and Investments

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

	<u>2016</u>	<u>2015</u>
Cash and Deposits		
Demand Deposits	\$ 8,313,959	\$ 10,435,432
Time Deposits	1,544,581	1,520,370
Petty Cash	10,237	10,045
Total Cash and Deposits	<u><u>\$ 9,868,777</u></u>	<u><u>\$ 11,965,847</u></u>

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	<u>Fair Value August 31, 2016</u>	<u>Fair Value August 31, 2015</u>
Investment Pool	\$ 10,455,923	\$ 850,493
Total	10,455,923	850,493
Total Cash and Deposits	9,868,777	11,965,847
Total Deposits and Investments	<u><u>\$ 20,324,700</u></u>	<u><u>\$ 12,816,340</u></u>
Cash and Cash Equivalents (Exhibit 1)	\$ 2,305,443	\$ 1,539,721
Restricted Cash and Cash Equivalents (Exhibit 1)	16,474,676	10,333,588
Investments (Exhibit 1)	515,717	101,554
Restricted Investments (Exhibit 1)	1,028,864	841,477
Total Deposits and Investments	<u><u>\$ 20,324,700</u></u>	<u><u>\$ 12,816,340</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 4 - Deposits and Investments – (continued)

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

	2016	2015
Demand Deposits	\$ 128,308	\$ 504,786
Total Cash and Deposits	\$ 128,308	\$ 504,786

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Fair Value August 31, 2016	Fair Value August 31, 2015
U.S. Government Agencies	\$ 68,302	\$ 70,831
Corporate Bond/Notes	952,077	10,124
Mutual Funds	3,056,678	3,417,774
Total Investments	4,077,057	3,498,729
Total Cash and Deposits	128,308	504,786
Total Deposits and Investments	\$ 4,205,365	\$ 4,003,515
Cash and Cash Equivalents	\$ 999,175	\$ 1,049,501
Long-term Investments	3,206,190	2,954,014
Total Deposits and Investments	\$ 4,205,365	\$ 4,003,515

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

Investment Type	Credit Rating	Market Value	Investment Maturities (in years)		
			Less than 1	1-2	2-3
Certificates of Deposit	N/A	\$ 1,544,581	\$ -	\$ 1,544,581	\$ -
Investment Pool	AAA	10,455,923	10,455,923	-	-
Total Market Value		\$ 12,000,504	\$ 10,455,923	1,544,581	-

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

Investment Type	Credit Rating	Market Value	Investment Maturities (in years)			
			No Maturity	Less than 1	1-2	2-3
Investco Treasury Cash Management	AAA	870,867	-	870,867	-	-
US Gov't Agencies	AAA	68,302	-	-	-	68,302
Corporate Bonds/Notes	AA	952,077	-	-	-	952,077
Mutual Funds	N/A	2,185,811	2,185,811	-	-	-
Total Market Value		\$ 4,077,057	\$ 2,185,811	\$ 870,867	\$ -	\$ 1,020,379

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 4 - Deposits and Investments – (continued)

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

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

Concentration of Credit Risk: The College does not place a limit on the amount that may be invested in any one issuer. More than 5% of the College’s investments are in investment pools (87.1%) and in certificates of deposit (12.9%).

Custodial Credit Risk: At August 31, 2016, the College had money on deposit at two banks. The carrying amount of the College’s and the Foundation’s bank deposits was \$9,858,540 and \$128,308 and total bank balances equaled \$10,213,945 and \$128,308. Bank balances of \$524,228 are covered by federal depository insurance and \$9,818,025 was covered by collateral pledged in Northeast Texas Community College’s name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

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

Note 5 – Derivatives

The College had no derivatives at August 31, 2016 or 2015.

Note 6 – Deferred Outflows of Resources Bond Refunding

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

	Balance August 31, 2015	Increases	Decreases	Balance August 31, 2016
Deferred charge on bond refunding	\$ 656,190	\$ 9,497	\$ 78,452	\$ 587,235
	Balance August 31, 2014	Increases	Decreases	Balance August 31, 2015
Deferred charge on bond refunding	\$ 737,407	\$ -	\$ 81,217	\$ 656,190

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 7– Capital Assets

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

	For the Year Ended August 31, 2016			Balance August 31, 2016
	Balance August 31, 2015	Increases	Decreases	
Not Depreciated:				
Land	\$ 1,438,209	\$ -	\$ -	\$ 1,438,209
Construction in Process	564,561	3,913,577	202,836	4,275,302
Subtotal	<u>\$ 2,002,770</u>	<u>\$ 3,913,577</u>	<u>\$ 202,836</u>	<u>\$ 5,713,511</u>
Other Capital Assets:				
Buildings	41,540,467	29,588	-	41,570,055
Equipment Purchased with Capital Lease	342,348	-	-	342,348
Furniture, Machinery, Vehicles, and other Equipment	4,659,072	613,502	5,500	5,267,074
Library Books	859,499	20,146	159,275	720,370
Telecommunications and Peripheral Equipment	2,604,824	186,215	-	2,791,039
Subtotal	<u>\$ 50,006,210</u>	<u>\$ 849,451</u>	<u>\$ 164,775</u>	<u>\$ 50,690,886</u>
Accumulated Depreciation:				
Buildings	12,116,590	926,785	-	13,043,375
Equipment Purchased with Capital Lease	284,848	4,600	-	289,448
Furniture, Machinery, Vehicles and Other Equipment	2,271,384	417,744	5,500	2,683,628
Library Books	686,599	29,734	159,275	557,058
Telecommunications and Peripheral Equipment	1,396,263	346,220	-	1,742,483
Subtotal	<u>\$ 16,755,684</u>	<u>\$ 1,725,083</u>	<u>\$ 164,775</u>	<u>\$ 18,315,992</u>
Net Other Capital Assets	<u>\$ 33,250,526</u>	<u>\$ (875,632)</u>	<u>\$ -</u>	<u>\$ 32,374,894</u>
Net Capital Assets	<u>\$ 35,253,296</u>	<u>\$ 3,037,945</u>	<u>\$ 202,836</u>	<u>\$ 38,088,405</u>

The college has committed to a rehabilitation and rejuvenation project for the original campus buildings in the total amount of \$19.9 million. As of August 31, 2016 the college had expended \$4,275,302 toward this project.

*NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015*

Note 7 – Capital Assets – (continued)

Foundation

	For the Year Ended August 31, 2016			Balance August 31, 2016
	Balance August 31, 2015	Increases	Decreases	
<u>Not Depreciated:</u>				
Land	\$ 202,670		\$ -	\$ 202,670
Works of Art, Antiques	193,236		-	193,236
Construction in Progress	106,907		106,907	-
Subtotal	<u>\$ 502,813</u>	<u>\$ -</u>	<u>\$ 106,907</u>	<u>\$ 395,906</u>
<u>Other Capital Assets:</u>				
Buildings	196,024	-	-	196,024
Furniture, Machinery, Vehicles, and other Equipment	152,285	26,312		178,597
Telecommunications and Peripheral Equipment	75,087	-	-	75,087
Subtotal	<u>\$ 423,396</u>	<u>\$ 26,312</u>	<u>\$ -</u>	<u>\$ 449,708</u>
<u>Accumulated Depreciation:</u>				
Buildings	52,064	6,942	-	59,006
Furniture, Machinery, Vehicles and Other Equipment	147,385	3,806		151,191
Telecommunications and Peripheral Equipment	75,087	0	-	75,087
Subtotal	<u>\$ 274,536</u>	<u>\$ 10,748</u>	<u>\$ -</u>	<u>\$ 285,284</u>
Net Other Capital Assets	<u>\$ 148,860</u>	<u>\$ 15,564</u>	<u>\$ -</u>	<u>\$ 164,424</u>
Net Capital Assets	<u><u>\$ 651,673</u></u>	<u><u>\$ 15,564</u></u>	<u><u>\$ 106,907</u></u>	<u><u>\$ 560,330</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 7 – Capital Assets – (continued)

