

COASTAL BEND COLLEGE

ANNUAL FINANCIAL REPORT

AUGUST 31, 2017 AND 2016

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COASTAL BEND COLLEGE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017 AND 2016

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COASTAL BEND COLLEGE
ORGANIZATIONAL DATA
FOR THE FISCAL YEAR 2017

BOARD OF TRUSTEES

		<u>TERM EXPIRES May 31</u>
Mrs. Laura Fisher	Chair	2018
Mr. Carroll Wayne Lohse	Vice-Chair	2018
Mr. Victor Gomez	Secretary	2022
Mr. George P. Morrill III	Trustee	2022
Mr. Jeff Massengill	Trustee	2020
Mrs. Martha Warner	Trustee	2022
Mr. Andrew A. Arthur	Trustee	2018

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Beatriz T. Espinoza	President
Dr. Matilda Saenz	Vice President, Instruction and Economic Development
Ms. Shannon McCarron	Vice President, Strategic Planning & Administration
Ms. Guadalupe Ganceres	Executive Dean, Student Services

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

December 19, 2017

Board of Trustees
Coastal Bend College
Beeville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Coastal Bend College (the College) as of and for the year ended August 31, 2017, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Coastal Bend College, as of August 31, 2017 and the respective changes in financial position and cash flows, where applicable, thereof, for the year 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 and the other required supplementary information on pages 4 through 11, and pages 39 and 40 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 management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The introductory section, schedules required by the Texas Higher Education Coordinating Board, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State of Texas Single Audit Circular* issued by the Governor's Office of Budget and Planning and is not a required part of the basic financial statements.

The schedules required by the Texas Higher Education Coordinating Board; schedule of expenditures of federal awards; and 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 required by the Texas Higher Education Coordinating Board; schedule of expenditures of federal awards; and schedule of expenditures of state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Matters- 2016 Financial Statements

The financial statement of the College as of August 31, 2016, were audited by predecessor auditors. Their audit report dated December 1, 2016 expressed an unmodified opinion on the basic financial statements as of and for the year ended August 31, 2016.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of the College's internal control over financial reporting and 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 *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Collier, Johnson & Woods

COASTAL BEND COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED AUGUST 31, 2017
UNAUDITED

Coastal Bend College is pleased to present its financial statements for 2017 and 2016 which are in conformance with Governmental Accounting Standards Board (GASB) standards. There are three financial statements presented: (a) the Statement of Net Position, (b) the Statement of Revenues, Expenses, and Changes in Net Position, and (c) the Statement of Cash Flows. These financial statements are intended to provide both long-term and short-term financial information on the College and should be read in conjunction with the Notes to the Financial Statements. Specifically,

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

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

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

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

Financial Highlights

Discussion of the Statement of Net Position

The Statement of Net Position includes all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector organizations. Net position is the difference between assets and deferred outflows and liabilities and deferred inflows. The purpose of the Statement of Net Position is to present to the readers a financial snapshot of the College at a certain point in time. It demonstrates the amounts the College owes vendors, bondholders and lending institutions. It also provides a picture of the net assets and its availability for future operations and strategic initiatives.

COASTAL BEND COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED AUGUST 31, 2017
UNAUDITED

Statement of Net Position
Comparison - August 31, 2017, 2016 and 2015

	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>
Current Assets	\$ 8,768,107	\$ 7,641,402	\$ 8,265,897
Non-Current Assets:			
Capital Assets, Net of Depreciation	17,671,553	18,001,036	17,845,814
Other	<u>4,021,258</u>	<u>2,863,766</u>	<u>1,701,122</u>
Total Assets	30,460,918	28,506,204	27,812,833
Deferred Outflows	1,007,827	848,717	619,046
Total Assets & Deferred Outflows of Resources	<u><u>31,468,745</u></u>	<u><u>29,354,921</u></u>	<u><u>28,431,879</u></u>
Current Liabilities	7,703,434	7,521,015	7,231,690
Non - Current Liabilities	<u>11,285,045</u>	<u>10,888,454</u>	<u>11,225,367</u>
Total Liabilities	18,988,479	18,409,469	18,457,057
Deferred Inflows	544,153	646,787	1,095,254
Total Liabilities & Deferred Inflows of Resources	<u><u>19,532,632</u></u>	<u><u>19,056,256</u></u>	<u><u>18,457,057</u></u>
Net Position:			
Net Investment in Capital Assets	10,656,193	10,629,646	10,689,582
Restricted	643,919	883,937	881,948
Unrestricted	<u>636,001</u>	<u>(1,214,918)</u>	<u>(2,655,704)</u>
Total Net Position	<u><u>\$ 11,936,113</u></u>	<u><u>\$ 10,298,665</u></u>	<u><u>\$ 8,915,826</u></u>

Changes in Assets

Overall, total assets continue to increase from prior years. Total Assets increased by \$1,950,000 from August 31, 2016 to August 31, 2017. This increase is largely attributable to the increase in Net Accounts Receivable and Other Long-Term Investments. AR ended the year showing a significant increase because of Hurricane Harvey, which postponed the 1st day of the Fall semester from August 28 to September 5, after FY2017 had ended.

Changes in Deferred Outflows

Deferred Outflows, which increased by \$159,000, measures the net change in the expected and actuals of retirement plans, contributions made to the Teachers Retirement System, and the difference between the employer's contributions and their proportionate share of retirement contributions from one fiscal year to the next. It is expected that this number will continue to increase as future pension expenses increase.

Changes in Liabilities

The increase in Liabilities of \$579,000 is primarily due to an increase in pension liability of \$642,000.

COASTAL BEND COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED AUGUST 31, 2017
UNAUDITED

Changes in Deferred Inflows

Deferred Inflows, measures the net change in revenues of future pensions. The decrease of \$102,000 is related to the College's proportionate share of the TRS and net pension liability.

Changes in Net Position

2016-2017

Overall, the net position of the College increased for the third year in a row. For FY2017, it increased by \$1,600,000 and is due to the deliberate investment to grow reserves as well as sizeable increases in enrollment and revenue.

2015-2016

Total net position as of August 31, 2016 indicates an increase of \$1,400,000 as compared to the institution's net position as of August 31, 2015. Of this amount, the increase in long-term investments and positive net effect of deferred outflows and inflows are most prominent.

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the College as well as the non-operating revenues and expenses. For this statement, the category Operating Revenues includes:

- Tuition and fees (net of discounts)
- Governmental grants not related to Title IV
- Non-governmental grants
- Sales and services of educational activities,
- Auxiliary enterprises (net of discounts)
- General operating revenue

The category of non-operating revenue includes state allocations, maintenance ad valorem taxes, gifts, investment income, interest on capital related debt, and grants for Title IV and other non-operating revenues. Please note that state allocations and ad valorem taxes, while budgeted for operations, are considered non-operating revenue according to generally accepted accounting principles.

