

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

*ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
AUGUST 31, 2018 AND 2017*

*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 2018

Board of Trustees

Officers

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

Members

Mr. Robin Sharp - Mt. Pleasant, TX	(2014-2020)
Mr. Jerry Webster – Pittsburg, TX	(2016-2022)
Gov. Bill Ratliff – Mt. Pleasant, TX	(2016-2022)
Ms. Sondra Fowler – Mt. Pleasant, TX	(2018-2024)

Principal Administrative Officers

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

INDEPENDENT AUDITORS' REPORT



Independent Auditors' Report

Board of Trustees

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

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of and for the years ended August 31, 2018 and 2017, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2018, and 2017, 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 50, schedule of College's contributions for pensions page 51, schedule of College's proportionate share of Net OPEB liability page 52, and schedule of College's contributions for OPEB page 53 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 supplemental schedules required by Texas Higher Education Coordinating Board section, presented on pages 55-58, 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 64-65, is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the basic financial statements.

The schedule of expenditures of state awards, pages 77-78, is presented for purposes of additional analysis as required by *State of Texas Single Audit Circular* and is not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018 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 12, 2018

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 2016, 2017, and 2018. Since this management's discussion and analysis is designed to focus on current activities, resulting change, decisions or conditions of facts, please read it in conjunction with the College's basic financial statements (pages 12-17) and the footnotes (pages 18-49). 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, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Assets</u>			
Current	\$ 4,989,011	\$ 3,648,616	\$ 4,795,562
Net Capital Assets	50,973,808	50,833,180	38,088,405
Other Non-Current	<u>3,002,442</u>	<u>5,296,632</u>	<u>18,233,790</u>
Total Assets	<u>58,965,261</u>	<u>59,778,428</u>	<u>61,117,757</u>
Deferred Outflows of Resources	<u>1,888,844</u>	<u>1,769,817</u>	<u>1,309,895</u>
<u>Liabilities</u>			
Current	5,270,999	4,754,726	5,190,307
Non-Current	<u>53,916,051</u>	<u>43,802,478</u>	<u>44,285,516</u>
Total Liabilities	<u>59,187,050</u>	<u>48,557,204</u>	<u>49,475,823</u>
Deferred Inflows	<u>4,017,587</u>	<u>1,055,560</u>	<u>576,521</u>
<u>Net Position</u>	<u>\$ (2,350,532)</u>	<u>\$ 11,935,481</u>	<u>\$ 12,375,308</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, 2018, 2017, and 2016, the College's net positions were \$(2,350,532), \$11,935,481, and \$12,375,308 respectively. The significant change in fiscal year 2018, was primarily due to a \$14,105,351 cumulative effect of the change in accounting principle for GASB 75 implementation. From the data presented, readers of the Statement of Net Position are able to determine the Net Assets available to continue the operations of the institution. They are also able to determine how much the College owes vendors, investors and lending institutions.

Statement of Revenues, Expenses and Changes in Net Position

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

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended August 31, 2018, 2017, and 2016

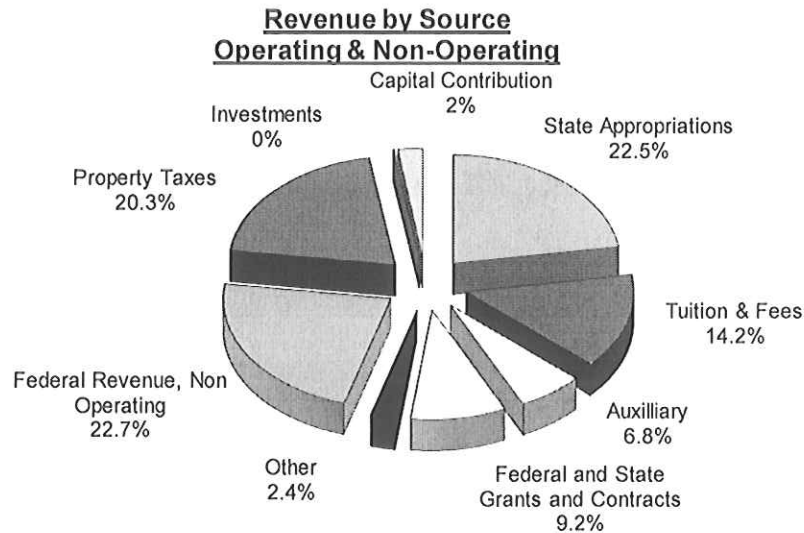
	<u>2018</u>	<u>2017</u>	<u>2016</u>
SUMMARY OF REVENUES AND EXPENSES			
Total, Operating Revenues	\$ 8,476,643	\$ 8,429,799	\$ 7,965,596
Total, Operating Expenses	<u>25,136,859</u>	<u>23,759,354</u>	<u>23,433,599</u>
Total, Operating (Loss)	(16,660,216)	(15,329,555)	(15,468,003)
Net Non-Operating Revenues	15,846,652	14,799,095	14,781,287
Capital Contributions	<u>632,902</u>	<u>90,633</u>	<u>404,148</u>
Increase (Decrease) in Net Position	(180,662)	(439,827)	(282,568)
Net Position at Beginning of Year	11,935,481	12,375,308	12,657,876
Cumulative Effect of Change in Accounting Principal	<u>(14,105,351)</u>	<u>-</u>	<u>-</u>
Net Position at Beginning of Year Restated	<u>(2,169,870)</u>	<u>12,375,308</u>	<u>12,657,876</u>
Net Position - End of Year	<u><u>\$ (2,350,532)</u></u>	<u><u>\$ 11,935,481</u></u>	<u><u>\$ 12,375,308</u></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, 2018, 2017 and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues:			
Net tuition and fees	\$ 3,754,710	\$ 3,672,906	\$ 2,737,823
Federal grants and contracts	1,819,028	1,505,550	1,330,502
State grants and contracts	617,320	800,477	1,038,294
Non-governmental grants and contracts	2,624	16,360	54,988
Sales and services of educational activities	57,572	56,243	64,768
Net auxiliary enterprises	1,643,077	1,849,169	2,171,511
Other operating revenues	<u>582,312</u>	<u>529,094</u>	<u>567,708</u>
Total, Operating Revenues	<u>8,476,643</u>	<u>8,429,799</u>	<u>7,965,596</u>
Net Non-Operating Revenues:			
State appropriations	5,962,829	5,887,875	5,789,210
Property taxes	5,379,020	4,880,384	5,039,877
Federal revenue, non-operating	6,002,155	5,585,373	5,438,200
Investment and other Income	<u>43,376</u>	<u>60,006</u>	<u>40,723</u>
Total, Non-Operating Revenues	<u>17,387,380</u>	<u>16,413,638</u>	<u>16,308,010</u>
Capital Contributions	<u>632,902</u>	<u>90,633</u>	<u>404,148</u>
Total Revenues, Operating and Non-Operating	<u><u>\$ 26,496,925</u></u>	<u><u>\$ 24,934,070</u></u>	<u><u>\$ 24,677,754</u></u>



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

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

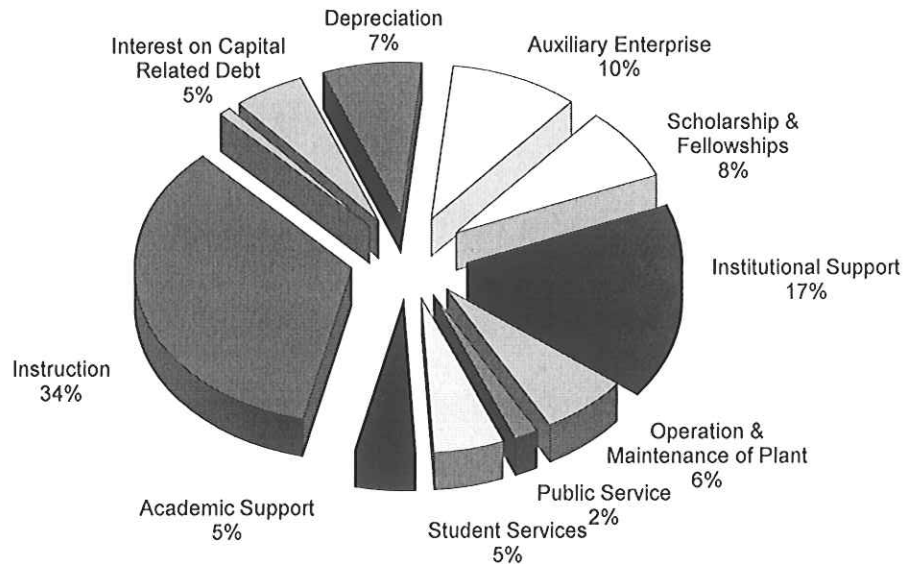
In comparing the fiscal periods ended August 31, 2017 and 2016:

- Gross Tuition and fee revenues increased \$930,524 or 12.44%. This is a result of increases in total enrollment (7%) and increase in cost per hour (5%), primarily.
- Net Auxiliary Enterprises decreased 322,342 or 14.84% primarily as a result of lower than anticipated housing occupancy.
- Federal Grants and Contracts increased \$175,048 or 13.16% primarily as a result of reductions in Federal Grants being used for capital projects as noted in the decrease in Capital Contributions of \$166,346.
- State Grants and Contracts decreased \$237,817 or 22.90% primarily as a result of a decrease in awards from the Texas Workforce Commission in the amount of \$228,077.
- State Allocations increased \$98,665 or 1.7% as a result of increase in State health care appropriations.
- Federal Revenue Non-Operating increased \$147,173 or 2.71% as a result of increase student awards due to increased enrollment 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:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Expenses:			
Instruction	\$ 9,293,654	\$ 9,446,560	\$ 8,953,353
Public service	479,392	466,753	451,117
Academic support	1,237,086	1,019,202	1,046,609
Student services	1,424,558	1,449,265	1,369,017
Institutional support	4,493,271	3,913,322	3,961,799
Operation and maintenance of plant	1,510,014	1,256,531	1,252,811
Scholarship & fellowships	2,065,128	1,801,773	1,976,389
Auxiliary enterprise	2,613,777	2,685,759	2,697,422
Depreciation	2,019,979	1,720,189	1,725,082
Total, Operating Expenses	<u>25,136,859</u>	<u>23,759,354</u>	<u>23,433,599</u>
Non-Operating Expenses:			
Interest on capital related debt	1,418,353	1,412,741	1,278,230
Bond Issue Costs			-
(Gain) Loss on disposal of capital assets	118,762	(3,845)	-
Other non-operating expenses	3,613	205,647	248,493
Total, non-operating expenses	<u>1,540,728</u>	<u>1,614,543</u>	<u>1,526,723</u>
Total Expenses, Operating and Non-Operating	<u>\$ 26,677,587</u>	<u>\$ 25,373,897</u>	<u>\$ 24,960,322</u>