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

	<u>For the Year Ended August 31, 2015</u>			
	<u>Balance August 31, 2014</u>	<u>Increases</u>	<u>Decreases</u>	
<u>Not Depreciated:</u>				
Land	\$ 1,438,209	\$ -	\$ -	\$ 1,438,209
Construction in Process	-	564,561		564,561
Subtotal	<u>\$ 1,438,209</u>	<u>\$ 564,561</u>	<u>\$ -</u>	<u>\$ 2,002,770</u>
<u>Other Capital Assets:</u>				
Buildings	41,486,838	53,629	-	41,540,467
Equipment Purchased with Capital Lease	342,348	-	-	342,348
Furniture, Machinery, Vehicles, and other Equipment	4,268,568	465,261	74,757	4,659,072
Library Books	851,325	19,799	11,625	859,499
Telecommunications and Peripheral Equipment	1,759,002	971,686	125,864	2,604,824
Subtotal	<u>\$ 48,708,081</u>	<u>\$ 1,510,375</u>	<u>\$ 212,246</u>	<u>\$ 50,006,210</u>
<u>Accumulated Depreciation:</u>				
Buildings	11,193,565	923,025	-	12,116,590
Equipment Purchased with Capital Lease	266,791	18,057	-	284,848
Furniture, Machinery, Vehicles and Other Equipment	1,917,147	381,213	26,976	2,271,384
Library Books	665,577	32,646	11,624	686,599
Telecommunications and Peripheral Equipment	1,257,635	226,733	88,105	1,396,263
Subtotal	<u>\$ 15,300,715</u>	<u>\$ 1,581,674</u>	<u>\$ 126,705</u>	<u>\$ 16,755,684</u>
Net Other Capital Assets	<u>\$ 33,407,366</u>	<u>\$ (71,299)</u>	<u>\$ 85,541</u>	<u>\$ 33,250,526</u>
Net Capital Assets	<u><u>\$ 34,845,575</u></u>	<u><u>\$ 493,262</u></u>	<u><u>\$ 85,541</u></u>	<u><u>\$ 35,253,296</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
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AUGUST 31, 2016 AND 2015**

Note 7 – Capital Assets – (continued)
Foundation

	For the Year Ended August 31, 2015			Balance August 31, 2015
	Balance August 31, 2014	Increases	Decreases	
<u>Not Depreciated:</u>				
Land	\$ 140,400	\$ 62,270	\$ -	\$ 202,670
Works of Art, Antiques	193,236		-	193,236
Construction in Progress		106,907		106,907
Subtotal	<u>\$ 333,636</u>	<u>\$ 62,270</u>	<u>\$ -</u>	<u>\$ 502,813</u>
<u>Other Capital Assets:</u>				
Buildings	196,024	-	-	196,024
Furniture, Machinery, Vehicles, and other Equipment	152,285	-		152,285
Telecommunications and Peripheral Equipment	75,087	-	-	75,087
Subtotal	<u>\$ 423,396</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 423,396</u>
<u>Accumulated Depreciation:</u>				
Buildings	45,122	6,942	-	52,064
Furniture, Machinery, Vehicles and Other Equipment	144,510	2,875		147,385
Telecommunications and Peripheral Equipment	75,087	0	-	75,087
Subtotal	<u>\$ 264,719</u>	<u>\$ 9,817</u>	<u>\$ -</u>	<u>\$ 274,536</u>
Net Other Capital Assets	<u>\$ 158,677</u>	<u>\$ (9,817)</u>	<u>\$ -</u>	<u>\$ 148,860</u>
Net Capital Assets	<u><u>\$ 492,313</u></u>	<u><u>\$ 52,453</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 651,673</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 8 – Noncurrent Liabilities

Long-term liability activity for the year ended August 31, 2016 was as follows:

	<u>Balance August 31, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2016</u>	<u>Current Portion</u>
Leases, bonds, and notes					
Revenue bonds	\$ 8,243,000	\$ 2,540,000	\$ 2,800,000	\$ 7,983,000	\$ 322,000
General obligation bonds	22,802,929	10,267,690	895,143	32,175,476	1,124,443
Notes payable	873,295		80,961	792,334	85,703
Net pension liability	3,160,678	869,235	311,480	3,718,433	N/A
Total long-term obligations	<u>\$ 35,079,902</u>	<u>\$ 13,676,925</u>	<u>\$ 4,087,584</u>	<u>\$ 44,669,243</u>	<u>\$ 1,532,146</u>

Long-term liability activity for the year ended August 31, 2015 was as follows:

	<u>Balance August 31, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2015</u>	<u>Current Portion</u>
Leases, bonds, and notes					
Revenue bonds	\$ 8,586,000	\$ -	\$ 343,000	\$ 8,243,000	\$ 295,000
General obligation bonds	14,071,491	9,635,916	904,478	22,802,929	929,747
Notes payable	1,034,673		161,378	873,295	82,215
Net pension liability	-	3,160,678	-	3,160,678	N/A
Total long-term obligations	<u>\$ 23,692,164</u>	<u>\$ 12,796,594</u>	<u>\$ 1,408,856</u>	<u>\$ 35,079,902</u>	<u>\$ 1,306,962</u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 9 – Bonds and Notes Payable

General Obligation Bonds

The 2010 Series Limited Tax Bonds are due in annual installments varying from \$405,401 to \$894,900. The 2012 Series Limited Tax Refunding Bonds are due in annual installments varying from \$31,582 to \$1,130,200 with interest rates from 1.08% to 2.4%. The 2013 Series Limited Tax Refunding Bonds are due in annual installments from \$ 530,000 to \$1,130,000 with interest rates from 3.03% to 3.38%. Of the original \$18,000,000 bonds authorized by the November 5, 2002 election, there were un-issued but approved bonds totaling \$5,534,837 at August 31, 2016 and 2015. The 2015 Series Limited Tax Bonds are due in annual installments varying from \$35,122 to \$1,055,600 with interest rates from 4% to 4.25%. The 2016 Series Limited Tax Bonds are due in annual installments varying from \$75,000 to \$1,955,000. The principal and interest expense for the next five years and beyond for the tax obligation bonds are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2017	\$ 1,124,443 (A)	\$ 758,590	\$ 1,883,033
2018	1,023,290 (A)	999,604	2,022,894
2019	1,008,305 (A)	1,017,360	2,025,665
2020	1,059,000 (A)	965,479	2,024,479
2021	1,086,000 (A)	933,919	2,019,919
2022-2026	5,020,765 (A)	4,921,926	9,942,691
2027-2031	5,308,673 (A)	4,734,411	10,043,084
2032-2036	7,445,000 (A)	2,673,752	10,118,752
2037-2041	9,100,000 (A)	1,020,389	10,120,389
	\$ 32,175,476	\$ 18,025,430	\$ 50,200,906

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

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

General information related to bonds payable is summarized below:

Limited Tax Bonds, Series 2010

To construct and equip Wellness Center

Issued September 15, 2010

Total issued \$1,471,000

Source of revenue for debt service is ad valorem taxes

Outstanding principal balance at August 31, 2016 and 2015 is \$1,273,000 and \$1,315,000 respectively

*NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015*

Note 9 – Bonds and Notes Payable-(continued)

General Obligation Bonds-(continued)

Limited Tax Refunding Bonds, Series 2012

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

Issued January 20, 2012

Total authorized and issued \$9,293,154

Source of revenue for debt service is ad valorem taxes

Outstanding accredited principal balance at August 31, 2016 and 2015 was \$6,929,455 and \$7,780,484, respectively.

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

Limited Tax Refunding Bonds, Series 2013

To advance refund the remaining 2003 Series Limited Tax Bonds

Issued January 25, 2013

Total Authorized and Issued \$3,912,171

Source of revenue for debt service is ad valorem taxes

Outstanding accredited principal balance at August 31, 2016 and 2015 was \$4,373,438 and \$4,237,445, respectively.

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

Limited Tax Bonds, Series 2015

To construct and equip school buildings

Issued August 11, 2015

Total authorized and issued \$9,470,000

Source of revenue for debt service is ad valorem taxes

Outstanding principal balance at August 31, 2016 and 2015 is \$9,639,583 and \$9,470,000, respectively.