COASTAL BEND COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED AUGUST 31, 2017
UNAUDITED

Summary of Revenues, Expenses and Changes in Net Assets follows:

	Year Ended August 31		
	FY 2017	FY 2016	FY 2015
Operating Revenues	\$ 9,236,224	\$ 9,430,920	\$ 10,347,024
Non-Operating Revenues	17,502,920	18,019,933	17,492,438
Total Revenues	26,739,144	27,450,853	27,839,462
Operating Expenses	24,661,923	25,807,468	25,608,651
Non-Operating Expenses	439,773	260,546	284,786
Total Expenses	25,101,696	26,068,014	25,893,437
Increase in Net Position	1,637,448	1,382,839	1,946,025
Net Position Beginning of Year, restated	10,298,665	8,915,826	6,969,801
Net Position End of Year	\$ 11,936,113	\$ 10,298,665	\$ 8,915,826

Operating Revenues

Operating Revenues decreased by almost \$200,000 due to the ending of two large federal grants in FY2016, Title V Celebrando and STEM- Project Oasis. These grant closures partially offset the increases in Net Tuition Revenue, State Grants and Contracts, and Auxiliary Enterprises.

Non- Operating Revenues

Any changes in Non-Operating Revenues are typically results of isolated incidents and not indicative of any trend. The primary reason for a decrease in non-operating revenue is the receipt of insurance proceeds from the Alice site in FY2016.

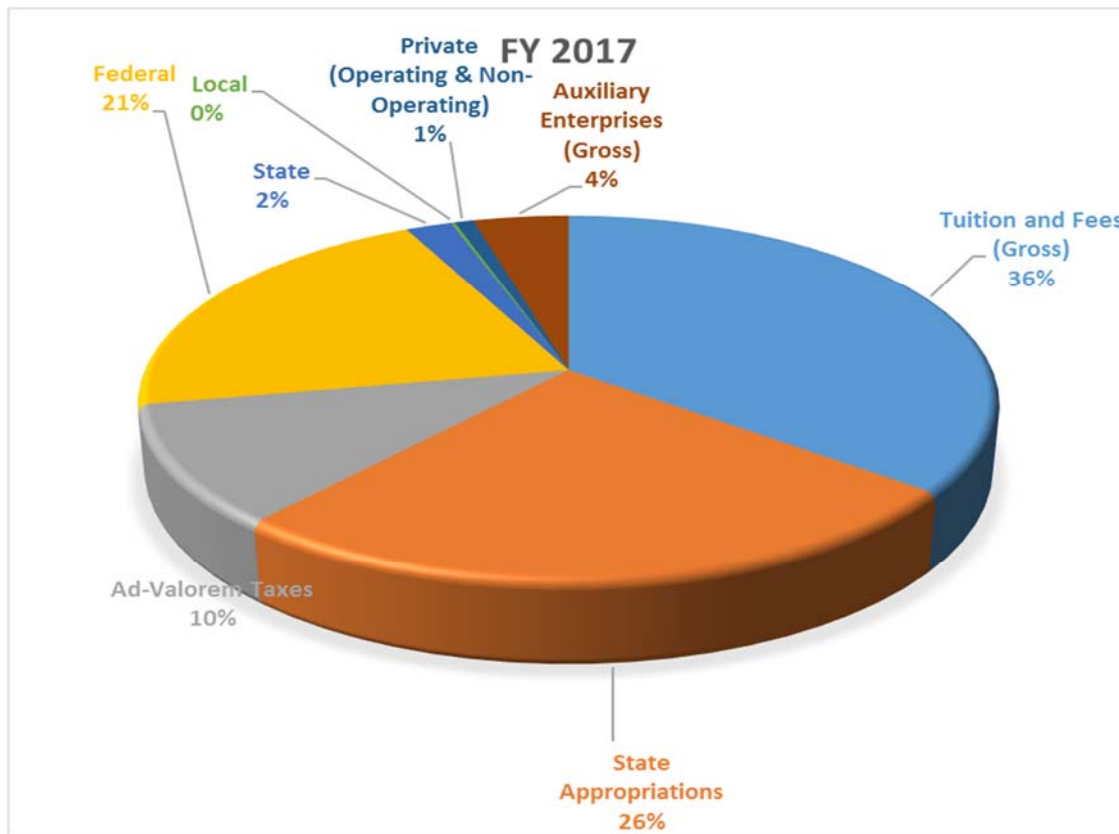
Non-Operating Expenses

Non-Operating Expenses increased due to expenses related to the close of the Aircraft/Airframe program incurred in FY2017.

COASTAL BEND COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED AUGUST 31, 2017
UNAUDITED

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

	Year Ended August 31		
	FY 2017	FY 2016	FY 2015
Major-Revenue Components:			
Tuition and Fees (Gross)	\$ 10,737,481	\$ 10,535,763	\$ 10,147,497
State Appropriations	7,735,598	8,008,893	7,584,915
Ad-Valorem Taxes	3,188,125	3,057,743	2,839,872
Gifts, Grants & Contracts:			
Federal	6,259,403	6,246,888	7,412,001
State	608,332	239,327	1,115,788
Local	49,228		
Private (Operating & Non-Operating)	248,904	283,332	168,517
Total Gifts, Grants & Contracts	7,165,867	6,769,547	8,696,306
Auxiliary Enterprises (Gross)	1,258,781	1,131,129	1,686,946



COASTAL BEND COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED AUGUST 31, 2017
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Operating Expenses- The College, as a public institution, groups expenses according to the purpose they were incurred. Costs are allocated and reported using a consistent methodology that aligns with other public institutions of higher education. The three-year history is presented as the following:

	Year Ended August 31		
	FY 2017	FY 2016	FY 2015
Functional Classifications:			
Instruction	\$ 7,431,924	\$ 8,246,327	\$ 7,015,739
Public Service	27,915	18,907	17,486
Academic Support	1,952,452	2,400,522	2,528,016
Student Services	2,792,116	2,745,872	2,981,465
Institutional Support	4,582,642	4,442,002	4,904,513
Operation and Maintenance of Plant	2,540,307	2,736,894	2,862,563
Scholarships and Fellowships	2,314,165	2,353,074	1,460,315
Auxiliary Enterprises	1,486,245	1,237,918	2,301,422
Depreciation	1,534,157	1,625,952	1,537,132
Total Operating Expenses	<u>\$ 24,661,923</u>	<u>\$ 25,807,468</u>	<u>\$ 25,608,651</u>

Operating Expenses for FY2017 are reflecting a large decrease of \$1,100,000 primarily due to the retirement of multiple long serving higher paid employees and efficiencies gained due to the closure of the Prison Program partnership and improvements to average class sizes.

Discussion of the Statement of Cash Flows

The Statement of Cash Flows provides information about the change in availability of cash from one year to the next. This statement presents cash flows from four sources: (a) operating activities, (b) non-capital financing activities, (c) capital financing activities, and (d) investing activities.