Expenses by Source
Operating & Non-Operating



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

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

In comparing the fiscal periods ended August 31, 2017 and 2016:

- Instruction increased \$493,207 or 5.51% as a result of increases in positions, adjunct, and overload payments and instructional salaries paid through grants to accommodate the increase in student enrollment.
- Institutional Support decreased \$48,477 or 1.22% primarily as a result of a decrease in the number of positions.
- Scholarships and Fellowships decreased 1.22% primarily as a result of decreased awards of scholarships through TWC programs of \$182,008 and a decrease in the Texas Educational Opportunity Grant awards in the amount of \$76,368.
- Other Non-Operating expenses increased \$42,846 as a result of increases in bond principle and interest.

Analysis of Net Position

Total Net Position of (\$2,350,532) is comprised of the investment in capital assets net of related debt of \$12,044,366, restricted for debt service of \$696,039, and unrestricted net position of (\$15,090,937). 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, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Investment in Capital Assets, Net of Related Debt	\$ 12,044,366	\$ 12,056,500	\$ 12,211,792
Restricted for debt service	696,039	543,948	911,352
Temporarily Restricted	-	-	-
Unrestricted	<u>(15,090,937)</u>	<u>(664,967)</u>	<u>(747,836)</u>
Total Net Position	<u>\$ (2,350,532)</u>	<u>\$ 11,935,481</u>	<u>\$ 12,375,308</u>

Long Term Debt

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

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

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

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

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

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

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

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

The College has revenue bonds, general obligation bonds, and other notes payable for which contractual payments have been made in the fiscal periods ended August 31, 2017 and 2016.

See note 7- 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, 2018, the College expended \$63,999 in Federal grant funds to purchase equipment for use in our workforce education programs. The College also expended approximately \$1,400,000 in bond funds for the repair and renovation of the main campus.

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

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

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

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

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

See note 6-Capital Assets of the financial statements for further information about capital asset activity.

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

Statement of Cash Flows

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

Part 1 deals with operating cash flows and shows the net cash used in the operating activities of the institution. The bulk of receipts from students and other customers, appropriations, grants and

contracts, and other proceeds help the College cover its payments for payroll, scholarships, loans, and other cash payments.

Part 2 shows the cash flow from non-capital and related financing activities. Part of the ad-valorem local tax revenues pays for maintenance and operations of the College and the rest is for the settlement of general obligation bonds (note 7).

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

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

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

Financial Condition and Outlook

Net position decreased in fiscal year 2018 by \$14,286,013, primarily due to the implementation of GASB 75 (See Note 13). Current year net position decreased \$180,662, while \$14,105,351 was the cumulative effect of the change in accounting principle. 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 stagnant appraisal values. We also expect no significant increases in state funding. We anticipate adjusting our ongoing operating spending to compensate for any changes in revenue. The college experienced flat enrollment in the Fall of 2018, compared to Fall 2017, and does not anticipate significant changes in enrollment levels in the next few years.

FINANCIAL STATEMENTS

NORTHEAST TEXAS COMMUNITY COLLEGE
EXHIBIT 1
STATEMENTS OF NET POSITION
August 31, 2018 and 2017

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents (Note 4)	\$ 2,090,695	\$ 1,472,408
Investments short-term (Note 4)	526,455	0
Accounts receivable (Note 14)	1,861,685	1,444,057
Inventories	218,845	344,787
Prepaid expense	291,331	213,450
Due from component unit		173,914
Total Current Assets	4,989,011	3,648,616
Noncurrent Assets		
Restricted cash and cash equivalents (Note 4)	1,911,177	3,681,361
Short-term investments (Note 4)	881,829	-
Unrestricted long-term investments (Note 4)	-	519,234
Restricted long-term investments (Note 4)	-	869,734
Notes receivable (net of allowance for doubtful accounts of \$77,952 in 2018 and 2017)	-	-
Prepaid bond insurance	167,796	184,663
Other assets	41,640	41,640
Capital assets, net of accumulated depreciation (Note 7)	50,973,808	50,833,180
Total Noncurrent Assets	53,976,250	56,129,812
Total Assets	58,965,261	59,778,428
Deferred Outflows of Resources		
Deferred outflows pension related (Note 10)	1,093,271	1,243,570
Deferred outflows OPEB related (Note 13)	344,281	-
Deferred charge on bond refunding (Note 6)	451,292	526,247
Total Deferred Outflows of Resources	1,888,844	1,769,817
LIABILITIES		
Current Liabilities		
Accounts payable (Note 14)	693,833	991,854
Accrued liabilities (Note 14)	553,643	532,867
Due to component unit	5,312	-
Accrued compensated absences (Note 12)	125,479	109,577
Deposits payable (Note 14)	165,231	178,731
Funds held for others	99,810	97,096
Unearned revenues	2,171,032	1,395,658
Notes and leases payable - current portion (Note 8 and 9)	122,877	114,246
Bonds payable - current portion (Note 8 and 9)	1,333,782	1,334,697
Total Current Liabilities	5,270,999	4,754,726
Noncurrent Liabilities		
Bonds payable (Note 8 and 9)	36,633,676	37,803,656
Premium on Bonds Payable	904,096	1,043,154
Notes and leases payable (Note 8 and 9)	1,028,103	1,150,952
Net pension liability (Note 8 and 10)	3,266,360	3,804,716
Net OPEB liability (Note 13)	12,083,816	-
Total Noncurrent Liabilities	53,916,051	43,802,478
Total Liabilities	59,187,050	48,557,204
Deferred Inflows of Resources		
Deferred inflows pension related (Note 10)	1,345,797	1,055,560
Deferred inflows OPEB related (Note 13)	2,671,790	-
Total Deferred Outflows of Resources	4,017,587	1,055,560
NET POSITION		
Invested in capital assets, net of related debt	12,044,366	12,056,500
Restricted for		
Expendable	-	-
Debt service	696,039	543,948
Unrestricted	(15,090,937)	(664,967)
Total Net Position	\$ (2,350,532)	\$ 11,935,481

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, 2018 and 2017

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents (Note 4)	\$ 1,012,570	\$ 894,051
Accounts receivable (Note 14)	31,897	16,837
Due from Northeast Texas Community College	5,312	-
Total Current Assets	1,049,779	910,888
Noncurrent Assets		
Long - term investments (Note 4)	4,607,930	4,289,457
Property, plant, and equipment, net of accumulated depreciation (Note 7)	406,800	797,728
Other assets	43,840	32,291
Total Noncurrent Assets	5,058,570	5,119,476
Total Assets	6,108,349	6,030,364
LIABILITIES		
Current Liabilities		
Deferred revenue	262,410	126,432
Due to Northeast Texas Community College	-	173,914
Total Current Liabilities	262,410	300,346
Total Liabilities	262,410	300,346
Net Position		
Restricted		
Nonexpendable:		
Permanently	4,061,843	4,155,608
Expendable:		
Temporarily	1,419,187	853,379
Unrestricted	364,909	721,031
Total Net Assets	\$ 5,845,939	\$ 5,730,018

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

NORTHEAST TEXAS COMMUNITY COLLEGE

EXHIBIT 2

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended August 31, 2018 and 2017

REVENUES	2018	2017
Operating Revenues		
Tuition and fees (net of allowances and discounts of \$4,373,938, 2018 and \$4,740,492, 2017)	\$ 3,754,710	\$ 3,672,906
Federal grants and contracts	1,819,028	1,505,550
State grants and contracts	617,320	800,477
Non-Governmental grants and contracts	2,624	16,360
Sales and services of educational activities	57,572	56,243
Auxiliary enterprises (net of discounts of \$920,725, 2018 and \$857,940, 2017)	1,643,077	1,849,169
Other operating revenues	582,312	529,094
Total Operating Revenues (Schedule A)	8,476,643	8,429,799
EXPENSES		
Operating Expenses		
Instruction	9,293,654	9,446,560
Public service	479,392	466,753
Academic support	1,237,086	1,019,202
Student services	1,424,558	1,449,265
Institutional support	4,493,271	3,913,322
Operation and maintenance of plant	1,510,014	1,256,531
Scholarships and fellowships	2,065,128	1,801,773
Auxiliary enterprises	2,613,777	2,685,759
Depreciation	2,019,979	1,720,189
Total Operating Expenses (Schedule B)	25,136,859	23,759,354
Operating Income (Loss)	(16,660,216)	(15,329,555)
NON-OPERATING REVENUES (EXPENSES)		
State allocations	5,962,829	5,887,875
Ad-valorem taxes		
Taxes for maintenance & operations	3,179,001	3,000,685
Taxes on general obligations bonds	2,200,019	1,879,699
Federal revenue, non operating	6,002,155	5,585,373
Investment income (net of investment expenses)	43,376	60,006
Interest on capital related debt	(1,418,353)	(1,412,741)
Gain (Loss) on disposal of fixed assets	(118,762)	3,845
Other non - operating expenses	(3,613)	(205,647)
Net non-operating revenues (Schedule C)	15,846,652	14,799,095
Capital Contributions		
Component Unit	568,903	7,323
Federal grants capital contributions	63,999	83,310
	632,902	90,633
Increase (Decrease) in Net Position	(180,662)	(439,827)
Net Position - Beginning of Year	11,935,481	12,375,308
Cumulative Effect of Change in Accounting Principle (Note 2)	(14,105,351)	
Net Position - Beginning of Year as Restated	(2,169,870)	12,375,308
Net Position - End of Year	\$ (2,350,532)	\$ 11,935,481