Limited Tax Bonds, Series 2016

To construct and equip school buildings

Issued May 24, 2016

Total authorized 10,430,000 and issued \$9,960,000

Source of revenue for debt service is ad valorem taxes

Outstanding principal balance at August 31, 2016 and 2015 is \$9,960,000 and \$0, respectively

Revenue Bonds

The 2010 Revenue Financing System Bonds are due in annual installments varying from \$398,661 to \$402,629 with a 4.09% interest rate. The 2016 Revenue Financing System Refunding and Improvement Bonds, Series 2016 are due in annual installments varying from \$140,000 to \$205,000.

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 9 – Bonds and Notes Payable-(continued)

Debt service requirements for the revenue bonds are as follows:

<u>Years Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	322,000	\$ 286,974	\$ 608,974
2018	329,000	276,587	605,587
2019	342,000	265,843	607,843
2020	355,000	254,672	609,672
2021	369,000	243,054	612,054
2022-2026	2,027,000	1,013,164	3,040,164
2027-2031	2,435,000	599,413	3,034,413
2032-2036	1,804,000	190,471	1,994,471
	<u>\$ 7,983,000</u>	<u>\$ 3,130,178</u>	<u>\$ 11,113,178</u>

Revenue Financing System Refunding and Improvement Bonds, Series 2006

To advance refund 1992 Series Dormitory System Revenue Bonds

Issued April 5, 2006

Total Authorized and issued \$4,490,000

Source of revenue for debt services is dorm fees

Outstanding principal balance at August 31, 2016 and 2015 was \$0 and \$2,595,000, respectively. This bond was refunded by the 2016 bond issue.

Revenue Financing System Bonds, Series 2010

To construct and equip dorm building

Issued September 30, 2010

Total Authorized and issued, \$6,132,000

Source of revenue for debt service is dorm fees

Outstanding principal balance at August 31, 2016 and 2015 was \$5,473,000 and \$5,648,000, respectively

Revenue Financing System Refunding and Improvement Bonds, Series 2016

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

Issued May 24, 2016

Total Authorized and issued \$2,540,000

Sources of revenue for debt service is dorm fees

Outstanding principal balance at August 31, 2016 and 2015 was \$2,510,000 and \$0, respectively

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 9 – Bonds and Notes Payable-(continued)

Notes Payable

The College entered into a 4.34% maintenance tax note payable dated April 27, 2010 to a bank in the amount of \$1,100,000. The note is due in 30 semi-annual payments of \$50,129. The balance of the note at August 31, 2016 and 2015 was \$737,848 and \$803,544 respectively.

The College entered into a financing agreement payable to a bank to purchase a bus on November 25, 2013 in the amount of \$86,000. The loan is due in 5 annual payments \$18,726, including interest at 2.88%. The balance of the note at August 31, 2016 and 2015 was \$54,486 and \$69,751, respectively

Debt service requirements for the notes payable are as follows:

<u>Years Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	85,703	33,280	\$ 118,983
2018	89,246	29,737	118,983
2019	92,877	26,045	118,922
2020	78,002	22,256	100,258
2021	81,530	18,727	100,257
2022-2025	364,976	37,007	401,983
	<u>\$ 792,334</u>	<u>\$ 167,052</u>	<u>\$ 959,386</u>

Note 10 – Defined Benefit Pension Plan

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

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
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Note 10 – Defined Benefit Pension Plan-(continued)

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$163,887,375,172
Less: Plan Fiduciary Net Position	<u>(128,538,706,212)</u>
Net Pension Liability	<u>\$ 35,348,668,960</u>
 Net Position as percentage of Total Pension Liability	 78.43%

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

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

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

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AUGUST 31, 2016 AND 2015**

Note 10 – Defined Benefit Pension Plan-(continued)

	Contribution Rates	
	<u>2015</u>	<u>2016</u>
Member (Employees)	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employer (District)	6.8%	6.8%
Member Contributions	486,966	531,759
State of Texas On-Behalf Contributions	182,755	183,882
College Contributions	311,480	319,900

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

The district's contributions to the TRS pension plan in 2016 were \$319,900 as reported in the Schedule of District Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2016 were \$183,882.

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

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

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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Note 10 – Defined Benefit Pension Plan-(continued)

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Inflation	2.5%
Salary Increases*	3.5% to 9.5%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	2.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None
<i>*Includes Inflation of 2.5%</i>	

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

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

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-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 Systems target asset allocation as of August 31, 2015 are summarized below:

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
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Note 10 – Defined Benefit Pension Plan-(continued)

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

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

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 10 – Defined Benefit Pension Plan-(continued)

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
College's proportionate share of the net pension liability	\$ 5,826,083	\$ 3,718,433	\$ 1,962,891

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2016, the college reported a liability of \$3,718,433 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the college. The amount recognized by the college as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the college were as follows:

College proportionate share of the collective net pension liability	\$ 3,718,433
State's proportionate share that is associated with the College	2,194,512
Total	\$ 5,912,945

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

At August 31, 2015 the employer's proportion of the collective net pension liability was .0105193% which was a decrease of -.0013134% from its proportion measured as of August 31, 2014.

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective 09/01/2013. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2016, the college recognized pension expense of \$180,781 and revenue of \$180,781 for support provided by the State.

For the year ended August 31, 2015, the college recognized pension expense of \$187,939 and revenue of \$187,939 for support provided by the State.

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015**

Note 10 – Defined Benefit Pension Plan-(continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 40,653	\$ 142,903
Changes in actuarial assumptions	170,864	132,657
Difference between projected and actual investment earnings	191,243	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	300,961
Total as of August 31, 2015 measurement date	402,760	576,521
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	319,900	-
Total	\$ 722,660	\$ 576,521

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

Year ended August 31:			
2017	\$	(67,445)	
2018		(67,445)	
2019		(67,445)	
2020		174,062	
2021		(57,411)	
Thereafter		(88,077)	
	\$	(173,761)	

At August 31, 2016, the College reported Deferred Resource Outflows and Deferred Resource Inflows for the TRS pension plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Total net amounts as of August 31, 2015 Measurement Date	\$ 402,760	\$ 576,521
Contributions made subsequent to the Measurement Date Reported by College as of August 31, 2016	319,900	-
	\$ 722,660	\$ 576,521

*NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015*

Note 11 – Defined Contribution Pension Plan

The state has also established an optional retirement program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.0% and 6.65%, respectively. The College contributes 2.5% percent for employees who were participating in the optional retirement program prior to September 1, 1995 and .24% for all others. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense of the State for the College, for both the define benefit plan and the define contribution plan, was \$277,587, \$296,545, and \$270,566 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 for the College employees was \$10,678,432, \$10,987,243, and \$10,591,444 for fiscal years 2016, 2015, and 2014 respectively. The total payroll of employees covered by the Teacher Retirement System was \$7,385,543, \$7,268,137, and \$6,869,697 and the total payroll of employees covered by the Optional Retirement Program was \$3,229,952, \$3,291,093, and \$3,140,757 for fiscal years 2016, 2015, and 2014, respectively.

Note 12 – Compensable Absences

Full time College employees earn vacation of 5-15 days per year based on years of service and sick leave benefits of 8 hours per month. Employees are required to take all of their vacation by the anniversary date of their employment. The College has accrued \$151,168 and \$169,275 for August 31, 2016 and 2015, respectively, in the financial statements for vacation to be carried over to the next fiscal year. Administration believes that all of the accrued vacation will be taken or paid out in the next fiscal year. Sick leave can be accumulated up to 480 hours, but cannot be redeemed in pay. Accordingly, no accrual for sick leave has been made.