A summary of the Statement of Cash Flows follows:

	Year Ended August 31		
	FY 2017	FY 2016	FY 2015
Operating Activities	\$ (13,074,093)	\$ (12,983,878)	\$ (13,756,906)
Noncapital Financing Activities	15,693,947	16,597,504	21,551,967
Capital and Related Financing Activities	(1,810,289)	(2,945,175)	(5,210,295)
Investing Activities	(1,085,696)	(1,160,946)	(5,153,574)
Changes in Cash and Cash Equivalents	<u>\$ (276,131)</u>	<u>\$ (492,495)</u>	<u>\$ (2,568,808)</u>

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

COASTAL BEND COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
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State appropriations and ad valorem taxes were the primary sources of non-capital financing. Accounting standards require that this source of revenue be reported as non-operating although these same resources are classified as revenue in the Colleges' unrestricted operating budget. Cash flows from Capital Financing Activities include payments of capital assets, and the principal and interest on capital debt.

Current Conditions & Projected Priorities

The most recent decline in the oil and gas industry has not yet played a significant factor in Coastal Bend College's most recent enrollment growth spurt. While, the College experienced enrollment growth for a multiyear, period, that trend is not expected to continue in comparison to prior years. Fall 2016 enrollment was the highest, with an unduplicated headcount of 5,044, which reflected an increase of over 13% from the prior year. Most of the enrollment growth that the College experienced in FY2016-17 can be attributed to the increase of Dual Enrollment students, and that enrollment is expected to flatten out in coming years due to a shift in focus. Instead of focusing primarily on access, the State now emphasizes access to underserved populations equally with completion. The previous unprecedented growth of Dual Enrollment students was primarily attributed to the continued focus on outreach and articulation in the community and the local independent school districts (ISD's), respectively. The setback in the oil and gas industries has only minimally impacted property values and is not projected to noticeably fluctuate positively or negatively in the foreseeable future.

The State of Texas continues to fund community and technical colleges with 10% set aside for performance funding, called Student Success Points. Student Success Points place weighted emphasis on completion, job placement and enrollment of key demographics. As a result, the College developed new Strategic Priorities and Key Performance Indicators (KPI's) to parallel the Texas Higher Education Coordinating Board's most recent strategic plan, 60x30TX, which directly aligns with the Student Success Points. The primary goal of this plan is to significantly increase the number of students between the ages of 25-34 who complete a certificate and/or degree by 2030. To recruit these students, College faculty continue outreach with Workforce Solutions of Alamo and Coastal Bend, Housing Authority offices in four counties, the Community Action Center of South Texas and related agencies. Continued investment in distance learning methodologies and technology, dedicated advising, and the fully integrated workforce trailers are other intentional efforts to bridge the completion gap. One example of the College's multiple initiatives to improve completion is the continued development of marketable skills awards as the entry level achievement for the applied degree.

Another key component of a successful 60x30TX is a concentrated effort to recruit and retain dual enrollment students. The College continues to excel at this, with Dual Enrollment students comprising nearly half of overall enrollment.

Program Review continues to be an integral part of the College's planning and decision-making processes. The annual Strategic Planning process is now aligned with budget development and implementation. The program review process cycle changed from its initial four-year rotation to an annual comprehensive review for reporting total cost of ownership (TCO) and return on investment (ROI) for each instructional

COASTAL BEND COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED AUGUST 31, 2017
UNAUDITED

program and administrative support service. Every instructional discipline/ program is measured according to contact hour generation, course completion rates (A, B, and C's only), and grade point averages. All units are evaluated based on their success in achieving the Vision 2020 Strategic Plan as approved by the Board of Trustees.

Vision 2020 Strategic Plan

Goal 1: Coastal Bend College will offer a quality educational experience for all students.

Goal 2: Coastal Bend College will provide comprehensive student services to increase overall student success.

Goal 3: Coastal Bend College will engage students and staff in support of our communities.

Goal 4: Coastal Bend College will effectively and efficiently use resources to benefit our students.

Long-Term Goals (2018-2023)

- CBC will successfully complete the college 5-year interim SACSCOC report (2019).
- CBC will reach a full-time 6-year graduation rate of 50% in 5-8 years (baseline year 2016).
- CBC will review programs and services system-wide from a return on investment perspective (2019).
- CBC will create "culture of innovation" (2018).
- CBC will expand online learning to reach a nation-wide student population (by 2023).
- CBC Foundation will establish a fund to build an Allied Health Building (2023).
- CBC will build an endowment of \$1,000,000 for dual-credit scholarships (2023).
- CBC will increase its endowment to a minimum of \$1,000,000 (2023).
- CBC will create & develop community partnerships (2019).

Going forward, the adjournment of the 85th Legislative Session in 2017 resulted in an overall increase in state appropriations of \$752k, mostly due to higher funding for core operation and formula funding. In the previous biennium, the Texas Legislature restructured State Appropriations, by setting aside 10% of Appropriations for Student Success Points, which are based on various student success outcomes. Gains in Student Success Points from the 85th Legislature, were modest at best, with the overall increase being slightly less than \$8,000.

Contacting Financial Management

Questions about this report or additional financial information can be obtained from the Coastal Bend College business office via written request to 3800 Charco Road, Beeville, Texas 78102.


Beatriz T. Espinoza, Ph.D.
President

BASIC FINANCIAL STATEMENTS

COASTAL BEND COLLEGE
Statement of Net Position
August 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash & cash equivalents (Note 4)	\$ 1,155,790	\$ 1,426,426
Restricted cash and cash equivalents	97,620	104,021
Accounts receivable (Note 19)	6,656,408	5,889,995
Prepaid expenses	858,289	220,960
Total Current Assets	8,768,107	7,641,402
Noncurrent Assets		
Restricted cash & cash equivalents	542,443	642,354
Long-term investments	3,478,815	2,221,412
Capital assets (note 5)	17,671,553	18,001,036
Total Noncurrent Assets	21,692,811	20,864,802
Total Assets	30,460,918	28,506,204
DEFERRED OUTFLOWS		
Deferred outflows related to pensions (Note 9)	1,007,827	848,717
Total Assets & Deferred Outflows	31,468,745	29,354,921
LIABILITIES		
Current Liabilities		
Accounts payable (Note 19)	896,847	1,431,178
Funds held for others (Note 13)	126,611	136,233
Unearned revenues	5,613,146	5,012,547
Notes payable - current portion (Note 6)	687,830	575,057
Bonds payable - current portion (Note 6)	379,000	366,000
Total Current Liabilities	7,703,434	7,521,015
Noncurrent Liabilities		
Accrued compensable absences - noncurrent portion (Note 11)	700,863	234,909
Notes payable - long term portion (Note 6)	3,870,530	3,973,333
Bonds payable - long term portion (Note 6)	2,078,000	2,457,000
Net pension liability (Note 9)	4,635,652	4,223,212
Total Noncurrent Liabilities	11,285,045	10,888,454
Total Liabilities	18,988,479	18,409,469
Deferred Inflows of Resources		
Deferred inflows related to pensions (Note 9)	544,153	646,787
Total Liabilities & Deferred Inflows of Resources	19,532,632	19,056,256
NET POSITION		
Invested in capital assets, net of related debt	10,656,193	10,629,646
Restricted for		
Non-Expendable		
Endowments	542,443	640,614
Expendable		
Scholarships	99,955	242,938
Debt service	1,521	385
Unrestricted	636,001	(1,214,918)
Total Net Position (Schedule D)	\$ 11,936,113	\$ 10,298,665