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

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
EXHIBIT 2A
STATEMENTS OF ACTIVITIES
For the Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Operating Revenues		
Federal Grants and Contracts	\$ 142,056	\$ 141,702
State Grants and Contracts	565,387	562,458
Local Grants and Contracts	855,719	842,237
Total Operating Revenues	<u>1,563,162</u>	<u>1,546,397</u>
EXPENSES		
Operating Expenses		
Public Service	2,235,747	1,812,112
Scholarships	275,035	305,830
Depreciation	4,721	12,605
Total Operating Expenses	<u>2,515,503</u>	<u>2,130,547</u>
Operating (Loss)	<u>(952,341)</u>	<u>(584,150)</u>
Non-Operating Revenues		
Investment income	752,392	134,698
Net non-operating revenues	<u>752,392</u>	<u>134,698</u>
(Loss) Before Other Revenues, Expenses, Gains, Losses	<u>(199,949)</u>	<u>(449,452)</u>
OTHER REVENUES, (EXPENSES), GAINS, LOSSES		
Additions to Endowments	249,761	565,198
Gains (loss) on investments	(417,306)	291,586
Loss on disposal of assets	-	-
Contributions	483,415	653,394
Total Other Revenues, Expenses, Gains, Losses	<u>315,870</u>	<u>1,510,178</u>
Increase (Decrease) in Net Position	<u>115,921</u>	<u>1,060,726</u>
Net Position - Beginning of Year	<u>5,730,018</u>	<u>4,669,292</u>
Net Position - End of Year	<u>\$ 5,845,939</u>	<u>\$ 5,730,018</u>

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

NORTHEAST TEXAS COMMUNITY COLLEGE

EXHIBIT 3

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Receipts from students and other customers	\$ 6,112,056	\$ 5,671,778
Receipts of grants and contracts for operating activities	2,443,559	2,422,251
Other receipts	639,884	585,337
Payments to or on behalf of employees	(8,913,651)	(8,914,307)
Payments to suppliers for goods or services	(11,690,802)	(11,504,167)
Payments of scholarships	(2,065,128)	(1,801,773)
Net cash provided (used) by operating activities	(13,474,082)	(13,540,881)
Cash Flows From Noncapital Financing Activities		
State allocations	5,669,585	5,608,903
Federal revenues	6,002,155	5,585,373
Ad valorem tax revenues	5,017,910	4,875,535
Net cash provided (used) by non-capital financing activities	16,689,650	16,069,811
Cash Flows From Capital and Related Financing Activities		
Interest and other expense on capital related debt	(1,315,073)	(1,097,322)
Purchases of capital assets	(1,715,277)	(14,473,389)
Capital contributions	63,999	83,310
Proceeds from sale of fixed assets	4,811	19,593
Proceeds on issuance of capital debt		529,000
Payments on capital debt and leases	(1,429,985)	(1,432,091)
Net cash provided (used) by capital and related financing activities	(4,391,525)	(16,370,899)
Cash Flows From Investing Activities		
Proceeds from sale and maturities of investments	-	155,613
Investment earnings	43,376	60,006
Purchases of investments	(19,316)	-
Net cash provided (used) by investing activities	24,060	215,619
Increase (Decrease) in cash and cash equivalents	(1,151,897)	(13,626,350)
Cash and cash equivalents - September 1,	5,153,769	18,780,119
Cash and cash equivalents - August 31,	\$ 4,001,872	\$ 5,153,769
Noncash investing, capital, and financing activities		
Contributions of Capital Assets	568,903	7,323
Capital Debt Refunding	-	6,520,000
Bond issuance cost paid out of bond proceeds	-	241,956
Total Noncash investing, capital, and financing activities	\$ 568,903	\$ 6,769,279
Reconciliation of operating income to net cash provided		
by operating activities:		
Operating income (loss)	\$ (16,660,216)	\$ (15,329,555)
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Depreciation expense	2,019,979	1,720,189
Payments made directly by state for benefits	293,244	278,972
Bad debts	(249,494)	334,833
Changes in assets and liabilities		
Receivables, net	192,976	25,854
Inventories	125,942	67,656
Prepaid expense	(77,881)	46,488
Due from component unit	179,226	(156,071)
Other assets	-	-
Accounts payable	(298,021)	(32,412)
Accrued liabilities	27,421	(454,864)
Deposits payable	(13,500)	21,923
Funds held for others	2,714	2,814
Pension and OPEB Related	208,154	44,412
Deferred revenue	775,374	(111,120)
Net cash provided (used) by operating activities	\$ (13,474,082)	\$ (13,540,881)

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

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
EXHIBIT 3A
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Receipts from grants and contracts for operating activities	\$ 1,172,179	\$ 1,021,326
Payments of scholarships and support of college	(454,260)	(149,759)
Payments on grants and contract costs	<u>(1,095,963)</u>	<u>(1,243,795)</u>
Net cash provided (used) by operating activities	<u>(378,044)</u>	<u>(372,228)</u>
Cash Flows From Noncapital Financing Activities		
Additions to permanent and term endowment and other contributions	<u>638,338</u>	<u>930,662</u>
Net cash provided (used) by noncapital financing activities	<u>638,338</u>	<u>930,662</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	2,790,218	1,612,107
Investment income (loss)	752,392	134,698
Purchase of capital assets	(158,388)	-
Purchase of investments	<u>(3,525,997)</u>	<u>(2,410,362)</u>
Net cash provided (used) by investing activities	<u>(141,775)</u>	<u>(663,557)</u>
Net increase (decrease) in cash and cash equivalents	118,519	(105,123)
Cash and cash equivalents at beginning of year	<u>894,051</u>	<u>999,174</u>
Cash and cash equivalents at end of year	\$ <u>1,012,570</u>	\$ <u>894,051</u>
Noncash investing, capital, and financing activities		
Inkind contributions	<u>\$ 606,739</u>	<u>\$ 812,154</u>
Reconciliation of operating loss to net cash used by by operating activities		
Operating loss	\$ (952,341)	\$ (584,150)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	4,721	12,605
Non cash transfer to college	568,903	7,323
Amortization and expense of inkind contributions	58,980	36,770
Change in assets and liabilities		
Accounts receivable	(15,060)	(15,830)
Due to college	(179,225)	156,071
Deferred revenue	135,978	14,983
Accounts payable	<u>-</u>	<u>-</u>
Net cash provided (used) by operating activities	\$ <u>(378,044)</u>	\$ <u>(372,228)</u>

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

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, 2018 AND 2017**

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, 2018 was adopted by the Board of Trustees on August 30, 2017.

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.

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 12, 2018.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

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 \$1,883,449 and \$1,233,702 and federal, state and local grants of \$287,583 and \$161,956 have been reported as unearned revenues at August 31, 2018 and 2017, 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

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.

Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Employees Retirement System of Texas (ERS) State Retiree Health Plan (SRHP) has been determined using the flow of economic resources measurement focus and full accrual basis accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits; OPEB expense; and information about

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

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

assets, liabilities and additions to/deductions from SRHP's net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

Prior Period Adjustment and Reclassifications. During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Employees Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment total \$(14,105,351) which resulted in a restated beginning net position of \$(14,105,351). Certain reclassifications have been made to the prior year to conform with the current year presentation.

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>2018</u>	<u>2017</u>
Cash and Deposits		
Demand Deposits	\$ 2,456,742	\$ 1,640,317
Time Deposits	1,408,285	1,388,969
Petty Cash	10,237	10,237
Total Cash and Deposits	<u><u>\$ 3,875,264</u></u>	<u><u>\$ 3,039,523</u></u>

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Fair Value August 31, 2018	Fair Value August 31, 2017
Investment Pool	\$ 1,534,892	\$ 3,503,214
Total	1,534,892	3,503,214
Total Cash and Deposits	3,875,264	3,039,523
Total Deposits and Investments	<u><u>\$ 5,410,156</u></u>	<u><u>\$ 6,542,737</u></u>
Cash and Cash Equivalents (Exhibit 1)	\$ 2,090,695	\$ 1,472,408
Restricted Cash and Cash Equivalents (Exhibit 1)	1,911,177	3,681,361
Investments (Exhibit 1)	526,455	519,234
Restricted Investments (Exhibit 1)	881,829	869,734
Total Deposits and Investments	<u><u>\$ 5,410,156</u></u>	<u><u>\$ 6,542,737</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

Note 4 - Deposits and Investments-continued

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

	2018	2017
Demand Deposits	\$ 796,668	\$ 680,167
Total Cash and Deposits	\$ 796,668	\$ 680,167

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Fair Value August 31, 2018	Fair Value August 31, 2017
U.S. Government Agencies	\$ 852,254	\$ 353,660
Corporate Bond/Notes	88,800	1,110,084
Mutual Funds	3,882,778	3,039,597
Total Investments	4,823,832	4,503,341
Total Cash and Deposits	796,668	680,167
Total Deposits and Investments	\$ 5,620,500	\$ 5,183,508
Cash and Cash Equivalents	\$ 1,012,570	\$ 894,051
Long-term Investments	4,607,930	4,289,457
Total Deposits and Investments	\$ 5,620,500	\$ 5,183,508

As of August 31, 2018, 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	\$ 1,408,285	\$ 1,408,285	\$ -	\$ -
Investment Pool	AAA	1,534,892	1,534,892	-	-
Total Market Value		\$ 2,943,177	\$ 2,943,177	-	-

As of August 31, 2018, 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	215,903		215,903	-	-
US Gov't Agencies	AAA	636,351			-	636,351
Corporate Bonds/Notes	AA	88,800			-	88,800
Mutual Funds	N/A	3,882,778	3,882,778		-	-
Total Market Value		\$ 4,823,832	\$ 3,882,778	\$ 215,903	\$ -	\$ 725,151

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

Note 4 - Deposits and Investments – (continued)

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

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

Concentration of Credit Risk: The College does not place a limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in investment pools (52.1%) and in certificates of deposit (47.9%).