*NORTHEAST TEXAS COMMUNITY COLLEGE
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Note 13 - Disaggregation of Receivables and Payables Balances

Receivables at August 31, 2016 were as follows:

	<u>College</u>	<u>Foundation</u>
Tuition and Fees Receivable	\$ 2,552,373	-
Taxes Receivable	791,091	-
Scholarship and Pledges Receivable		1,007
Contracts and Grants Receivable	495,349	
Other Receivables	80,350	-
Subtotal	<u>3,919,163</u>	<u>1,007</u>
Allowance for Doubtful Accounts	2,119,268	-
Total Receivables	<u>\$ 1,799,895</u>	<u>\$ 1,007</u>

Payables at August 31, 2016 were as follows:

	<u>College</u>	<u>Foundation</u>
Accounts Payable:		
Vendors Payable	<u>\$ 1,024,266</u>	<u>\$ -</u>
Accrued Liabilities:		
Accrued payroll liabilities	\$ 20,683	\$ -
Payable to Department of Education	409,317	
Interest payable	294,859	-
Total Accrued Liabilities	<u>724,859</u>	<u>-</u>
Deposits payable:		
Student deposits payable	<u>\$ 156,808</u>	<u>\$ -</u>

*NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015*

Note 13 - Disaggregation of Receivables and Payables Balances - (continued)

Receivables at August 31, 2015 were as follows:

	<u>College</u>	<u>Foundation</u>
Tuition and Fees Receivable	\$ 1,961,742	-
Taxes Receivable	357,232	-
Scholarship and Pledges Receivable	-	22,007
Contracts and Grants Receivable	470,772	63,555
Other Receivables	75,079	-
Subtotal	2,864,825	85,562
Allowance for Doubtful Accounts	1,238,169	-
Total Receivables	\$ 1,626,656	\$ 85,562

Payables at August 31, 2015 were as follows:

	<u>College</u>	<u>Foundation</u>
Accounts Payable:		
Vendors Payable	\$ 876,213	\$ -
Accrued Liabilities:		
Accrued payroll liabilities	\$ 27,941	\$ -
Payable to Department of Education	409,317	-
Interest payable	202,433	-
Total Accrued Liabilities	639,691	-
Deposits payable:		
Student deposits payable	\$ 160,458	\$ -

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
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Note 14 - Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2, and Schedule A, and Schedule C. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements.

Contracts and grant award funds already committed or funds awarded during fiscal year 2016 and 2015 for the College and Foundation are as follows:

	2016	2015
College		
Federal	\$ 1,056,417	\$ 1,325,487
State	40,284	484,834
Total	\$ 1,096,701	\$ 1,810,321
Foundation		
Federal	\$ 141,706	\$ 141,723
State	562,458	562,469
Total	\$ 704,164	\$ 704,192

Note 15 – Self-Insured Plans

The College self-insures for coverage in the areas of workers' compensation and unemployment compensation. These plans are on a pay-as-you-go basis, in which no assets are set aside. Accrued liabilities are generally based on actuarial valuation and represent the present value of unpaid expected claims. Estimated future payments for incurred claims are charged to current operations. The College accrued \$13,112 and \$21,609 as estimated future payments for the years ended August 31, 2016 and 2015 respectively.

Note 16 - Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the college. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per insured was \$288 and \$269 for the years ended August 31, 2016 and 2015 respectively and totaled \$746,537 for 2016, and \$832,004 for 2015. The state's cost of providing benefits for 58 and 43 retirees was \$166,836 and \$146,970 for the years ended August 31, 2016 and 2015 respectively. Senate Bill 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

**NORTHEAST TEXAS COMMUNITY COLLEGE
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AUGUST 31, 2016 AND 2015**

Note 17 – Ad Valorem Tax

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

	<u>2016</u>	<u>2015</u>
Assessed Valuation	\$ 4,772,177,902	\$ 4,752,456,776
Less Exemptions and Reductions	653,485,240	665,454,345
Net Taxable Assessed Value	<u>\$ 4,118,692,662</u>	<u>\$ 4,087,002,431</u>

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax rate authorized per \$100 valuation	\$ N/A	\$ N/A	\$ 0.0995
Tax rate assessed per \$100 valuation for 2016	\$ 0.0957	\$ 0.0343	\$ 0.1300
Tax rate assessed per \$100 valuation for 2015	<u>\$ 0.0722</u>	<u>\$ 0.0273</u>	<u>\$ 0.0995</u>

Taxes levied for the years ended August 31, 2016 and 2015 were \$5,354,300 and \$4,066,567 respectively excluding any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Tax collections for the year ended August 31, 2016 and 2015 are as follows:

	<u>2016</u>			<u>2015</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current Taxes	\$ 3,577,790	\$ 1,282,322	\$4,860,112	\$ 2,894,085	\$ 1,088,784	\$ 3,982,869
Delinquent Taxes	55,581	18,860	74,441	58,935	22,172	81,107
Penalties and Interest	46,491	12,884	59,375	11,865	4,464	16,329
Other Fees	2,338	4,675	7,013	4,242	1,596	5,838
Total Collections	<u>\$ 3,682,200</u>	<u>\$ 1,318,741</u>	<u>\$5,000,941</u>	<u>\$ 2,969,127</u>	<u>\$ 1,117,016</u>	<u>\$ 4,086,143</u>

Current tax levy collections for the years ended August 31, 2016 and 2015 were 90.8% and 97.9%, respectively. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance and operations and/or general obligation debt service.

Note 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 Organizations. The college had no unrelated business income for the years ended August 31, 2016 and 2015.

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Note 19 – Northeast Texas Community College Foundation, Inc. – Discrete Component Unit

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

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

Note 20 - Risk Management - Claims and Judgments

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

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

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

Note 21 - Commitments and Contingencies

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

Grant Programs – The college participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the college has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2016 may be impaired. In the opinion of the college, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Note 22 – Postemployment Benefits Other than Pensions

Plan Description: Northeast Texas Community 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.

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AUGUST 31, 2016 AND 2015*

Note 22 – Postemployment Benefits Other than Pensions – (continued)

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

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

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

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

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

The College's contributions to SRHP for the years ended August 31, 2016, 2015, and 2014 were \$746,537, \$832,004, and \$775,183 respectively which equaled the required contributions each year.

Note 23 -TC³ Consortium

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

REQUIRED SUPPLEMENTAL INFORMATION

*NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE 1
SCHEDULE OF COLLEGE'S SHARE OF NET PENSION LIABILITY
For the Year Ended August 31, 2016*

<u>For the Year Ending August 31</u>	<u>2016</u>	<u>2015</u>
Colleges Proportion Share of Net Pension Liability	<u>0.01051930%</u>	<u>0.01183270%</u>
College's Proportionate Share of Collective Net Pension Liability	\$ 3,718,433	\$ 3,160,678
State's Proportionate Share of Collective Net Pension Liability Associated with College	<u>2,194,512</u>	<u>1,782,893</u>
	\$ <u>5,912,945</u>	\$ <u>4,943,571</u>
College Covered Payroll Amount	\$ <u>7,268,137</u>	\$ <u>6,869,697</u>
Ratio of College's Proportionate of Net Pension Liability to College's Covered Payroll	<u>51.16%</u>	<u>46.01%</u>
TRS Net Position as Percentage of Total Pension Liability	<u>78.43%</u>	<u>83.25%</u>

Note: GASB 68, Paragraph 81.2.a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

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

See independent auditors' report.

*NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE 2
SCHEDULE OF COLLEGE'S CONTRIBUTIONS
For the Year Ended August 31, 2016*

<u>For the Year Ending August 31</u>	<u>2016</u>	<u>2015</u>
Legally Required Contribution	\$ 319,900	\$ 311,480
Actual Contributions	<u>319,900</u>	<u>311,480</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>
 College Covered Payroll Amount	 \$ <u>7,385,543</u>	 \$ <u>7,268,137</u>
Ratio of College's Actual Contributions to Covered Payroll	<u>4.33%</u>	<u>4.29%</u>

Note: GASB 68, Paragraph 81.2.a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

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

See independent auditors' report.