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

COASTAL BEND COLLEGE
Statement of Revenues, Expenses and Changes in Net Position
For The Years Ended August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Tuition and fees (net of discounts of \$5,431,115 & \$5,408,995 respectively)	\$ 5,306,353	\$ 5,126,769
Federal grants and contracts	1,804,266	2,538,125
State grants and contracts	608,382	239,327
Local grants and contracts	49,228	-
Sales and services of educational activities	202,732	186,938
Miscellaneous governmental receipts	53,256	32,997
Auxiliary enterprises (net of discounts of \$131,535 & \$106,155, respectively)	1,127,246	1,024,974
General operating revenues	84,761	281,790
Total Operating Revenues (Schedule A)	<u>9,236,224</u>	<u>9,430,920</u>
OPERATING EXPENSES		
Instruction	7,431,924	8,246,327
Public service	27,915	18,907
Academic support	1,952,452	2,400,522
Student services	2,792,116	2,745,872
Institutional support	4,582,642	4,442,002
Operation and maintenance of plant	2,540,307	2,736,894
Scholarships and fellowships	2,314,165	2,353,074
Auxiliary enterprises	1,486,245	1,237,918
Depreciation	1,534,157	1,625,952
Total Operating Expenses (Schedule B)	<u>24,661,923</u>	<u>25,807,468</u>
Operating (Loss)	(15,425,699)	(16,376,548)
Non-Operating Revenues (Expenses)		
State Appropriation	7,735,598	8,008,893
Federal Revenue, Nonoperating	6,259,403	6,246,888
Ad valorem taxes		
Taxes for maintenance and operations	2,534,136	2,257,865
Taxes for debt service	653,989	799,878
Gifts	248,904	283,332
Investment income (net of investment expenses)	70,890	18,402
Other income (expense)	(191,251)	404,675
Interest on capital related debt	(248,522)	(260,546)
Total Non-Operating Revenues (Expenses) (Schedule C)	<u>17,063,147</u>	<u>17,759,387</u>
Increase in Net Position	1,637,448	1,382,839
NET POSITION		
Net Position - Beginning of Year, restated (Note 2)	10,298,665	8,915,826
Net Position - End of Year	<u>\$ 11,936,113</u>	<u>\$ 10,298,665</u>

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

COASTAL BEND COLLEGE
Statement of Cash Flows
For The Years Ended August 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 6,267,785	\$ 6,256,386
Receipts from grants and contracts	2,515,132	3,007,861
Payments to suppliers for goods or services	(6,997,541)	(5,767,691)
Payments to or on behalf of employees	(12,860,800)	(14,433,584)
Payments of scholarships and fellowships	(2,286,162)	(2,328,640)
Other receipts	287,493	281,790
Net cash (used) by operating activities	(13,074,093)	(12,983,878)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	6,229,311	6,718,877
Receipts from ad valorem taxes	3,188,125	3,057,743
Receipts from Non Operating Federal Revenue	6,259,403	6,246,888
Gifts	248,904	283,332
Payments for collection of taxes	(30,923)	(30,574)
Receipts from student organizations and other agency transactions	-	-
Payments to student organizations and other agency transactions	(9,622)	(18,956)
Other receipts	-	340,194
Other Payments	(191,251)	-
Net cash provided by non-capital financing activities	15,693,947	16,597,504
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(1,204,674)	(1,746,174)
Proceeds from Issuance of Debt	584,803	-
Payments on capital debt - principal	(940,833)	(948,032)
Payments on capital debt - interest	(249,585)	(250,969)
Net cash provided (used) by capital and related financing activities	(1,810,289)	(2,945,175)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,305,652)	(1,177,302)
Interest on investments	70,890	18,402
Proceeds from Sales of Investment	48,249	-
Net cash provided (used) by investing activities	(1,186,513)	(1,158,900)
Increase (decrease) in cash and cash equivalents	(376,948)	(490,449)
Cash and cash equivalents - September 1	2,172,801	2,663,250
Cash and cash equivalents - August 31	\$ 1,795,853	\$ 2,172,801
Cash & cash equivalents	\$ 1,155,790	\$ 1,426,426
Restricted cash & cash equivalents	640,063	746,375
Total cash and cash equivalents	\$ 1,795,853	\$ 2,172,801

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

COASTAL BEND COLLEGE
Statement of Cash Flows
For The Years Ended August 31, 2017 and 2016
(Continued)

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Loss	\$ (15,425,699)	\$ (16,376,548)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation expense	1,534,157	1,625,952
Bad Debt expense	-	187,527
Payments made directly by state for benefits	1,506,287	1,290,016
Tax Collection Fee	30,923	-
Changes in assets and liabilities:		
Receivables (net)	(766,413)	(82,295)
Prepaid expenses	(637,329)	149,009
Accounts payable	(533,268)	118,814
Funds held for others	-	(18,956)
Compensated absences	465,954	(39,490)
Net pension liability	412,440	642,818
Unearned revenue	600,599	197,412
Deferred Outflows of Resources	(159,110)	(229,671)
Deferred Inflows of Resources	(102,634)	(448,467)
Net cash provided (used) by operating activities	\$ (13,074,093)	\$ (12,983,878)

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

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

1. Reporting Entity

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

Component Unit

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

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

2. Summary of Significant Accounting Policies

Reporting Guidelines

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

Basis of Accounting

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

Budgetary Data

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

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

Cash and Cash Equivalents

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

Investments

Investments consist of balances in privately managed public funds investment pools and investments in Corporate and Municipal Bonds and U.S. Agency securities. The College reports all investments at fair value, except for investment pools. Refer to Note 4 for discussion of fair value measurement. The College's investment pools are valued and reported at amortized cost, which approximates fair value. The College's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, Certain Investment Pools and Pool Participants. 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.

Inventories

Inventories consist of consumable office and physical plant supplies. They are valued at cost under the "first-in, first-out" method and are charged to expense as consumed.

Capital Assets

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

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

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

Unearned Revenues

Tuition and fees of \$5,613,146 and \$5,008,352 have been reported as unearned revenues at August 31, 2017 and 2016, respectively.

Tuition Discounting

Texas Public Education Grants – Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.033). When the award for tuition is used by the student, the amount is recorded as

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

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

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

Estimates

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

Operating and Non-Operating Revenue and Expense Policy

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

Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The College is evaluating the impact upon its financial position, results of operations or cash flows upon adoption during fiscal year ended August 31, 2018.

Prior Year Restatement

The College implemented GASB 65 that requires bond issuance costs, previously amortized over the life of the debt, to be expensed in the year of issuance beginning with fiscal year 2014. This change represents a change from one generally accepted accounting principal to another generally accepted accounting principle that is the current preferred in industry practice.