Custodial Credit Risk: At August 31, 2018, the College had money on deposit at two banks. The carrying amount of the College's and the Foundation's bank deposits was \$3,872,748 and \$796,668 and total bank balances equaled \$4,287,647 and \$796,668. Bank balances of \$505,915 are covered by federal depository insurance and \$4,578,400 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, 2018 or 2017.

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, 2017	Increases	Decreases	Balance August 31, 2018
Deferred charge on bond refunding	\$ 526,247		\$ 74,955	\$ 451,292
	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017
Deferred charge on bond refunding	\$ 587,235	\$ 20,324	\$ 81,312	\$ 526,247

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

Note 7– Capital Assets

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

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

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, 2018, the college had expended \$19,355,000 toward this project.

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

Note 7 – Capital Assets – (continued)

Foundation

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

Note 7 – Capital Assets – (continued)

Capital assets activity for the year ended August 31, 2017 was as follows:

	For the Year Ended August 31, 2017			
	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017
<u>Not Depreciated:</u>				
Land	\$ 1,438,209	\$ -	\$ -	\$ 1,438,209
Construction in Process	4,275,302	13,158,143		17,433,445
Subtotal	<u>\$ 5,713,511</u>	<u>\$ 13,158,143</u>	<u>\$ -</u>	<u>\$ 18,871,654</u>
<u>Other Capital Assets:</u>				
Buildings	41,570,055	1,083,837		42,653,892
Equipment Purchased with Capital Lease	342,348			342,348
Furniture, Machinery, Vehicles, and other Equipment	5,267,074	168,417	132,554	5,302,937
Library Books	720,370	20,947	28,344	712,973
Telecommunications and Peripheral Equipment	2,791,039			2,791,039
Subtotal	<u>\$ 50,690,886</u>	<u>\$ 1,273,201</u>	<u>\$ 160,898</u>	<u>\$ 51,803,189</u>
<u>Accumulated Depreciation:</u>				
Buildings	13,043,375	943,077	61,057	13,925,395
Equipment Purchased with Capital Lease	289,448	4,600		294,048
Furniture, Machinery, Vehicles and Other Equipment	2,683,628	429,012	105,117	3,007,523
Library Books	557,058	27,886	28,344	556,600
Telecommunications and Peripheral Equipment	1,742,483	315,614		2,058,097
Subtotal	<u>\$ 18,315,992</u>	<u>\$ 1,720,189</u>	<u>\$ 194,518</u>	<u>\$ 19,841,663</u>
Net Other Capital Assets	<u>\$ 32,374,894</u>	<u>\$ (446,988)</u>	<u>\$ (33,620)</u>	<u>\$ 31,961,526</u>
Net Capital Assets	<u>\$ 38,088,405</u>	<u>\$ 12,711,155</u>	<u>\$ (33,620)</u>	<u>\$ 50,833,180</u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

Note 7 – Capital Assets – (continued)

For the Year Ended August 31, 2017				
	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017
<u>Not Depreciated:</u>				
Land	\$ 202,670	\$ 250,000	\$ -	\$ 452,670
Works of Art, Antiques	193,236		-	193,236
Subtotal	<u>\$ 395,906</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 645,906</u>
<u>Other Capital Assets:</u>				
Buildings	196,024	-	-	196,024
Furniture, Machinery, Vehicles, and other Equipment	178,597			178,597
Telecommunications and Peripheral Equipment	75,087	-	-	75,087
Subtotal	<u>\$ 449,708</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 449,708</u>
<u>Accumulated Depreciation:</u>				
Buildings	59,006	6,942	-	65,948
Furniture, Machinery, Vehicles and Other Equipment	151,191	5,660		156,851
Telecommunications and Peripheral Equipment	75,087	-	-	75,087
Subtotal	<u>\$ 285,284</u>	<u>\$ 12,602</u>	<u>\$ -</u>	<u>\$ 297,886</u>
Net Other Capital Assets	<u>\$ 164,424</u>	<u>\$ (12,602)</u>	<u>\$ -</u>	<u>\$ 151,822</u>
Net Capital Assets	<u>\$ 560,330</u>	<u>\$ 237,398</u>	<u>\$ -</u>	<u>\$ 797,728</u>

Note 8 – Noncurrent Liabilities

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

	Balance August 31, 2017	Increases	Decreases	Balance August 31, 2018	Current Portion
Leases, bonds, and notes					
Revenue bonds	\$ 7,915,000		\$ 320,000	\$ 7,595,000	\$ 325,000
General obligation bonds	31,223,353	144,872	995,767	30,372,458	1,008,782
Notes payable	1,265,198		114,218	1,150,980	122,877
Net pension liability	3,804,716		538,356	3,266,360	N/A
Net OPEB Liability		12,416,203	332,387	12,083,816	N/A
Total long-term obligations	<u>\$ 44,208,267</u>	<u>\$ 12,561,075</u>	<u>\$ 2,300,728</u>	<u>\$ 54,468,614</u>	<u>\$ 1,456,659</u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

Note 8 – Noncurrent Liabilities-(continued)

Long-term liability activity for the year ended August 31, 2017 was as follows:

	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017	Current Portion
Leases, bonds, and notes					
Revenue bonds	\$ 7,983,000	\$ 5,545,000	\$ 5,613,000	\$ 7,915,000	\$ 320,000
General obligation bonds	32,005,893	1,365,366	2,147,906	31,223,353	1,014,697
Notes payable	792,334	560,000	87,136	1,265,198	114,246
Net pension liability	3,718,433	86,283		3,804,716	N/A
Total long-term obligations	\$ 44,499,660	\$ 7,556,649	\$ 7,848,042	\$ 44,208,267	\$ 1,448,943

Note 9 – Bonds and Notes Payable

General Obligation Bonds

The 2012 Series Limited Tax Refunding Bonds are due in annual installments varying from \$31,582 to \$1,130,200 with interest rates from 1.08% to 2.4%. The 2013 Series Limited Tax Refunding Bonds are due in annual installments from \$ 530,000 to \$1,130,000 with interest rates from 3.03% to 3.38%. Of the original \$18,000,000 bonds authorized by the November 5, 2002 election, there were un-issued but approved bonds totaling \$5,518,457 at August 31, 2018 and 2017. The 2015 Series Limited Tax Bonds are due in annual installments varying from \$35,122 to \$1,055,600 with interest rates from 4% to 4.25%. The 2016 Series Limited Tax Bonds are due in annual installments varying from \$75,000 to \$1,955,000. The 2016 refunding bonds are due in annual installments varying from \$5,000 to \$90,000 with interest rates from 1.69% to 3.22%. The principal and interest expense for the next five years and beyond for the tax obligation bonds are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2019	1,008,782 (A)	1,005,593	2,014,375
2020	1,015,000 (A)	997,975	2,012,975
2021	1,080,000 (A)	932,600	2,012,600
2022	1,110,000 (A)	900,125	2,010,125
2023	1,105,000 (A)	856,600	1,961,600
2024-2028	4,941,945 (A)	5,169,724	10,111,669
2029-2033	5,236,731 (A)	3,783,978	9,020,709
2034-2038	7,615,000 (A)	2,032,494	9,647,494
2039-2041	7,260,000 (A)	405,725	7,665,725
	\$ 30,372,458	\$ 16,084,814	\$ 46,457,272

***NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017***

Note 9 – Bonds and Notes Payable-(continued)

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

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

General information related to bonds payable is summarized below:

Limited Tax Refunding Bonds, Series 2012

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

Issued January 20, 2012

Total authorized and issued \$9,293,154

Source of revenue for debt service is ad valorem taxes

Outstanding accredited principal balance at August 31, 2018 and 2017 was \$5,153,782 and \$6,054,549, 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, 2018 and 2017 was \$4,658,676 and \$4,513,804, 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, 2018 and 2017 is \$9,470,000 and \$9,470,000, respectively.

Limited Tax Bonds, Series 2016

To construct and equip school buildings

Issued May 24, 2016

Total authorized and issued \$9,960,000

Source of revenue for debt service is ad valorem taxes

Outstanding principal balance at August 31, 2018 and 2017 is \$9,885,000 and \$9,960,000, respectively.

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
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Note 9 – Bonds and Notes Payable-(continued)

Limited Tax Refunding Bonds, Series 2016 A

To advance refund the 2010 Series Limited Tax Bonds

Issued December 8, 2016

Total authorized and issued \$1,225,000

Source of revenue for debt service is ad valorem taxes

Outstanding accredited principal balance at August 31, 2018 and 2017 is \$1,205,000 and \$1,225,000, respectively.