*NORTHEAST TEXAS COMMUNITY COLLEGE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended August 31, 2016*

Changes of Benefit Terms

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

Changes of Assumptions

The most significant changes were related to the update of the post-retirement mortality rates based on the most recent TRS member experience and the decrease in the assumption for general wage inflation from 3.0% to 2.5%. Other changes to overall assumptions and methods had a minor impact on the results of the actuarial valuation and the related pension liability.

See independent auditors' report.

*SUPPLEMENTAL SCHEDULES
REQUIRED BY TEXAS HIGHER EDUCATION
COORDINATING BOARD*

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE OF DETAILED OPERATING REVENUES
SCHEDULE A

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

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2016 Total	Memorandum 2015 Total
Tuition						
State funded courses						
In-district resident tuition	\$ 1,350,829	\$	\$ 1,350,829	\$	\$ 1,350,829	\$ 1,202,398
Out-of-district resident tuition	842,750		842,750		842,750	885,070
TPEG (set aside)*	129,505		129,505		129,505	133,752
Non-resident tuition	537,880		537,880		537,880	479,457
State funded continuing education	317,181		317,181		317,181	60,564
Non-state funded continuing education	86,397		86,397		86,397	134,602
Total Tuition	3,264,542	-	3,264,542	-	3,264,542	2,895,843
Fees						
General fees	2,501,672		2,501,672		2,501,672	3,019,590
Out-of-district fees	1,375,012		1,375,012		1,375,012	1,444,061
Laboratory fees	209,131		209,131		209,131	187,465
Other fees	132,517		132,517		132,517	128,022
Total Fees	4,218,332	-	4,218,332	-	4,218,332	4,779,138
Scholarship Allowances and Discounts						
Scholarship allowances	(528,257)		(528,257)		(528,257)	(577,361)
Remissions and exemptions	(164,990)		(164,990)		(164,990)	(217,651)
TPEG allowances	(129,505)		(129,505)		(129,505)	(133,752)
Federal grants to students	(3,436,028)		(3,436,028)		(3,436,028)	(3,890,732)
Total Scholarship Allowances	(4,258,780)	-	(4,258,780)	-	(4,258,780)	(4,819,496)
Total Net Tuition and Fees	3,224,094	-	3,224,094	-	3,224,094	2,855,485
Other Operating Revenues						
Federal grants and contracts	44,963	1,285,539	1,330,502		1,330,502	736,490
State grants and contracts		1,038,294	1,038,294		1,038,294	1,149,284
Nongovernmental grants and contracts		184,493	184,493		184,493	206,944
Sales and services of educational activities	64,768		64,768		64,768	91,012
Other operating revenues	399,957		399,957	167,753	567,710	380,150
Total Other Operating Revenues	509,688	2,508,326	3,018,014	167,753	3,185,767	2,563,880
Auxiliary Enterprises						
Residential life				1,364,444	1,364,444	1,369,203
Less discounts				(157,898)	(157,898)	(258,271)
Bookstore				1,642,974	1,642,974	1,727,312
Less discounts				(678,009)	(678,009)	(992,135)
Total Net Auxiliary Enterprises	-	-	-	2,171,511	2,171,511	1,846,109
Total Operating Revenues (Exh.2)	\$ 3,733,782	\$ 2,508,326	\$ 6,242,108	\$ 2,339,264	\$ 8,581,372	\$ 7,265,474

*In accordance with Education Code 56.033, \$129,505 and \$133,752 for years August 31, 2016 and 2015, respectively, of tuition was set aside for Texas Public Education Grants(TPEG).

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE B
 SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATIONS
 For the Year Ended August 31, 2016 (with Memorandum Totals for the Year Ended August 31, 2015)

	Operating Expenses					Memorandum Total 8/31/2015
	Salaries and Wages	Benefits		Other Expenses	Total 8/31/2016	
		State Benefits	Local Benefits			
Unrestricted - Educational Activities						
Instruction	\$ 6,038,174		1,000,903	509,359	\$ 7,548,436	\$ 7,797,804
Public Service	66,614		11,042	109,844	187,500	181,105
Academic Support	732,364		121,398	106,676	960,438	929,514
Student Services	761,353		126,204	157,479	1,045,036	1,160,955
Institutional Support	1,674,927		277,640	1,823,288	3,775,855	3,875,503
Operation and Maintenance of Plant	226,220		37,499	962,475	1,226,194	1,297,392
Scholarships and Fellowships					-	-
Total Unrestricted Educational Activities:	\$ 9,499,652	\$ -	\$ 1,574,686	\$ 3,669,121	\$ 14,743,459	\$ 15,242,273
Restricted - Educational Activities						
Instruction	\$ 139,961	\$ 710,457		\$ 554,499	\$ 1,404,917	\$ 1,372,467
Public Service	185,489	7,838		70,290	263,617	242,670
Academic Support		86,171			86,171	81,592
Student Services	159,774	89,582		74,625	323,981	326,924
Institutional Support	214,026	197,073		261,116	672,215	355,984
Operation and Maintenance of Plant	-	26,617			26,617	33,474
Scholarships and Fellowships				2,105,894	2,105,894	2,715,611
Total Restricted Educational Activities:	\$ 699,250	\$ 1,117,738	\$ -	\$ 3,066,424	\$ 4,883,412	\$ 5,128,722
Total Educational Activities	10,198,902	1,117,738	1,574,686	6,735,545	19,626,871	20,370,995
Auxiliary Enterprises	479,530		142,748	2,075,144	2,697,422	2,544,775
Depreciation Expense						
Building & Improvements					926,785	923,025
Equipment & Furniture					768,563	626,004
Library Books					29,734	32,646
Total	\$ 10,678,432	\$ 1,117,738	\$ 1,717,434	\$ 8,810,689	\$ 24,049,375	\$ 24,497,445

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE C
 SCHEDULE OF NON - OPERATING REVENUES AND EXPENSES
 For the Year Ended August 31, 2016 (With Memorandum totals for the Year Ended August 31, 2015)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>Total 8/31/2016</u>	<u>Memorandum Total 8/31/2015</u>
Non - Operating Revenues					
State appropriations:					
Education and general state support	\$ 4,570,075			\$ 4,570,075	4,862,118
State group insurance		840,151		840,151	832,004
State retirement matching		277,587		277,587	291,361
Professional nursing shortage reduction		101,397		101,397	151,477
Ad-valorem taxes	3,710,237	1,329,640		5,039,877	4,099,335
Federal revenue, non operating		5,438,200		5,438,200	6,958,730
Investment income		40,723		40,723	5,831
Contribution from Foundation				-	250,000
Total Non - Operating Revenues	<u>8,280,312</u>	<u>8,027,698</u>	<u>-</u>	<u>16,308,010</u>	<u>17,450,856</u>
Non - Operating Expenses					
Interest on capital related debt	1,278,230			1,278,230	812,408
Loss on disposal of fixed assets				-	62,540
Other non operating expense	248,493			248,493	163,627
Total Non - Operating Expenses	<u>1,526,723</u>	<u>-</u>	<u>-</u>	<u>1,526,723</u>	<u>1,038,575</u>
Net Non - Operating Revenues	<u>\$ 6,753,589</u>	<u>\$ 8,027,698</u>	<u>\$ -</u>	<u>\$ 14,781,287</u>	<u>\$ 16,412,281</u>

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE D
 SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
 For the Year Ended August 31, 2016 (With Memorandum totals for the Year Ended August 31, 2015)

	Detail By Source							Memorandum Total 8/31/2015
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total 8/31/2016	Available for Current Operations		
		Expendable	Non Expendable			Yes	No	
Current								
Unrestricted	\$ (1,263,553)	\$	\$	\$	\$ (1,263,553)	\$ 2,454,880	\$ (3,718,433)	\$ (439,227)
Board Designated Reserve	515,717				515,717	515,717		510,852
Plant								
Investment in plant			47,956	13,075,188	13,123,144		13,123,144	12,586,251
Total Net Assets, August 31, 2016	(747,836)	0	47,956	13,075,188	12,375,308	2,970,597	9,404,711	12,657,876
Total Net Assets, August 31, 2015	(1,048,254)		283,743	13,422,387	12,657,876	2,112,424	10,545,452	15,113,362
Net Increase (Decrease) in Net Assets	\$ 300,418	\$ 0	\$ (235,787)	\$ (347,199)	\$ (282,568)	\$ 858,173	\$ (1,140,741)	\$ (2,455,486)

See independent auditors' report.