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

The effect of the change was to reduce beginning net position by the following amounts as of August 31, 2016.

Net Position, beginning of year as originally reported 2015	\$9,042,873
Effect of change in accounting principle	<u>(127,047)</u>
Net position, beginning of year as restated 2015	<u><u>\$8,915,826</u></u>

3. Authorized Investments

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

- a) Obligations of the United States or its agencies.
- b) Direct obligations of the State of Texas or its agencies.
- c) Obligations of political subdivisions rated not less than A by a national investment rating firm.
- d) Negotiable certificates of deposit.
- e) Cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501 (f), Internal Revenue Code of 1986 (26 U.S.C Section 501(f)).
- f) Corporate bonds, debentures or similar debt obligations rated by a nationally recognized investment firm in one of the two highest long-term rating categories.

4. Deposits and Investments

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

Cash and Deposits

	Year Ended August 31,	
	2017	2016
Demand Deposits	\$ 1,249,238	\$ 1,525,369
Tex Pool	1,140	1,132
Texas Class	542,443	642,354
Logic	-	914
Petty Cash on Hand	3,032	3,032
Total Cash and Deposits	\$ 1,795,853	\$ 2,172,801
Current Assets	1,253,410	1,530,447
Noncurrent Assets	542,443	642,354
	1,795,853	2,172,801

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

During the year ended August 31, 2017 and 2016, deposits were entirely covered by FDIC insurance or by pledged collateral held by the College's agent bank in the College's name.

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Year Ended August 31	
	FY 2017	FY 2016
Investments		
U.S. Agencies	\$ 83,133	\$ 7,103
Bonds	3,395,682	2,214,309
Total Investements	<u>3,478,815</u>	<u>2,221,412</u>
Total Investments	3,478,815	2,221,412
Total Cash and Deposits	<u>1,795,853</u>	<u>2,172,801</u>
Total Deposits and Investments	<u>\$ 5,274,668</u>	<u>\$ 4,394,213</u>

As of August 31, 2017, the College had the following investment and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 3	4 to 5
U.S. Agencies	\$ 83,133	\$ 83,133	\$ -	\$ -
Bonds:				
Corporate	210,249	49,819	160,430	-
Municipal	3,130,654	115,014	1,493,826	1,521,814
Foreign Markets	54,779	-	54,779	-
Total Fair Value	<u>\$ 3,478,815</u>	<u>\$ 247,966</u>	<u>\$ 1,709,035</u>	<u>\$ 1,521,814</u>

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

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 3	4 to 5
U.S. Agencies	\$ 7,103	\$ 7,103	\$ -	\$ -
Bonds:				
Corporate	208,055	-	99,520	108,535
Municipal	1,946,644	905,261	776,158	265,225
Foreign Markets	59,610	-	39,711	19,899
Total Fair Value	<u>\$ 2,221,412</u>	<u>\$ 912,364</u>	<u>\$ 915,389</u>	<u>\$ 393,659</u>

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

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, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A. The College's investments in investment pools were rated AAA. While the College did invest in fixed income funds that met minimum rating requirements at the time of purchase, two corporate bonds and eight municipal

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

bonds have since been downgraded to at least a B. In addition to divesting the Foreign Bonds, the College will divest of the bonds that do not meet minimum rating requirement in the following fiscal year.

Concentration of Credit Risk – The College does not place a limit on the amount the College may invest in any other issuer. As of August 31, 2017, 87.56% of the College’s investments are held by the Federal Home Loan Bank (FHLB).

Fair Value of Investments

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

Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan can access.

Level 2 - inputs to the valuation methodology include: quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - inputs to the valuation methodology are inputs that are unobservable and significant to the fair value measurement.

August 31, 2017		Fair Value Measurement	
Investment Type	Total Fair Value	Level 1	Level 2
U.S. Agencies	\$ 83,133	\$ 83,133	\$ -
Bonds:			
Corporate	210,249	-	210,249
Municipal	3,130,654	-	3,130,654
Foreign Markets	54,779	-	54,779
Total Fair Value	<u>\$ 3,478,815</u>	<u>\$ 83,133</u>	<u>\$ 3,395,682</u>

August 31, 2016		Fair Value Measurement	
Investment Type	Total Fair Value	Level 1	Level 2
U.S. Agencies	\$ 7,103	\$ 7,103	\$ -
Bonds:			
Corporate	208,055	-	208,055
Municipal	1,946,644	-	1,946,644
Foreign Markets	59,610	-	59,610
Total Fair Value	<u>\$ 2,221,412</u>	<u>\$ 7,103</u>	<u>\$ 2,214,309</u>

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

5. **Capital Assets**

Capital asset activity for the year ended August 31, 2017 is follows:

	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017
<u>Not Depreciated:</u>				
Land	\$ 476,889	\$ -	\$ -	\$ 476,889
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	27,754,627	459,507	(52,966)	28,161,168
Library Books	1,329,740	-	-	1,329,740
Telecommunications and Peripheral Equipment	5,220,317	593,509	-	5,813,826
Furniture, machinery, and equipment	4,828,920	150,978	-	4,979,898
Total Buildings and Other Capital Assets	<u>39,133,604</u>	<u>1,203,994</u>	<u>(52,966)</u>	<u>40,284,632</u>
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	(13,353,051)	(842,441)	53,646	(14,141,846)
Library Books	(1,192,107)	(28,975)	-	(1,221,082)
Telecommunications and Peripheral Equipment	(4,192,589)	(344,090)	-	(4,536,679)
Furniture, machinery and equipment	(2,871,710)	(318,651)	-	(3,190,361)
Total Accumulated Depreciation	<u>(21,609,457)</u>	<u>(1,534,157)</u>	<u>53,646</u>	<u>(23,089,968)</u>
Total Capital Assets Being Depreciated	<u>17,524,147</u>	<u>(330,163)</u>	<u>680</u>	<u>17,194,664</u>
Net Capital Assets	<u>\$18,001,036</u>	<u>\$ (330,163)</u>	<u>\$ 680</u>	<u>\$17,671,553</u>

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

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

	Balance August 31, 2015	Increases	Decreases	Balance August 31, 2016
<u>Not Depreciated:</u>				
Land	\$ 476,889	\$ -	\$ -	\$ 476,889
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	26,344,615	1,410,012	-	27,754,627
Library Books	1,329,740	-	-	1,329,740
Telecommunications and Peripheral Equipment	5,220,317	-	-	5,220,317
Furniture, machinery, and equipment	4,492,758	336,162	-	4,828,920
Total Buildings and Other Capital Assets	<u>37,387,430</u>	<u>1,746,174</u>	<u>-</u>	<u>39,133,604</u>
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	(12,537,836)	(815,215)	-	(13,353,051)
Library Books	(1,159,293)	(32,814)	-	(1,192,107)
Telecommunications and Peripheral Equipment	(3,781,761)	(410,827)	-	(4,192,588)
Furniture, machinery and equipment	(2,539,614)	(332,097)	-	(2,871,711)
Total Accumulated Depreciation	<u>(20,018,504)</u>	<u>(1,590,953)</u>	<u>-</u>	<u>(21,609,457)</u>
Total Capital Assets Being Depreciated	<u>17,368,926</u>	<u>155,221</u>	<u>-</u>	<u>17,524,147</u>
Net Capital Assets	<u>\$17,845,815</u>	<u>\$ 155,221</u>	<u>\$ -</u>	<u>\$18,001,036</u>

6. Long Term Liabilities

General Information related to notes payable is summarized below:

Campus Security Cameras Note

On May 11, 2015, the College agreed to an unsecured promissory note in the amount of \$218,286 for the purchase of digital signage at all College locations. The note carries an interest rate of 3.5% and will be paid in eight quarterly payments beginning August 2015 and ending May 2017.