Revenue Bonds

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

Debt service requirements for the revenue bonds are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2019	325,000	247,588	572,588
2020	330,000	241,038	571,038
2021	340,000	233,413	573,413
2022	350,000	224,613	574,613
2023	355,000	214,813	569,813
2024-2028	1,965,000	900,397	2,865,397
2029-2033	2,310,000	547,697	2,857,697
2034-2036	1,620,000	98,800	1,718,800
	<u><u>\$ 7,595,000</u></u>	<u><u>\$ 2,708,359</u></u>	<u><u>\$ 10,303,359</u></u>

Revenue Financing System Refunding and Improvement Bonds, Series 2016

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

Issued May 24, 2016

Total Authorized and issued \$2,510,000

Sources of revenue for debt service is dorm fees

Outstanding principal balance at August 31, 2018 and 2017 was \$2,230,000 and \$2,370,000, respectively

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

Revenue Financing System Refunding and Improvement Bonds, Series 2016 A

To advance refund 2010 Revenue Bonds

Issued December 8, 2016

Total Authorized and issued \$5,545,000

Sources of revenue for debt service is dorm fees

Outstanding principal balance at August 31, 2018 and 2017 was \$5,365,000 and \$5,545,000, respectively

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

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

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, 2018 and 2017 was \$597,800 and \$669,266, 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, 2018 and 2017 was \$18,180 and \$35,836, respectively

The College entered into a 3.95% maintenance tax note payable dated December 12, 2016 to a bank in the amount of \$560,000. The note is due in 15 semi-annual payments of \$45,000 to \$50,000. The balance of the note at August 31, 2018 and 2017 was \$535,000 and \$560,000, respectively.

Debt service requirements for the notes payable are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2019	122,877	41,856	164,733
2020	108,127	37,468	145,595
2021	116,530	33,114	149,644
2022	120,157	14,837	134,994
2023	123,945	23,599	147,544
2024-2028	384,344	55,055	439,399
2029-2032	175,000	12,268	187,268
	\$ 1,150,980	\$ 218,197	\$ 1,369,177

Note 10 – Defined Benefit Pension Plan

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

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

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

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

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates		
	2017	2018
Member (Employees)	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employer (District)	6.8%	6.8%
Member Contributions	597,482	635,565
State of Texas On-Behalf Contributions	192,869	193,058
College Contributions	334,778	351,746

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 2018 were \$351,746 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 2018 were \$193,058.

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

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

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

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

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

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions	
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Last year ending August 31 in the 2017 to 2116	
Projection period (100 years)	2116
Inflation	2.5%
Salary Increases	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

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. There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period.

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

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

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, 2017 are summarized below:

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.

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Note 10 – Defined Benefit Pension Plan-(continued)

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
College's proportionate share of the net pension liability	\$ 5,506,556	\$ 3,266,430	\$ 1,401,162

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, the college reported a liability of \$3,804,716 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	\$ 3,266,430
State's proportionate share that is associated with the College	1,887,439
Total	<u>\$ 5,153,869</u>

The net pension liability was measured as of August 31, 2017 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, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was .0102156991% which was a decrease of .0001472537% from its proportion measured as of August 31, 2016.

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

For the year ended August 31, 2017, the college recognized pension expense of \$192,869 and revenue of \$192,869 for support provided by the State.

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Note 10 – Defined Benefit Pension Plan-(continued)

At August 31, 2018, 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	\$ 47,789	\$ 176,154
Changes in actuarial assumptions	148,791	85,179
Difference between projected and actual investment earnings	502,339	740,389
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	42,606	344,075
Total as of August 31, 2017 measurement date	741,525	1,345,797
Contributions paid to TRS subsequent to the measurement date	351,746	-
Total	<u>\$ 1,093,271</u>	<u>\$ 1,345,797</u>

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:	
2019	\$ (180,733)
2020	27,772
2021	(196,753)
2022	(241,270)
2032	(15,788)
Thereafter	2,500
	<u>\$ (604,272)</u>

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

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Note 11 – Defined Contribution Pension Plan-continued

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 \$293,244, \$278,972, and \$277,587 for the fiscal years ended August 31, 2018, 2017, and 2016 respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for the College employees was \$11,114,508, \$10,863,353, and \$10,678,432 for fiscal years 2018, 2017, and 2016 respectively. The total payroll of employees covered by the Teacher Retirement System was \$8,254,074, \$7,759,509, and \$7,385,543 and the total payroll of employees covered by the Optional Retirement Program was \$2,655,041, \$2,746,507, and \$3,229,952 for fiscal years 2018, 2017, and 2016, 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 \$125,479 and \$109,577 for August 31, 2018 and 2017, 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.

Note 13 – Other Post-Employment Benefits (OPEB)

Plan Description. Northeast Texas Community College participates in the State Retiree Health Plan (SRHP). SRHP is a cost-sharing, multiple-employer postemployment health care plan with a special funding situation. This plan covers retired employees of the State, and other entities as specified by the State legislation in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the State Retiree Health Plan are authorized by State law and may be amended by the Texas Legislature.

OPEB Plan Fiduciary Net Positions. Detailed information about GBP's fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report (CAFR) that includes financial statements, notes to the financial statements and required supplementary information. That report may be obtained on the Internet at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at: 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377. The fiduciary net position of the plan has been determined using the same basis used by OPEB plan.

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Note 13 – Other Post-Employment Benefits (OPEB)-continued

Components of the net OPEB liability of the plan as of August 31, 2017 are as follows:

Net OPEB Liability	Total
Total OPEN Liability	\$ 34,782,794,493
Less: Plan Fiduciary Net Position	709,782,760
Net OPEB Liability	<u>\$ 34,073,011,733</u>
Net Position as a percentage of Total OPEB Liability	2.04%

Benefits Provided. Retiree health benefits offered through the GBP are available to most State of Texas retirees and their eligible dependents. Participants need at least ten years of service credit with an agency or institution that participates in the GBP to be eligible for GBP retiree insurance. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan and life insurance benefits to eligible retirees via minimum premium funding arrangement. The authority under which the obligations of the plan members and employers are established and/or may be amended is Chapter 1551, Texas Insurance Code.

Contributions. Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employers and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and its consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

The following table summarizes the maxim monthly employer contribution toward eligible retirees' health and basic life premium. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. As the non-employer contributing entity (NECE), the State of Texas pays part of the premiums for the junior and community colleges.

Maximum Monthly Employer Contribution
Retiree Health and Basic Life Premium
Fiscal Year 2017

Retiree Only	\$ 617.30
Retiree & Spouse	970.98
Retiree & Children	854.10
Retire & Family	1207.78

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Note 13 – Other Post-Employment Benefits (OPEB)-continued

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

Premium Contributions by Source Group Benefits Program Plan For the Years Ended August 31, 2017	
	2017
Employers	\$ 340,703
Members (Employees)	\$ 674,983
Nonemployer Contribution Entity (State of Texas)	\$ 205,664

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of August 31, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Assumptions ERS Group Benefits Program Plan	
Valuation date	August 31, 2017
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percentage of Pay, Open
Remaining amortization period	30 years
Asset valuation method	Not applicable
Discount rate	3.51%
Projected annual salary increase (includes inflation)	2.50% to 9.50%
Annual healthcare trend rate	8.50% for FY 2019, decreasing 0.5% per year to 4.50% for FY 2027 and later years
Inflation assumption rate	2.50%
Ad hoc postemployment benefit changes	None
Mortality assumptions:	
Service retirees, survivors and other inactive members	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014
Disability retirees	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB

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Note 13 – Other Post-Employment Benefits (OPEB)-continued

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period (ex. September 1, 2010 to August 31, 2014) for higher education members.

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

Discount Rate. Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the beginning of the measurement year 2.84%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 3.51%, which amounted to an increase of 0.67%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp's AA rating. Projected cash flows into the plan are equal to projected benefit payments out of the plan. Because the plan operates on a pay-as-you-go (PAYGO) basis and is not intended to accumulate assets, there is no long-term expected rate of return on plan assets and therefore the years of projected benefit payments to which the long-term expected rate of return is applicable is zero years.

Discount Rate Sensitivity Analysis. The following schedule shows the impact on the College's proportionate share of the collective net OPEB Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used 3.51% in measuring the net OPEN Liability.

	1% Decrease in Discount Rate 2.51%	Discount Rate 3.51%	1% Increase in Discount Rate 4.51%
The College's proportionate share of the net OPEB liability:	\$14,424,546	\$12,083,816	\$10,270,712

Healthcare Trend Rate Sensitivity Analysis. The initial healthcare trend rate is 8.5% and the ultimate rate is 4.5%. The following schedule shows the impact on the College's proportionate share of the collective net OPEB Liability if the healthcare cost trend rate used was 1 percent less than and 1 percent greater than the healthcare cost trend rate that was used 8.5% in meaning the net OPEB Liability.

	1% Decrease in Healthcare Cost Trend Rates 7.5% decreasing to 3.5%	Current Healthcare Cost Trend Rates 8.5% decreasing to 4.5%	1% Increase in Healthcare Cost Trend Rates 9.5% decreasing to 5.5%
The College's proportionate share of the net OPEB liability:	\$10,158,502	\$12,083,816	\$14,582,022

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Note 13 – Other Post-Employment Benefits (OPEB)-continued

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At August 31, 2018, the College reported a liability of \$12,083,816 for its proportional share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to the College for OPEB. The amount recognized by the College as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

The College's proportionate share of the collective net OPEB liability	\$12,083,816
State's proportionate share that is associated with The College	<u>7,490,251</u>
Total	<u>\$19,574,067</u>

The net OPEB liability was measured as of August 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016, thru August 31, 2017.

At the measurement date of August 31, 2017, the employer's proportion of the collective net OPEB liability was .03546448%, which was the same proportion measured as of August 31, 2016.

For the year ended August 31, 2018, the College recognizes OPEB expense of \$205,664 and revenue of \$205,664 for support provided by the State.

Changes Since the Prior Actuarial Valuation – Changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period were as follows:

- Additional demographic assumptions (aggregate payroll increases and rate of general inflation) to reflect an experience study;
- The percentage of current and future retirees and retirees' spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan who will elect to participate at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends;
- Assumptions for administrative expenses, assumed per Capita Health Benefit Costs, Health Benefit Cost and Retiree Contribution trends to reflect recent health plan experience;
- Effects in short-term expectations and revised assumed rate of general inflation.

Changes of Benefit Terms Since Prior Measurement Date – The following benefit revisions have been adopted since the prior valuation:

- An increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility;
- An elimination of the copayment for virtual visits;

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Note 13 – Other Post-Employment Benefits (OPEB)-continued

- A copay reduction for Airrosti and for out-of-state participants;
- Elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits.

These minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs. There are no benefit changes for Health Select retirees and dependents for whom Medicare is Primary.

High-Cost Plan Excise Tax. Consistent with the prior valuation, the effects of the High-Cost Plan Excise Tax imposed by the ACA under Internal Revenue Code Section 49801 (sometimes referred to as the “Cadillac Tax”) have been included in this valuation. The Excise Tax becomes effective in 2020, but the plan is not expected to be subject to the tax until 2060 based on current plan provisions, assumptions and participant demographics. The Net OPEB Liability is increased by the \$521 million present value of the estimated Excise Taxes in future years, and associated increased to the ADC is \$19 million.

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

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

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

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

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

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

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Note 13 – Other Post-Employment Benefits (OPEB)-continued

For the year ended August 31, 2018, the District recognizes OPEB expense of \$646,677 and revenue of \$205,664 for support provided by the State.

At August 31, 2018, the College reported its proportionate share of the ERS plan's collective deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 145,209
Changes in actuarial assumptions	-	2,526,581
Difference between projected and actual investment earnings	<u>3,578</u>	<u> </u>
Change in proportion and difference between the employer's contributions and the proportionate share of contributions	3,578	2,671,790
Contributions paid to ERS subsequent to the measurement date	<u>340,703</u>	<u> </u>
Total	<u><u>\$ 344,281</u></u>	<u><u>\$ 2,671,790</u></u>

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

Fiscal year ended August 31,	OPEB Expense Amount
2019	(600,860)
2020	(600,860)
2021	(600,860)
2022	(600,860)
2023	(264,772)
Thereafter	-

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Note 13 – Other Post-Employment Benefits (OPEB)-continued

The District is dependent upon information provided by the ERS Plan for recognizing the OPEB liability, deferred inflows and deferred outflows of resources, and expenses. The ERS Plan information provided to the District used retiree data for the restatement in fiscal year 2018. Contributions made subsequent to the measurement date by the District for retirees have been recorded as deferred outflows of resources as of August 31, 2018 and contributions made subsequent to the measurement date by the District for active employees have been recorded as an expense for the year ended August 31, 2018. Future changes, if any, to the current methodology or actuarial assumptions being utilized, could result in significant changes in accounting and financial reporting in future periods.

Note 14 - Disaggregation of Receivables and Payables Balances

Receivables at August 31, 2018 were as follows:

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

Payables at August 31, 2018 were as follows:

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

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Note 14 - Disaggregation of Receivables and Payables Balances-continued

Receivables at August 31, 2017 were as follows:

	<u>College</u>	<u>Foundation</u>
Tuition and Fees Receivable	\$ 2,177,057	-
Taxes Receivable	1,125,700	-
Scholarship and Pledges Receivable		-
Contracts and Grants Receivable	395,489	16,837
Other Receivables	120,359	-
Subtotal	<u>3,818,605</u>	<u>16,837</u>
Allowance for Doubtful Accounts	2,374,548	-
Total Receivables	<u><u>\$ 1,444,057</u></u>	<u><u>\$ 16,837</u></u>

Payables at August 31, 2017 were as follows:

	<u>College</u>	<u>Foundation</u>
Accounts Payable:		
Vendors Payable	<u><u>\$ 991,854</u></u>	<u><u>\$ -</u></u>
Accrued Liabilities:		
Accrued payroll liabilities	\$ 16,727	\$ -
Interest payable	516,140	-
Total Accrued Liabilities	<u><u>532,867</u></u>	<u><u>-</u></u>
Deposits payable:		
Student deposits payable	<u><u>\$ 178,731</u></u>	<u><u>\$ -</u></u>

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Note 15 - 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 2018 and 2017 for the College and Foundation are as follows:

	<u>2018</u>	<u>2017</u>
College		
Federal	\$ 2,086,391	\$ 1,211,836
State	740,998	71,812
Total	<u>\$ 2,827,389</u>	<u>\$ 1,283,648</u>
Foundation		
Federal	\$ 141,907	\$ 130,945
State	563,186	563,010
Total	<u>\$ 705,093</u>	<u>\$ 693,955</u>

Note 16 – Self-Insured Plans

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

Note 17 - Health Care and Life Insurance Benefits

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per insured was \$311 and \$309 for the years ended August 31, 2018 and 2017 respectively and totaled \$935,242 for 2018, and \$900,390 for 2017.

Note 18 – 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.

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Note 18 – Ad Valorem Tax-(continued)

	At August 31,	
	<u>2018</u>	<u>2017</u>
Assessed Valuation	\$ 4,774,654,956	\$ 4,657,891,939
Less Exemptions and Reductions	737,483,075	657,942,720
Net Taxable Assessed Value	<u>\$ 4,037,171,881</u>	<u>\$ 3,999,949,219</u>

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax rate authorized per \$100 valuation	\$ N/A	\$ N/A	\$ 0.1300
Tax rate assessed per \$100 valuation for 2018	\$ 0.0786	\$ 0.0514	\$ 0.1300
Tax rate assessed per \$100 valuation for 2017	\$ 0.0799	\$ 0.0501	\$ 0.1300

Taxes levied for the years ended August 31, 2018 and 2017 were \$5,248,323 and \$5,199,934 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, 2018 and 2017 are as follows:

	<u>2018</u>			<u>2017</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	\$ 2,863,249	\$ 1,981,504	\$ 4,844,753	\$ 2,916,843	\$ 1,828,118	\$ 4,744,961
Delinquent Taxes	60,310	41,738	102,048	35,046	22,221	57,267
Penalties and Interest	44,139	30,546	74,685	43,164	27,552	70,716
Other Fees	2,067	1,430	3,497	2,171	1,808	3,979
Total Collections	<u>\$ 2,969,765</u>	<u>\$ 2,055,218</u>	<u>\$ 5,024,983</u>	<u>\$ 2,997,224</u>	<u>\$ 1,879,699</u>	<u>\$ 4,876,923</u>

Current tax levy collections for the years ended August 31, 2018 and 2017 were 92.31% and 91.25%, 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 19 - 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, 2018 and 2017.

***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017***

Note 20 – 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 21 - 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 22 - 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, 2018 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.

***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017***

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.

Note 24—Tax Abatement

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

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

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

Note 25-Pending Lawsuits and Claims

As of August 31, 2018, there is one lawsuit pending against the College. In the opinion of College administration, the potential loss on this claim will be covered by insurance.

REQUIRED SUPPLEMENTAL INFORMATION

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE 1
SCHEDULE OF COLLEGE'S SHARE OF NET PENSION LIABILITY
For the Year Ended August 31, 2018

	Measurement Year Ended August 31,			
	2017	2016	2015	2014
Colleges Proportion Share of Net Pension Liability	<u>0.0102157%</u>	<u>0.01006840%</u>	<u>0.01051930%</u>	<u>0.01183270%</u>
College's Proportionate Share of Collective Net Pension Liability	\$ 3,266,360	\$ 3,804,716	\$ 3,718,433	\$ 3,160,678
State's Proportionate Share of Collective Net Pension Liability				
Associated with College	<u>\$ 3,266,360</u>	<u>\$ 2,199,339</u>	<u>2,194,512</u>	<u>1,782,893</u>
		<u>\$ 6,004,055</u>	<u>\$ 5,912,945</u>	<u>\$ 4,943,571</u>
College Covered Payroll Amount	<u>\$ 7,759,509</u>	<u>\$ 7,385,543</u>	<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>42.10%</u>	<u>51.52%</u>	<u>51.16%</u>	<u>46.01%</u>
TRS Net Position as Percentage of Total Pension Liability	<u>82.17%</u>	<u>78.00%</u>	<u>78.43%</u>	<u>83.25%</u>

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

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE 2
SCHEDULE OF COLLEGE'S CONTRIBUTIONS FOR PENSIONS
For the Year Ended August 31, 2018

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

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

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE

SCHEDULE 3

SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE OF NET OPEB LIABILITY

For the Year Ended August 31, 2018

Measurement Year Ended August 31,

	2017
College's proportion of collective net OPEB liability (%)	0.035464480%
College's proportionate share of collective net OPEB liability (\$)	\$ 12,083,816
State's proportionate share of net OPEB liability associated with the College	<u>7,490,251</u>
Total	19,574,067
College's Covered Payroll	\$ <u>10,341,867</u>
College's proportionate share of collective net OPEB liability as a percentage of covered payroll	116.84%
Plan fiduciary net position as percentage of the total OPEB liability	2.04%

*The amount presented above are as of the measurement date of the collective net OPEB liability.

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

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE 4
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS FOR OPEB
For the Year Ended August 31, 2018

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

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

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

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended August 31, 2018

A. Notes to Schedules for the TRS Pension Plan

Changes of benefit terms

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

Changes of assumptions

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

B. Notes to Schedules for the ERS OPEB Plan

Other Post-Employment Benefit Plan

Changes of benefit terms

The valuation reflects the benefit changes that became effective September 1, 2017. Benefit changes for HealthSelect retirees and dependents for whom Medicare is not primary include:

- * an increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility;
- * elimination of the copayment for virtual visits;
- * a reduction in the copayment for Airrositi, and
- * for out-of-state participants, (i) elimination of the deductible for in-network services and (ii) application of a copayment rather than coinsurance to certain services like primary care and special office visits.

These minor benefit changes are provided for the FY 2018 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is primary.

Changes of assumptions

Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, assumed salary increases and assumed age differences for future retirees and their spouses for select classes of State Agency employees), assumed aggregate payroll increases and the assumed rate of general inflation have been updated to reflect assumptions recently adopted by the ERS Trustees. These new assumptions were adopted to reflect an experience study on the ERS retirement plan performed by the ERS retirement plan actuary.