SUPPLEMENTAL SCHEDULES OTHER

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE E
BALANCE SHEET
AUGUST 31, 2016

	Current Funds				Loan Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	Agency	Total
	Unrestricted	Auxiliary Enterprises	Current Restricted	Total						
Assets										
Cash and Cash Equivalents	\$ 2,290,135	9,177	6,131	\$ 2,305,443	\$ 15,712	161	\$ 16,537,060	\$	121,743	\$ 18,780,119
Long term investments	515,717			515,717		166,157	862,707			1,544,581
Short Term Investments				-						-
Accounts Receivable	1,222,527	9,656	495,349	1,727,532			72,363			1,799,895
Due From Other Funds	673,443	412,724		1,086,167			895,205		25,661	2,007,033
Due From Foundation	17,843			17,843						17,843
Prepaid Expenses	259,938			259,938						259,938
Prepaid Insurance				-				172,893		172,893
Inventory, at Cost	18,624	393,819		412,443						412,443
Land				-				1,438,209		1,438,209
Buildings and Improvements				-				38,003,023		38,003,023
Improvements Other Than Buildings				-				8,286,655		8,286,655
Equipment				-				4,053,036		4,053,036
Library Books				-				720,356		720,356
Vehicles				-				891,734		891,734
Telecommunications				-				3,011,384		3,011,384
Accumulated Depreciation				-				(18,315,992)		(18,315,992)
Other				-				41,640		41,640
Total Assets	\$ 4,998,227	\$ 825,376	\$ 501,480	\$ 6,325,083	\$ 15,712	\$ 166,318	\$ 18,167,335	\$ 38,302,938	\$ 147,404	\$ 63,124,790
Deferred Outflows of Resources										
Deferred outflows pension related	\$ 722,660			\$ 722,660						\$ 722,660
Deferred charge on refunding								587,235		587,235
Total Deferred Outflows of Resources	\$ 722,660	\$ -	\$ -	\$ 722,660	\$ -	\$ -	\$ -	\$ 587,235	\$ -	\$ 1,309,895
Total Assets and Deferred Outflows	\$ 5,720,887	\$ 825,376	\$ 501,480	\$ 7,047,743	\$ 15,712	\$ 166,318	\$ 18,167,335	\$ 38,890,173	\$ 147,404	\$ 64,434,685
Liabilities and Fund Balance										
Accounts Payable	\$ 972,199	43,765	7,460	\$ 1,023,422	\$ 844					\$ 1,024,266
Accrued Liabilities	430,000			430,000			277,819	17,040		724,859
Deposits Payable	87,043	69,765		156,808						156,808
Due to Other Funds			232,449	232,449	14,868	3,073	1,681,245	22,276	53,122	2,007,033
Deferred Revenues	1,199,140	46,067	261,571	1,506,778						1,506,778
Accrued Compensated Absences	151,168			151,168						151,168
Bonds Payable				-			15,011,896	25,146,580		40,158,476
Unamortized Premium/Discount				-			1,148,419			1,148,419
Notes Payable				-				792,334		792,334
Net Pension Liability	3,718,433			3,718,433						3,718,433
Funds Held in Custody for Others				-					94,282	94,282
Total Liabilities	\$ 6,557,983	\$ 159,595	\$ 501,480	\$ 7,219,058	\$ 15,712	\$ 3,073	\$ 18,119,379	\$ 25,978,230	\$ 147,404	\$ 51,482,856
Deferred Inflows of Resources										
Deferred inflows pension related	576,521			576,521						576,521
Total Deferred Inflows of Resources	576,521	-	-	576,521	-	-	-	-	-	576,521
Fund Balances										
Net Investment in Plant										-
Reserved for Debt Service										-
Unrestricted	(1,413,617)	665,781	-	(747,836)		163,245	47,956	12,911,943		12,375,308
Total Fund Balance	\$ (1,413,617)	\$ 665,781	\$ -	\$ (747,836)	\$ -	\$ 163,245	\$ 47,956	\$ 12,911,943	\$ -	\$ 12,375,308
Total Liabilities, Fund Balance and Deferred Inflows	\$ 5,720,887	\$ 825,376	\$ 501,480	\$ 7,047,743	\$ 15,712	\$ 166,318	\$ 18,167,335	\$ 38,890,173	\$ 147,404	\$ 64,434,685

See independent auditors report.

**NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE F
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED AUGUST 31, 2016**

	Current Funds				Loan Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	Total
	Unrestricted	Auxiliary Enterprises	Current Restricted	Total					
Revenues and Other Additions									
Unrestricted Current Funds Revenues	\$ 16,059,786	3,240,156		\$ 19,299,942	\$	\$	\$	\$	\$ 19,299,942
State Appropriations - Restricted			1,117,738	1,117,738					1,117,738
Federal grants and Contracts			7,018,358	7,018,358					7,018,358
State grants and Contracts			1,139,691	1,139,691					1,139,691
Local gifts, grants and Contracts			184,493	184,493				154,492	338,985
Taxes for Debt Retirement			-	-			1,329,640		1,329,640
Interest / Endowment Income			-	-					-
Net Decrease in Bonds Payable			-	-				1,003,143	1,003,143
Investment Income (Loss)			-	-		32,375	8,348		40,723
Other Revenues			-	-					-
Total Revenue and Other Additions	16,059,786	3,240,156	9,460,280	28,760,222	-	32,375	1,337,988	1,157,635	31,288,220
Expenditures and Other Deductions									
Expenditures	14,860,490	3,244,726	9,165,661	27,270,877					27,270,877
Indirect Cost Recovered			44,963	44,963					44,963
Retirement of Indebtedness - Bonds			-	-			1,003,143		1,003,143
Interest on Indebtedness			-	-			1,152,138	126,092	1,278,230
Depreciation Expense			-	-				1,725,082	1,725,082
Other Expenditures			-	-			247,865	628	248,493
Total Expenditures and Other Deductions	14,860,490	3,244,726	9,210,624	27,315,840	-	-	2,403,146	1,851,802	31,570,788
Transfers - Additions (Deductions)									
Mandatory Transfers:									
Retirement of Indebtedness				-					-
Building Use Fees				-					-
Tuition Use Fees	(628,689)			(628,689)			628,689		-
Revenue Bond				-					-
Contractual Obligations	(100,257)	(18,726)	-	(118,983)				118,983	-
TPEG to Restricted				-					-
Non - Mandatory Transfers:									
Capital Outlay	(83,531)	(63,105)	(249,656)	(396,292)		(108,309)	200,682	303,919	-
Other				-					-
Total Transfers - Additions (Deductions)	(812,477)	(81,831)	(249,656)	(1,143,964)	-	(108,309)	829,371	422,902	-
Net Increase (Decrease) for Year	386,819	(86,401)	-	300,418	-	(75,934)	(235,787)	(271,265)	(282,568)
Fund Balance (Deficit) August 31, 2015	\$ (1,800,436)	\$ 752,182	\$ -	\$ (1,048,254)	\$ -	\$ 239,179	\$ 283,743	\$ 13,183,208	\$ 12,657,876
Fund Balance (Deficit) August 31, 2016	\$ (1,413,617)	\$ 665,781	\$ -	\$ (747,836)	\$ -	\$ 163,245	\$ 47,956	\$ 12,911,943	\$ 12,375,308

See independent auditors report.

FEDERAL FINANCIAL ASSISTANCE INFORMATION

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

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

Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. basic financial statements, and have issued our report thereon dated December 9, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wilf & Henderson, P.C.

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas
December 9, 2016

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

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

Members of the Board:

Report on Compliance for Each Major Federal Programs

We have audited Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major federal programs for the year ended August 31, 2016. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned cost.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2016

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 through 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be a material weakness or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned cost as items 2016-001 through 2016-002 that we considered to be significant deficiencies.