Heavy Duty Truck Note

On July 6, 2015, the College agreed to an unsecured promissory note in the amount of \$59,577 for the purchase of a heavy-duty truck for hauling the mobile simulation labs. The note carries an interest rate of 3.5% and will be paid in three annual installments beginning July 2016 and ending July 2018.

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

Presidents Car Note

On October 28, 2016, the College agreed to an unsecured promissory note in the amount of \$44,796 for a 2017 Buick Enclave for the President. The note carries an interest rate of 4.0% and will be paid in 3 annual installments beginning December 2017 and ending December 2019.

General Information related to the Tax Maintenance Notes is summarized below:

College Maintenance Tax Notes, Series 2011

- Purpose of Issuance: College wide HVAC improvements
- Issue Date: March 29, 2011
- Original Amount of Issue: \$2,585,000
- Interest Rates: 3.780%
- Source of Revenue for note payments: Pledged registration fees, out of district fees, student service fees and course fees.

Maintenance Tax Notes, Series 2013

- Purpose of Issuance: College wide infrastructure investment
- Issue Date: August 1, 2013
- Original Amount of Issue: \$1,800,000
- Interest Rates: 1.530% - 3.860%
- Source of Revenue for note payments: Pledged registration fees, out of district fees, student service fees and course fees.

Maintenance Tax Notes, Series 2014

- Purpose of Issuance: Joe Hunter Baseball field upgrades
- Issue Date: August 13, 2014
- Original Amount of Issue: \$1,500,000
- Interest Rates: 2.510%
- Source of Revenue for note payments: Pledged registration fees, out of district fees, student service fees and course fees

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

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

	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017	Current Portion
<u>Bonds and Notes</u>					
Revenue Bonds	\$2,823,000	\$ -	\$ 366,000	\$ 2,457,000	\$ 379,000
Maintenance Tax Notes	4,426,000	-	473,000	3,953,000	485,000
Campus Signage Note	82,672	-	82,672	-	-
Heavy Duty Truck Note	39,718	-	19,161	20,557	20,557
Security Camera Note	-	540,006	-	540,006	168,126
President Car Note	-	44,797	-	44,797	14,147
Subtotal	<u>7,371,390</u>	<u>584,803</u>	<u>940,833</u>	<u>7,015,360</u>	<u>1,066,830</u>
<u>Other Liabilities</u>					
Net Pension Liability	4,223,212	412,440	-	4,635,652	-
Compensated Absences	234,909	701,436	235,482	700,863	-
Subtotal	<u>4,458,121</u>	<u>1,113,876</u>	<u>235,482</u>	<u>5,336,515</u>	<u>-</u>
Total long term liabilities	<u>\$11,829,511</u>	<u>\$ 1,698,679</u>	<u>\$ 1,176,315</u>	<u>\$ 12,351,875</u>	<u>\$ 1,066,830</u>

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

	Balance August 31, 2015	Increases	Decreases	Balance August 31, 2016	Current Portion
<u>Bonds and Notes</u>					
Revenue Bonds	\$ 3,183,000	\$ -	\$ 360,000	\$2,823,000	\$ 366,000
Maintenance Tax Notes	4,886,000	-	460,000	4,426,000	473,000
Campus Signage Note	191,000	-	108,328	82,672	82,672
Heavy Duty Truck Note	59,577	-	19,859	39,718	19,859
Subtotal	<u>8,319,577</u>	<u>-</u>	<u>948,187</u>	<u>7,371,390</u>	<u>941,531</u>
<u>Other Liabilities</u>					
Net Pension Liability	3,580,393	642,819	-	4,223,212	-
Compensated Absences	274,399	61,000	100,490	234,909	-
Subtotal	<u>3,854,792</u>	<u>703,819</u>	<u>100,490</u>	<u>4,458,121</u>	<u>-</u>
Total long term liabilities	<u>12,174,369</u>	<u>703,819</u>	<u>1,048,677</u>	<u>11,829,511</u>	<u>941,531</u>

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

7. Debt Obligations

Debt service obligations at August 31, 2017 for bonds and notes are as follows:

For the year

Ended August 31	Maintenance Tax Notes			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	485,000	128,750	613,750	379,000	76,904	455,904
2019	499,000	114,975	613,975	391,000	65,042	456,042
2020	515,000	99,908	614,908	401,000	52,804	453,804
2021	529,000	83,696	612,696	418,000	40,252	458,252
2022	547,000	66,462	613,462	429,000	27,168	456,168
2023-2024	940,000	76,633	1,016,633	439,000	13,740	452,740
2025-2026	438,000	24,986	462,986	-	-	-
	<u>\$ 3,953,000</u>	<u>\$ 595,410</u>	<u>\$ 4,548,410</u>	<u>\$ 2,457,000</u>	<u>\$ 275,910</u>	<u>\$ 2,732,910</u>

For the year

Ended August 31	Heavy Duty Truck Note			Security Cameras Note			Presidents Car Note		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	20,557	730	21,287	168,126	29,771	197,897	14,147	3,633	17,780
2019	-	-	-	181,293	16,604	197,897	30,650	714	31,364
2020	-	-	-	190,587	7,310	197,897	-	-	-
	<u>\$ 20,557</u>	<u>\$ 730</u>	<u>\$ 21,287</u>	<u>\$ 540,006</u>	<u>\$ 53,685</u>	<u>\$ 593,691</u>	<u>\$ 44,797</u>	<u>\$ 4,347</u>	<u>\$ 49,144</u>

8. Bonds Payable

General information related to bonds payable is summarized below:

- Combined Fee Revenue Bonds, Series 2013
- Purpose of Bonds Issue: To purchase and improve a facility previously leased by the College.
- Issue Date: August 1, 2013
- Original Amount of Issue; Amount Authorized: \$3,865,000
- Interest Rates: 3.13%
- Source of revenue for debt service – Pledged registration fees, out of district fees, student service fees and course fees

9. Employees' Retirement Plan

Defined Benefit Pension Plan

Plan Description

The College participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan 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.