In addition, assumed Expenses, assumed Per Capita Health Benefit Cost and assumed Health Benefit Cost, Retiree Contribution and Expense trends have been updated to reflect recent experience and its effects on our short-term expectations and the revised assumed rate of general inflation. Furthermore, the percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence, the proportion of future retirees covering dependent children and the percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.

Lastly, the discount rate assumption was lowered as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher.

***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, 2018 (With Memorandum Totals for the Year Ended August 31, 2017)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2018 Total	Memorandum 2017 Total
Tuition						
State funded courses						
In-district resident tuition	\$ 1,578,226	\$	\$ 1,578,226	\$	\$ 1,578,226	\$ 1,533,432
Out-of-district resident tuition	916,402		916,402		916,402	914,451
TPEG (set aside)*	132,180		132,180		132,180	174,187
Non-resident tuition	505,437		505,437		505,437	697,359
State funded continuing education	133,181		133,181		133,181	277,338
Non-state funded continuing education	29,911		29,911		29,911	65,054
Total Tuition	3,295,337	-	3,295,337	-	3,295,337	3,661,821
Fees						
General fees	2,832,368		2,832,368		2,832,368	2,939,644
Out-of-district fees	1,495,183		1,495,183		1,495,183	1,491,998
Course fees	412,068		412,068		412,068	222,191
Other fees	93,692		93,692		93,692	97,744
Total Fees	4,833,311	-	4,833,311	-	4,833,311	4,751,577
Allowances and Discounts						
Bad debt allowance	(38,676)		(38,676)		(38,676)	(334,833)
Scholarship allowances	(568,049)		(568,049)		(568,049)	(534,523)
Remissions and exemptions	(269,346)		(269,346)		(269,346)	(258,094)
TPEG allowances	(80,363)		(80,363)		(80,363)	(151,478)
Federal and state grants to students	(3,417,504)		(3,417,504)		(3,417,504)	(3,461,564)
Total Allowances and Discounts	(4,373,938)	-	(4,373,938)	-	(4,373,938)	(4,740,492)
Total Net Tuition and Fees	3,754,710	-	3,754,710	-	3,754,710	3,672,906
Other Operating Revenues						
Federal grants and contracts	42,483	1,776,545	1,819,028		1,819,028	1,505,550
State grants and contracts		617,320	617,320		617,320	800,477
Nongovernmental grants and contracts		2,624	2,624		2,624	16,360
Sales and services of educational activities	57,572		57,572		57,572	56,243
Other operating revenues	353,161	70,000	423,161	159,151	582,312	529,094
Total Other Operating Revenues	453,216	2,466,489	2,919,705	159,151	3,078,856	2,907,724
Auxiliary Enterprises						
Residential life				1,210,491	1,210,491	1,194,457
Less discounts				(258,998)	(258,998)	(179,163)
Bookstore				1,353,311	1,353,311	1,512,652
Less discounts				(661,727)	(661,727)	(678,777)
Total Net Auxiliary Enterprises	-	-	-	1,643,077	1,643,077	1,849,169
Total Operating Revenues (Exh.2)	\$ 4,207,926	\$ 2,466,489	\$ 6,674,415	\$ 1,802,228	\$ 8,476,643	\$ 8,429,799

*In accordance with Education Code 56.033, \$132,180 and \$174,187 for years August 31, 2018 and 2017, 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, 2018 (with Memorandum Totals for the Year Ended August 31, 2017)

	Operating Expenses					Memorandum Total 8/31/2017
	Salaries and Wages	Benefits State Benefits	Local Benefits	Other Expenses	Total 8/31/2018	
Unrestricted - Educational Activities						
Instruction	\$ 6,167,108		1,195,263	484,169	\$ 7,846,540	\$ 7,859,829
Public Service	64,460		12,493	117,516	194,469	183,774
Academic Support	692,720		134,258	322,270	1,149,248	931,521
Student Services	763,705		148,016	180,244	1,091,965	1,119,843
Institutional Support	1,692,936		328,112	1,394,678	3,415,726	3,161,195
Operation and Maintenance of Plant	307,306		59,560	1,104,181	1,471,047	1,224,251
Scholarships and Fellowships					-	-
Total Unrestricted Educational Activities	\$ 9,688,235	\$ -	\$ 1,877,702	\$ 3,603,058	\$ 15,168,995	\$ 14,480,413
Restricted - Educational Activities						
Instruction	\$ 126,392	\$ 782,001	\$ -	\$ 538,721	\$ 1,447,114	\$ 1,586,731
Public Service	205,027	8,174		71,722	284,923	282,979
Academic Support		87,838			87,838	87,681
Student Services	136,259	96,839		99,495	332,593	329,422
Institutional Support	474,163	214,667		388,715	1,077,545	752,127
Operation and Maintenance of Plant		38,967			38,967	32,280
Scholarships and Fellowships				2,065,128	2,065,128	1,801,773
Total Restricted Educational Activities	\$ 941,841	\$ 1,228,486	\$ -	\$ 3,163,781	\$ 5,334,108	\$ 4,872,993
Total Educational Activities	10,630,076	1,228,486	1,877,702	6,766,839	20,503,103	19,353,406
Auxiliary Enterprises	484,432	-	153,545	1,975,800	2,613,777	2,685,759
Depreciation Expense						
Building & Improvements					1,110,319	943,077
Equipment & Furniture					883,592	749,226
Library Books					26,068	27,886
Total	\$ 11,114,508	\$ 1,228,486	\$ 2,031,247	\$ 8,742,639	\$ 25,136,859	\$ 23,759,354

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE C
SCHEDULE OF NON - OPERATING REVENUES AND EXPENSES
For the Year Ended August 31, 2018(With Memorandum totals for the Year Ended August 31, 2017)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>Total 8/31/2018</u>	<u>Memorandum Total 8/31/2017</u>
Non - Operating Revenues					
State appropriations:					
Education and general state support	\$ 4,734,343			\$ 4,734,343	4,575,565
State group insurance		935,242		935,242	900,390
State retirement matching		293,244		293,244	278,972
Professional nursing shortage reduction		-		0	132,948
Ad-valorem taxes	3,179,001	2,200,019		5,379,020	4,880,384
Federal revenue, non operating		6,002,155		6,002,155	5,585,373
Investment income		43,376		43,376	60,006
Contribution from Foundation				-	0
Total Non - Operating Revenues	<u>7,913,344</u>	<u>9,474,036</u>	<u>-</u>	<u>17,387,380</u>	<u>16,413,638</u>
Non - Operating Expenses					
Interest on capital related debt	1,418,353			1,418,353	1,412,741
(Gain) Loss on disposal of fixed assets	118,762			118,762	(3,845)
Other non operating expense	3,613			3,613	205,647
Total Non - Operating Expenses	<u>1,540,728</u>	<u>-</u>	<u>-</u>	<u>1,540,728</u>	<u>1,614,543</u>
Net Non - Operating Revenues	<u>\$ 6,372,616</u>	<u>\$ 9,474,036</u>	<u>\$ -</u>	<u>\$ 15,846,652</u>	<u>\$ 14,799,095</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, 2018 (With Memorandum totals for the Year Ended August 31, 2017)

	Detail By Source							
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total 8/31/2018	Available for Current Operations		Memorandum Total 8/31/2017
		Expendable	Non Expendable			Yes	No	
Current								
Unrestricted	\$ (15,606,654)	\$	\$	\$	\$ (15,606,654)	2,323,557	(17,930,211)	(1,180,684)
Board Designated Reserve	515,717				515,717	515,717		515,717
Plant								
Investment in plant			696,039	12,044,366	12,740,405		12,740,405	12,600,448
Total Net Assets, August 31, 2018	(15,090,937)	0	696,039	12,044,366	(2,350,532)	2,839,274	(5,189,806)	11,935,481
Total Net Assets, August 31, 2017	[*] (14,770,318)		543,948	12,056,500	(2,169,870)	2,112,424	(4,282,294)	12,375,308
Net Increase (Decrease) in Net Assets	\$ (320,619)	\$ 0	\$ 152,091	\$ (12,134)	\$ (180,662)	\$ 726,850	\$ (907,512)	(439,827)

^{*} Restated

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, 2018 and 2017, 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 12, 2018.

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 12, 2018



**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, 2018. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned cost.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2018.

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 2018-001 and 2018-002 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.

WILF & HENDERSON, P. C.
Certified Public Accountants
Texarkana, Texas
December 12, 2018

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE G
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2018
Page 1 of 2

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantors Number	Provided to Subrecipients	Pass Through Disbursements and Expenditures
U.S. Department of Education				
<u>Direct Programs</u>				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007A		\$	\$ 40,521
Federal Work-Study Program	84.033A			83,216
Federal Pell Grant Program	84.063P			5,961,634
Direct Loans	84.268			3,311,303
Total Student Financial Assistance Cluster				9,396,674
TRIO - Upward Bound	84.047A			252,989
Title V	84.031S		84,497	862,879
<u>Passed Through Texas Workforce Commission</u>				
Passed through Tyler Junior College				
Adult Education and Family Leave Act (AEFLA)-TJC	84.002A	0818ALA000		3,554
Adult Education and Family Leave Act (AEFLA)-TJC	84.002A	0816AEL002		48,687
Adult Education and Family Leave Act (AEFLA)-TJC	84.002A	2916AEL010		12,917
Passed through Paris Junior College				
Adult Education and Family Leave Act (AEFLA)	84.002A	0716AEL004		192,721
Adult Education and Family Leave Act (AEFLA)	84.002A	0818ALA000		27,043
Total Passed Through Texas Workforce Commission				284,922
<u>Passed Through Texas Higher Education Coordinating Board</u>				
Vocational Education - Allocated	84.048			178,897
Total Passed Through Texas Higher Education Coordinating Board				178,897
Total U.S. Department of Education			\$	\$ 10,976,361
U.S. department of Labor				
<u>Passed through North East Texas WDB</u>				
High Demand Job Training Program	17.258	0715HJT000		6,437
Total US Department of Labor				6,437
U.S. Department of Health and Human Services				
<u>Passed Through Texas Education Agency</u>				
Temporary Assist to Needy Families	93.558 (A)			142,056
<u>Passed Through Workforce Solutions of East Texas</u>				
Temporary Assist to Needy Families	93.558	0817TAN000		872
Temporary Assist to Needy Families	93.558	0818TAN000		26,976
<u>Passed Through Texas Workforce Solutions</u>				
<u>Passed through Paris Junior College</u>				
Temporary Assist to Needy Families	93.558	0716AEL004		372
Temporary Assist to Needy Families	93.558	0818ALA000		2,171
<u>Passed through Tyler Junior College</u>				
Temporary Assist to Needy Families	93.558	0816AEL002		1,382
Total passed through Texas Workforce Solutions				3,925
Total U.S. Department of Health and Human Services			\$	\$ 173,829
U.S. Small Business Administration	59.037			181,914
Total Federal Financial Assistance			\$ 84,497	\$ 11,338,541