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

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



WILF & HENDERSON, P. C.
Certified Public Accountants
Texarkana, Texas
December 9, 2016

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE G
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2016
Page 1 of 2

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantors Number	Pass Through Disbursements and Expenditures
U.S. Department of Education			
<u>Direct Programs</u>			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	* 84.007A		\$ 30,750
Federal Work-Study Program	* 84.033A		70,838
Federal Pell Grant Program	* 84.063P		5,407,450
Direct Loans	* 84.268		3,542,080
Total Student Financial Assistance Cluster			<u>9,051,118</u>
TRIO - Upward Bound	84.047A		<u>252,026</u>
Title III	84.031A		<u>66,851</u>
Title V	84.031S		<u>458,338</u>
<u>Passed Through Texas Workforce Commission</u>			
Passed through Tyler Junior College			
Adult Education and Family Leave Act (AEFLA)-TJC	84.002A	0814AEL000	27,239
Adult Education and Family Leave Act (AEFLA)-TJC	84.002A	0816AEL002	2,785
Adult Education and Family Leave Act (AEFLA)-TJC	84.002A	2916AEL010	2,580
Passed through Paris Junior College			
Adult Education and Family Leave Act (AEFLA)	84.002A	0714AEL000	146,387
Adult Education and Family Leave Act (AEFLA)	84.002A	0716AEL004	16,756
Adult Education and Family Leave Act (AEFLA)	84.002A	0716AEL001	12,590
Total Passed Through Texas Workforce Commission			<u>208,337</u>
<u>Passed Through Texas Higher Education Coordinating Board</u>			
Vocational Education - Allocated	84.048		<u>225,597</u>
Total Passed Through Texas Higher Education Coordinating Board			<u>225,597</u>
Total U.S. Department of Education			\$ <u>10,262,267</u>
U.S. Department of Commerce			
<u>Passed Through Economic Development Association</u>			
Economic Adjustment Assistance	11.307		<u>103,556</u>
Total U.S. Department of Commerce			\$ <u>103,556</u>
U.S. Department of Health and Human Services			
<u>Passed Through Texas Education Agency</u>			
Temporary Assist to Needy Families	* 93.558	(A)	<u>141,723</u>
<u>Passed Through Workforce Solutions of East Texas</u>			
Temporary Assist to Needy Families	* 93.558		<u>34,228</u>
<u>Passed Through Texas Workforce Solutions</u>			
<u>Passed through Paris Junior College</u>			
Temporary Assist to Needy Families	* 93.558	0714AEL000	16,634
<u>Passed through Tyler Junior College</u>			
Temporary Assist to Needy Families	* 93.558	0716AEL004	96
Total passed through Texas Workforce Solutions			<u>16,730</u>
Total U.S. Department of Health and Human Services			\$ <u>192,681</u>
U.S. Small Business Administration	59.037		<u>143,657</u>
Total Federal Financial Assistance			\$ <u>10,702,161</u>

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended August 31, 2016
 Page 2 of 2

Note 1: Federal Financial Assistance Reconciliation

Federal Grants and Contracts Revenue - Per Schedule A - College	\$ 1,330,502
Federal Grants and Contracts Revenue - Per Schedule C - College	5,438,200
Federal Grant Capital Contributions - Per Exhibit 2 - College	249,656
Direct Loans	3,542,080
Federal Grants and Contracts Revenue - Foundation	<u>141,723</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 10,702,161</u>

Note 2: Significant Accounting Policies

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

Note 3: Student Loans Processed and Administrative Costs Recovered

Federal Grantor CFDA Number/Program Name	New Loans Processed	Administrative Cost Recovered	Total
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US Department of Education

All direct loans processed are included in the schedule.

* Major Program

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

See independent auditors' report.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2016**

A: Summary of Audit Results

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

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

yes no

The programs tested as major programs include:

Student Financial Aid Cluster

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

Temporary Assist to Needy Families

CFDA #93.558

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

Auditee qualified as low-risk auditee? yes no

B: Findings – Financial Statements Audit

None

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2016*

C. Findings and Questioned Costs – Major Federal Award Programs Audit (cont'd)

Department of Education

2016- 001 **Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2016**

Special Tests-Enrollment Reporting

Type of Finding – Significant Deficiency and Non Compliance

Criteria:

Under 34 CFR 682.610, the college is required to report to the Secretary of the Department of Education when a student who has received a loan ceases to be enrolled on at least a half-time basis. The method for this reporting is the National Student Loan Data System (NSLDS). Per the NSLDS Enrollment Reporting Guide, students who withdraw from all courses are to be reported as a withdrawal to NSLDS within thirty days as of the last date that attendance can be verified.

Condition:

During our testing of this compliance requirement, we noted that ten out of ten judgmentally selected students tested had not been reported to the NSLDS within thirty days as of the last date that attendance could be verified.

Cause:

The college did not have procedures in place to ensure the enrollment reports being submitted to NSLDS were accurate.

Effect:

Lenders are not able to correctly assess when students should begin their grace period or enter loan repayment.

Questioned Costs: None

Context:

Students who withdrew were not reported to the NSLDS as withdrawn within the required period of time.

Identification of Repeat Findings:

A similar finding was noted in the prior year. See 2015-2

Recommendation:

We recommend that Northeast Texas Community College implement procedures to regularly review system generated reports to ensure accurate reporting.

View of Responsible Officials and Planned Corrective Actions:

The College agrees with this finding and has taken steps to insure that students will be reported with a correct status beginning Fall 2016.

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2016*

2016- 002 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2016

Special Tests and Provisions

Type of Finding – Significant Deficiency and Non Compliance

Criteria:

Colleges are required to return to the Department of Education any unearned Title IV money within 45 days after the date of determination that the student withdrew. The date of determination for official withdraws is the date the student notified the college of withdrawing. The college is required to determine if a student unofficially withdraws within 30 days of the end of the enrollment period.

Condition:

During our testing of this compliance requirement, we reviewed 63 students subject to the return to Title IV calculation out of a population of 185. Of the 63 selected, 24 students were in attendance for 60% of the period of enrollment and therefore, had no return to Title IV monies. Of the other 39 students tested, 10 were official withdraws and 29 were unofficial withdrawals. On 23 of the unofficial withdrawals, the college did not make the determination of withdraw within the 30 days, 6 were determined timely. Of the 39 students, the college did not return the Title IV money within the 45 days on 6 students. Of the 39 students, all money was returned to the Department of Education, just not timely

Cause:

The college's procedures for timely return to Title IV calculations were not being consistently followed.

Effect:

The college was not making the required withdraw determination and/or return to Title IV in a timely manner.

Questioned Costs: None

Context:

Money due to the Department of Education was not always returned timely.

Identification of Repeat Findings:

A similar finding was noted in the prior year as it relates to timely reporting. See 2015-5

Recommendation:

We recommend that Northeast Texas Community College implement procedures to regularly review return to Title IV calculations to ensure they are being submitted timely.

View of Responsible Officials and Planned Corrective Actions:

The College agrees with this finding and has taken steps to correct.

Corrective Action Plan

December 5, 2016

Department of Education

Northeast Texas Community College respectfully submits the following corrective action plan for the year ended August 31, 2016.

Name and address of independent public accounting firm:

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

Audit Period: September 1, 2015 to August 31, 2016

The findings from the August 31, 2016 schedule of findings and question costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings – Federal Award Programs Audits

Title IV

2016 - Student Financial Assistance Cluster – CFDA

001 Nos. 84.007A, 84.033A, 84.063P, 84.268

Significant Deficiency and Non Compliance

Recommendation: The auditors' recommend that Northeast Texas Community College implement procedures to regularly review system generated reports to ensure accurate reporting.

Action Taken: There was specific coding in the Grade Table for Jenzabar EX that had to be updated to exclude 'W' grades from part-time/full-time status. The change was made immediately upon discovery after consultation with a subject-matter expert from Jenzabar. The Registrar's Office will begin monitoring student status by checking each subsequent report for a given semester to make sure that withdrawn students have a valid status change. Since we submit reports two to four times per semester, we will have ample opportunity to spot check records and verify information being reported, beginning with the end of term Fall 2016 report.