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

The Texas Legislature establishes benefits and contributions 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.texas.gov/TRS%20Documents/cafr2016> or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS provides service and disability retirement, as well as death 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 under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan description above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

Legislature, General Appropriations Act (GAA) established the employer 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.

	2016	2015
Member	7.70%	7.20%
Non-Employer Contribution Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%
College Contributions	360,926	389,765
Member Contributions	634,625	626,630
State of Texas on behalf Contributions	205,285	174,335

Contribution to the plan include member, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with the state statutes and the General Appropriations Act (GAA). 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 of junior college districts are required to pay the employer contribution rate in the following instances:

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

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

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

Actuarial Assumptions

The total pension liability in the actuarial valuation was determined using the following actuarial assumptions:

Fiscal Year Ended August 31, 2017:

Actuarial Methods:

Valuation Date	August 31, 2016 and 2015
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%
Municipal Bond Rate *	N/A
Last Year Ending August 31, 2016 to 2115	
Projection Period (100 Years)	2115
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Benefit Charges during the year	None
Ad hoc post-employment benefit changes	None

* *If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016*

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. 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

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2016 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%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
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%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

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 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Coastal Bend College's share of net pension liability	\$ 7,174,428	\$ 4,635,652	\$ 2,482,257

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

At August 31, 2017 and 2016, the College reported a liability of \$4,635,652 and \$4,223,212, respectively, 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:

Fiscal Year Ended August 31, 2017:

College's Proportionate share of collective net pension liability	\$ 4,635,652
State's Proportionate share associated with College	2,436,696
Total	\$ 7,072,348

Fiscal Year Ended August 31, 2016:

College's Proportionate share of collective net pension liability	\$ 4,223,212
State's Proportionate share associated with College	2,080,573
Total	\$ 6,303,785

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

At August 31, 2016 the employer's proportion of the collective net pension liability was .0122673573% which is an increase of .0003201% from its proportion measured as of August 31, 2015 of .0119473%.

Changes Since the Prior Actuarial Valuation – There were no changes to the actuarial assumptions or other inputs that affected 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.

For the year ended August 31, 2017 and 2016, the College recognized pension expense of \$252,871 and revenue of \$296,448 for support provided by the State.

At August 31, 2017 and 2016, the College reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fiscal Year Ended August 31, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 72,686	\$ 138,418
Changes in actuarial assumptions	141,286	128,494
Differences between projected and actual investment earnings	392,537	-
Changes in proportion and difference between employer's contributions and the proportionate share of contributions	40,392	277,241
Contributions paid to TRS subsequent to measurement date	<u>360,926</u>	<u>-</u>
 Total	 <u><u>\$ 1,007,827</u></u>	 <u><u>\$ 544,153</u></u>

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

Fiscal Year Ended August 31, 2016:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 46,051	\$ 162,302
Changes in actuarial assumptions	193,554	150,666
Differences between projected and actual investment earnings	219,347	-
Changes in proportion and difference between employer's contributions and the proportionate share of contributions	-	333,819
Contributions paid to TRS subsequent to measurement date	389,765	-
 Total	 \$ 848,717	 \$ 646,787

The net amounts of the employer's balances of deferred outflows, except for contributions paid to TRS subsequent to measurement date, and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
Year ended August 31:	
2017	\$ (13,175)
2018	(13,175)
2019	237,204
2020	(32,410)
2021	(86,325)
Thereafter	10,629
	\$ 102,748

Optional Retirement Plan

Plan Description

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

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas State legislature. The percentages of participant salaries contributed by the state, the college, and each participant are 3.3%, 3.3% and 6.65%, respectively. Because these are individual annuity contracts, the state nor the District has no additional or unfunded liability for this program. Senate

COASTAL BEND COLLEGE
Notes to the Financial Statements
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Bill (S.B.) 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense to the State for the College was \$45,392 and \$49,007 for the fiscal years ended August 31, 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 all College employees was \$10,948,605 and \$11,247,742 for fiscal years 2017 and 2016, respectively. The total payroll of employees covered by the Optional Retirement Program was \$2,706,731 and \$1,485,049 for fiscal years 2017 and 2016, respectively.

10. Deferred Compensation Program

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants. At August 31, 2017 and 2016, the District had no employees electing to defer compensation.

11. Compensable Absences

Full-time employees earn annual leave of 10 days per year. The College's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum carryover of 20 days. Employees with at least three months of service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The College recognized an accrued liability of \$272,490 and \$30,000 for the unpaid annual leave for 2017 and 2016. Sick leave, which can be accumulated to a maximum of 45 days, is earned at the rate of one day per month. It is paid to an employee who misses work because of illness. The College District shall honor the reimbursement for leave upon separation and the reimbursement of leave upon retirement programs for eligible employees who were employed by the College District before September 1, 2010. Reimbursements shall be made in accordance with administrative regulations and determined based on the pay rate set for each employee as of June 30, 2016. Annual sick leave of \$428,946 was recognized for 2017 and \$31,000 for 2016.

12. Operating Lease Commitments and Rental Agreement

The College no longer maintains any operating lease commitments.

13. Funds Held in Trust by Others

At August 31, 2017 and 2016, the College held, in trust funds, amounts of \$126,611 and \$136,233 respectively, that pertain primarily to student organizations. These funds are not available to support the College's programs.

14. Contract and Grant Awards

Revenues are recognized on Exhibit 2 and Schedule A. 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

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

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.

15. Post Retirement Health Care and Life Insurance Benefits

Plan Description

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

ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us>. Or by writing to the Finance Division of the Employees Retirement System of Texas at 200 East 18th Street, Austin, Texas 78701 or by calling 1-877-275-4377.

Funding Policy

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

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

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

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all employees may become eligible for these benefits if they reach normal retirement age while working for the State. These and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State's contribution per eligible full-time employee was \$617.60 per month for the year ended August 31, 2017 (\$574.54 per month for 2016) and totaled \$608,792 for 2017 (\$573,012 for the year ended 2016). The cost of providing those benefits for 128 retirees in the year ended 2017 was \$1,141,505 (retiree benefits for 128 retirees cost \$1,002,220 in 2016). For 219 active employees, the cost of providing benefits was \$1,509,872 for the year ended 2017 (active employee benefits for 214 employees cost \$1,561,167 for the year ended 2016).