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2018
Page 2 of 2

Note 1: Federal Financial Assistance Reconciliation

Federal Grants and Contracts Revenue - Per Schedule A - College	\$	\$	1,819,028
Federal Grants and Contracts Revenue - Per Schedule C - College			6,002,155
Federal Grant Capital Contributions - Per Exhibit 2 - College			63,999
Direct Loans			3,311,303
Federal Grants and Contracts Revenue - Foundation			<u>142,056</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	\$	\$	<u>11,338,541</u>

Note 2: Significant Accounting Policies

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

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.

Note 4: Amounts Passed Through by the College

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

U.S. Department of Education

Title V

TAMUT-Texarkana

\$ 84,497

Total amount passed through by the College

\$ 84,497

(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, 2018**

A: Summary of Audit Results

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? X 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 X no

The programs tested as major programs include:

Student Financial Aid Cluster

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

Upward Bound

CFDA #84.047A

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

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

B: Findings – Financial Statements Audit

None

*NORTHEAST TEXAS COMMUNITY COLLEGE
NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2018*

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

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

Eligibility

Type of Finding – Significant Deficiency over Compliance

Criteria:

The Department of Education (DOE) selects certain Title IV students for verification. The verification process requires the college to obtain supporting documents, such as tax returns, to verify the accuracy of the information reported on Title IV financial aid application.

Condition:

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

Projection of this error is not likely to exceed \$25,000.

This is a continuation of a prior year finding 2017-3.

After the prior year finding was discussed with management, procedures were implemented to correct this problem.

Four erroneous verifications in this finding were before the new procedures were implemented. One erroneous verification in the finding occurred after the procedures were implemented.

Cause:

The college did not have proper controls in effect to ensure all items included in the verification process were verified properly.

Effect:

Because verification was not completed properly, Title IV awards could be awarded incorrectly.

Recommendation:

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

Views of Responsible Officials:

The college agrees with the continuation of this finding and continues to execute the action plan from 2017.

***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2018***

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

Cash Management

Type of Finding – Significant Deficiency Over Compliance

Criteria:

In general, student financial aid may only be used to pay for the student's costs for the period for which the funds are provided. A credit balance is generated when more funds are credited to the student account than charges to be paid. The student is to be disbursed this credit balance. However, a school may use current-year funds to satisfy prior award charges of not more than \$200 for tuition, fees, or room and board provided by the school without obtaining the student's or parent's authorization.

Condition:

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

Projection of this error is not likely to exceed \$25,000.

Cause:

The college did not have controls in place to determine proper student disbursements of credit balances.

Effect:

The student did not receive a disbursement in the correct amount of their credit balance.

Recommendation:

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

View of Responsible Officials:

The college agrees with the finding and are working on additional software enhancements, additional reporting, and procedures to ensure student credit balances are accurate before disbursements are issued.

Corrective Action Plan

December 12, 2018

Northeast Texas Community College respectfully submits the following corrective action plan for the year ended August 31, 2018.

Name and address of independent public accounting firm:

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

Audit Period: September 1, 2017 to August 31, 2018

The findings from the August 31, 2018 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

2018 - Student Financial Assistance Cluster – CFDA

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

Significant Deficiency over Compliance

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

Action Taken: The majority of verifications are completed by ProEd Services. As a result of last year's audit, Northeast requested ProEd replace the team of consultants responsible for verifying our files. In addition, we implemented a process whereby a secondary internal review was performed on approximately 10% of the files reviewed by ProEd. Though this process will always be subject to human error, we feel the changes that were implemented mitigate the risk. As a result, only one of the errors occurred after the new processes were implemented. Of note, the error was insignificant as it did not change student's EFC; therefore, student's aid package was correct.

2018 - Student Financial Assistance Cluster – CFDA

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

Significant Deficiency over Compliance

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

Action Taken: Our current procedures require a manual review of each individual student credit balance before disbursements are issued, which is susceptible to human error. We have been working with our current student information software vendor to enhance functionality that will allow us to identify and more accurately breakdown term balances for individual students within the system. Additionally, we will create a report that identifies students who have a balance due from prior terms and review that report against those students receiving refunds.

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

Sincerely yours,



Dr. Ron Clinton, Interim President
Northeast Texas Community College

FEDERAL SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2018

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

2017- 001 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A,
84.063P, 84.268 Grant period – Year ended August 31, 2017

Special Tests-Enrollment Reporting

Type of Finding – Significant Deficiency over Compliance

Condition:

During our testing of this compliance requirement, we noted that the students enrolled in the Fall 2016 semester were not reported timely to NSLDS.

Recommendation:

We recommend that Northeast Texas Community College continue procedures implemented in the Fall of 2016 to regularly review system generated reports to ensure accurate and timely reporting.

Current Status:

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

2017- 002 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A,
84.063P, 84.268 Grant period – Year ended August 31, 2017

Special Tests and Provisions

Type of Finding – Significant Deficiency Over Compliance

Condition:

During our testing of this compliance requirement, we reviewed 60 students subject to the return to Title IV calculation out of a population of 290. Of the 60 selected, 35 students were determined to have earned their financial aid and therefore, had no return to Title IV monies. Of the other 25 students tested, the college did not return the Title IV money within the 45 days on 4 students. All monies were returned.

Recommendation:

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

Current Status:

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

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

2017-3 **Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2017**

Eligibility

Type of Finding – Significant Deficiency over Compliance

Condition:

During our testing of this compliance requirement, we reviewed 60 students, of which 26 were selected by the DOE to be verified. Of these 26, the college did not verify all required information on four students.

Projection of this error is not likely to exceed \$25,000.

Recommendation:

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

Current Status:

The College implemented procedures aimed to correct this issue. While these procedures improved this condition, one issue was found after the procedures were instituted.

2017- 004 **Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2017**

Special Tests and Provisions

Type of Finding – Significant Deficiency Over Compliance

Condition:

During our testing of this compliance requirement, we reviewed 60 students who received a direct loan. Out of the 60 selected, 3 students or parents did not receive the notification timely.

Recommendation:

We recommend that Northeast Texas Community College implement procedures to regularly review direct loan notifications.

Current Status:

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

2017- 005 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268 Grant period – Year ended August 31, 2017

Eligibility

Type of Finding – Significant Deficiency Over Compliance

Condition:

During our testing of this compliance requirement, we reviewed 60 students who received a direct loan. Out of the 60 selected, 1 student was awarded an amount based on independent status. The correct status was dependent.

Projection of this error is not likely to exceed \$25,000.

Recommendation:

We recommend that Northeast Texas Community College implement procedures to review student status and direct loan awards.

Current Status:

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

STATE FINANCIAL ASSISTANCE INFORMATION



**Independent Auditors' Report on Compliance for Requirements Applicable to 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, 2018. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned cost.

Management's Responsibility

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

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, 2018.

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
December 12, 2018

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 12, 2018

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE H
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2018
Page 1 of 2

<u>Grantor/Program/Title</u>	<u>Grant Contract Number</u>	<u>Pass Through Disbursements and Expenditures</u>
Texas Education Agency		
Temporary Assist to Needy Families	(A) 0710580171200011	\$ 563,010
Total Texas Education Agency		<u>563,010</u>
U.S. Small Business Administration		
SBDC State		<u>92,210</u>
Texas Higher Education Coordinating Board		
Texas Grant Program	N/A	-
Texas Grant II	N/A	269,188
Nursing Shortage		<u>32,121</u>
Total Texas Higher Education Coordinating Board		<u>301,309</u>
Texas College Workstudy		<u>63,175</u>
Texas Workforce Commission		
Skills Development Fund	0717SDF001	111,050
Skills For Small Business Program	0715SSD000	3,315
Passed through Tyler Junior College		
State AEFLA	0816AEL002	7,103
Passed through Paris Junior College		
State AEFLA	0716AEL004	31,901
State AEFLA	0818ALA000	33
Professional Development	0816AEL002	1,042
Professional Development	0818ALA000	18
Professional Development	0716AEL004	5,779
Professional Development	0818ALA000	<u>386</u>
Total Texas Wokforce Commission		<u>160,626</u>
HOGG Foundation Grant		
HOGG Foundation Grant	(A) WRC-040	<u>2,377</u>
Total State Financial Assistance		<u>\$ 1,182,707</u>

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

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2018
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	\$ 617,320
State Grants and Contracts Revenue - Per Schedule C - College	-
State Grants and Contracts - Foundation	<u>565,387</u>
 Total State Financial Assistance	 \$ <u><u>1,182,707</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, 2018**

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

State Awards

Internal control over major programs:

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

The programs tested as major programs include:

	<u>Grant Project Number</u>
Texas Education Agency	
Temporary Assist to Needy Families	(A) 0710580171200011
Texas Workforce Commission	0717SDF001

Dollar threshold used to distinguish between

Type A and B programs: \$ 300,000

Auditee qualified as low-risk auditee? X 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, 2018

Prior year audit disclosed no findings or questioned costs.