2016 - Student Financial Assistance Cluster – CFDA

002 Nos. 84.007A, 84.033A, 84.063P, 84.268

Significant Deficiency and Non Compliance

Recommendation: The auditors' recommend that Northeast Texas Community College implement procedures to regularly review return to Title IV calculations to ensure they are being submitted timely.

Action Taken: With the implementation of Jenzabar EX, the reporting to capture official and unofficial withdrawals did not exist. As the Fall 2015 semester got underway, the report was developed. After the report was in use for some time, it was discovered that it was not capturing each instance of a full withdrawal in a timely manner. The report was modified and appears to now be accurately reporting the data.

Based upon the findings of this audit, it was determined that the process could be enhanced by having the Registrar add notes to students' accounts detailing changes that would cause dates to be misrepresented. The Complete Withdrawal Report is currently very complex and takes considerable time to review and determine which students require return calculations. We are currently reviewing this report in order to make additional enhancements that will help ensure returns are done timely and not missed.

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

Sincerely yours,



Brad Johnson, Ed.D., President
Northeast Texas Community College

*FEDERAL SUMMARY SCHEDULE PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2016*

Findings and Questioned Costs – Major Federal Award Programs Audit (cont'd)

Department of Education

2015- 1 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2015

Eligibility

Type of Finding – Significant Deficiency and Non Compliance

Condition:

Students who were not in compliance with satisfactory academic progress policy received Title IV Student Financial Assistance.

Recommendation:

The auditor recommended that Northeast Texas Community College expand controls to ensure Title IV disbursements are made only to students in compliance with the college's satisfactory academic progress policy.

Current Status:

The College implemented effective controls to bring us back in compliance. These controls have proven successful and no similar findings were noted in the 2016 audit.

2015- 2 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2015

Reporting

Type of Finding – Significant Deficiency and Non Compliance

Condition:

The enrollment report was not accurately and/or timely reported for the months after May 2015 until October 2015.

Recommendation:

The auditors recommended that Northeast Texas Community College implement procedures to ensure the enrollment reporting requirements are met.

Current Status:

The College implemented procedures aimed to correct this issue. While these procedures improved this condition, specific coding within Jenzabar EX was incorrect causing a similar finding in the 2016 audit. The coding issue was corrected as soon as it was identified.

*FEDERAL SUMMARY SCHEDULE PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2016*

2015- 3 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2015

Special Tests and Provisions

Condition:

Some students did not receive exit counseling.

Recommendation:

The auditors recommended that Northeast Texas Community College implement management controls to ensure all students who are required have exit counseling receive the information to receive exit counseling.

Current Status:

The College implemented management controls immediately ensuring exit counseling requirements are met. These controls were successful and no similar findings were noted in the 2016 audit.

2015- 4 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2015

Eligibility

Condition:

One student, out of a sample of sixty, received Title IV Student Financial Assistance in excess of their cost of attendance.

Recommendation:

The auditors recommended that Northeast Texas Community College implement management controls to ensure Title IV disbursements are not made in excess of financial need.

Current Status:

The College implemented system and management controls immediately to ensure Title IV disbursements are not made in excess of financial need. The controls were successful and no similar findings were noted in the 2016 audit.

2015- 5 **Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2015**

Special Tests and Provisions

Type of Finding – Significant Deficiency and Compliance

Condition:

The college did not calculate the unearned awards to return to Title IV accurately and/or timely on all students who completely withdrew from all classes.

Recommendation:

The auditors recommended that Northeast Texas Community College implement procedures to ensure that all students subject to the return to Title IV calculation be identified, calculated correctly, and timely returned.

Current Status:

The College implemented procedures aimed to correct this issue. While these procedures improved this condition, reports obtained from Jenzabar EX were not capturing each instance of a full withdrawal in a timely manner causing a similar finding in the 2016 audit. The report was modified as soon as it was identified.

STATE FINANCIAL ASSISTANCE INFORMATION

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

Board of Trustees

***Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas***

Members of the Board:

Report on Compliance for Each Major State Programs

We have audited the compliance of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s with the types of compliance requirements described in the State of Texas Single Audit Circular, *Uniform Grant Management Standards* issued by the State of Texas that could have a direct and material effect on each of its major state programs for the year ended August 31, 2016. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned cost.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *Uniform Grant Management Standards* issued by the State of Texas. Those standards and *Uniform Grant Management Standards* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance.

Opinion on Each Major State Programs

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

Report on Internal Control over Compliance

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

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

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

Board of Trustees
Page 3
January 6, 2016

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements *Uniform Grant Management* Standards issued by the State of Texas. Accordingly, this report is not suitable for any other purpose.

Wilf & Henderson, P.C.

WILF & HENDERSON, P. C.
Certified Public Accountants
Texarkana, Texas
December 9, 2016

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE H
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended August 31, 2016
 Page 1 of 2

Grantor/Program/Title	Grant Contract Number	Pass Through Disbursements and Expenditures
Texas Education Agency		
Temporary Assist to Needy Families	*	
Total Texas Education Agency	(A) 0710580171200011 \$	562,459
		562,459
U.S. Small Business Administration		
SBDC State		113,224
		113,224
Texas Higher Education Coordinating Board		
Texas Grant II	*	483,843
Nursing Shortage	N/A	101,397
Total Texas Higher Education Coordinating Board		585,240
		585,240
Texas College Workstudy		51,524
		51,524
Texas Workforce Commission		
Skills Development Fund	0714SDF001	14,336
Skills Development Fund	0715SDF001	258,613
Skills For Small Business Program	0715SSD003	4,138
High Demand Job Training Program	0715HJT000	24,999
Passed through Tyler Junior College		
State AEFLA	0814AEL000	38,168
Temporary Assist to Needy Families	0814AEL000	1,608
Professional Development	0814AEL000	1,528
Career Navigator	0816AEL001	8,518
Passed through Paris Junior College		
State AEFLA	0714AEL000	31,430
Professional Development	0714AEL000	6,365
Total Texas Wokforce Commission		389,703
		389,703
Total State Financial Assistance	\$	1,702,150

* Major Program

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

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2016
 Page 2 of 2

Note 1: Significant Accounting Policies

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

Note 2: State Financial Assistance Reconciliation

	<u>Expenditures</u>
State Grants and Contracts Revenue - Per Schedule A - College	\$ 1,038,294
State Grants and Contracts Revenue - Per Schedule C - College	101,397
State Grants and Contracts - Foundation	<u>562,459</u>
 Total State Financial Assistance	 \$ <u><u>1,702,150</u></u>

See independent auditors' report.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
STATE AWARDS SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2016**

A: Summary of Audit Results

Financial Statements

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

Internal control over financial reporting:

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

State Awards

Internal control over major programs:

- Material weaknesses identified? yes none reported
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

The auditor's report on compliance for the major state awards programs for Northeast Texas Community College and Northeast Texas Community College Foundation, Inc expresses an unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of State of Texas Single Audit Circular? yes no

The programs tested as major programs include:

	<u>Grant Project Number</u>
Texas Education Agency	
Temporary Assist to Needy Families	(A) 0710580171200011
Texas Grant II	N/A

Dollar threshold used to distinguish between

Type A and B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

B: Findings - Financial Statements Audit

None

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

None

*STATE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2016*

Findings and Questioned Costs - Major State Award Programs Audit

2015- 1 Texas Grant II

Eligibility

Type of Finding – Significant Deficiency

Description:

Northeast Texas Community College disbursed Texas Grant II to 6 students who did not comply with all the requirements of the grant program.

Recommendation:

The auditors recommended that Northeast Texas Community College implement management controls to ensure Texas Grant II disbursements are made only to eligible students.

Status:

The College implemented system and management controls immediately to ensure Texas Grant II disbursements are made only to eligible students. The controls were successful and no similar findings were noted in the 2016 audit.