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

16. Property Tax

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

As of August 31, 2017:

	FY 2017	FY 2016
Assessed Valuation of the College	\$ 2,918,207,780	\$ 2,954,507,160
Less: Exemptions	1,156,163,514	1,141,821,158
Less: Abatements	9,940,690	11,146,930
Net assessed valuation of the College	\$ 1,166,104,204	\$ 1,801,539,072

	2017		
	Current Operations	Debt Service	Total
Authorized tax rate per \$100 valuation	\$ 0.156535	\$ 0.043524	\$ 0.200059
Assessed tax rate per \$100 valuation	\$ 0.144940	\$ 0.040300	\$ 0.185240
	2016		
Authorized tax rate per \$100 valuation	\$ 0.144260	\$ 0.047311	\$ 0.191570
Assessed tax rate per \$100 valuation	\$ 0.129640	\$ 0.047740	\$ 0.177380

Taxes levied for the years ended August 31, 2017 and 2016 amounted to \$3,181,650 and \$3,116,912, respectively (which includes any penalty and interest assessed if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

Taxes Collected	2017		
	Current Operations	Debt Service	Total
Current taxes collected	\$ 2,488,416	\$ 665,629	\$ 3,154,045
Delinquent taxes collected	44,418	-	44,418
Penalties and interest collected	43,179	-	43,179
Less: discounts and commissions	(41,877)	(11,640)	(53,517)
Total Collections	\$ 2,534,136	\$ 653,989	\$ 3,188,125

Taxes Collected	2016		
	Current Operations	Debt Service	Total
Current taxes collected	\$ 2,212,550	\$ 814,774	\$ 3,027,324
Delinquent taxes collected	43,624	-	43,624
Penalties and interest collected	42,143	-	42,143
Less: discounts and commissions	(40,452)	(14,896)	(55,348)
Total Collections	\$ 2,257,865	\$ 799,878	\$ 3,057,743

Tax collections for the years ended August 31, 2017 and 2016 were 99.13% and 97.12%, respectively of the current tax levy. Allowance for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

17. Income Taxes

The College is exempt from income taxes under internal Revenue Code Section 115, Income of States, Municipalities, Etc. although unrelated business income may be subject to income tax under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the years ended August 31, 2017, and 2016.

18. Commitments and Contingencies

Contingencies

The College participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the College, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

COASTAL BEND COLLEGE
Notes to the Financial Statements
August 31, 2017 and 2016

Pending Lawsuits and Claims

On August 31, 2017, there was only one lawsuit and claim involving Coastal Bend College that was pending. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

19. Disaggregation of Receivable and Payable Balance

Receivables at August 31 are as follows:

	<u>2017</u>	<u>2016</u>
Student receivables	\$ 3,697,193	\$ 3,347,399
Taxes receivable	189,409	98,446
Tuition sponsor receivables	277,513	175,858
Contract and grant receivables	2,844,556	2,583,135
Other receivables	<u>6,168</u>	<u>43,589</u>
Subtotal	7,014,840	6,248,427
Allowance for doubtful accounts	<u>(358,432)</u>	<u>(358,432)</u>
Total Receivables	<u><u>\$ 6,656,408</u></u>	<u><u>\$ 5,889,995</u></u>

Payables at August 31 are as follows:

	<u>2017</u>	<u>2016</u>
Vendors payable	\$ 679,413	\$ 1,144,107
Interest payable	8,514	9,577
Other payables	<u>208,920</u>	<u>277,494</u>
Total Payables	<u><u>\$ 896,847</u></u>	<u><u>\$ 1,431,178</u></u>

20. Risk Management

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

REQUIRED SUPPLEMENTARY
INFORMATION SECTION

COASTAL BEND COLLEGE
SCHEDULE OF THE DISTRICT'S SHARE OF NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
FOR THE YEARS ENDED AUGUST 31, 2015 THRU 2017

Fiscal Year Ending August 31	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability	0.0122674%	0.0119473%	0.0134040%
District's Proportionate Share of Net Pension Liability	\$ 4,635,652	\$ 4,223,212	\$ 3,580,393
State's Proportionate Share of the Net Pension Liability Associated with the College	<u>2,436,696</u>	<u>2,080,573</u>	<u>1,877,347</u>
Total	<u>\$ 7,072,348</u>	<u>\$ 6,303,785</u>	<u>\$ 5,457,740</u>
District's Covered Employee Payroll	\$ 8,241,874	\$ 8,703,191	\$ 7,750,856
District's Proportionate Share of the Net Pension Liability as a percentage of its Covered Employee Payroll	53.26%	54.49%	47.29%
Plan Fiduciary Net Position as a percentage of Total Pension Liability	78.00%	78.43%	83.25%

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

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

COASTAL BEND COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEARS ENDED AUGUST 31, 2017 THRU 2015**

Fiscal Year Ending August 31,*	2017	2016	2015
Contractually Required Contribution	\$ 360,926	\$ 389,765	\$ 353,750
Actual Contribution	(360,926)	(389,765)	(353,750)
Contribution Deficiency (Excess)	\$ --	\$ --	\$ --
College's Covered Employee Payroll	\$ 8,241,874	\$ 8,703,191	\$ 7,750,856
Contributions as a Percentage of Covered Employee Payroll	4.38%	4.48%	4.56%

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

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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SUPPLEMENTAL INFORMATION
AND
FINANCIAL ASSISTANCE SECTION

COASTAL BEND COLLEGE
Schedule of Operating Revenues
For the Years Ended August 31, 2017 and 2016

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2017 Total	2016 Total
Tuition:						
State funded credit courses						
In-district resident tuition	\$ 1,286,505	\$ -	\$ 1,286,505	\$ -	\$ 1,286,505	\$ 1,355,931
Out-of-district resident tuition	2,321,345	-	2,321,345	-	2,321,345	2,238,052
Non-resident tuition	50,653	-	50,653	-	50,653	24,613
TPEG set aside (set aside)*	278,327	-	278,327	-	278,327	344,676
State funded continuing education	220,153	-	220,153	-	220,153	189,705
Non-state funded continuing education	2,820	-	2,820	-	2,820	3,961
Total Tuition	<u>4,159,803</u>	<u>-</u>	<u>4,159,803</u>	<u>-</u>	<u>4,159,803</u>	<u>4,156,938</u>
Fees:						
Out of district fee	2,750,355	-	2,750,355	-	2,750,355	2,759,185
Distance learning fee	677,646	-	677,646	-	677,646	593,278
Installment plan fees	46,936	-	46,936	-	46,936	34,202
Dual credit fees	890,546	-	890,546	-	890,546	732,827
Individual course fees	830,634	-	830,634	-	830,634	912,727
General use fees	831,839	-	831,839	-	831,839	844,619
Registration fee	549,709	-	549,709	-	549,709	501,987
Total Fees	<u>6,577,665</u>	<u>-</u>	<u>6,577,665</u>	<u>-</u>	<u>6,577,665</u>	<u>6,378,825</u>
Scholarship Allowances and Discounts:						
Remissions and exemptions - state	(398,840)	-	(398,840)	-	(398,840)	(383,104)
Remissions and exemptions - local	(180,688)	-	(180,688)	-	(180,688)	(179,273)
Title IV federal grants	(4,150,438)	-	(4,150,438)	-	(4,150,438)	(4,259,861)
TPEG awards	(207,380)	-	(207,380)	-	(207,380)	(244,380)
Other state grants	(175,142)	-	(175,142)	-	(175,142)	(150,281)
Other local grants	(318,627)	-	(318,627)	-	(318,627)	(192,095)
Total Scholarship Allowances	<u>(5,431,115)</u>	<u>-</u>	<u>(5,431,115)</u>	<u>-</u>	<u>(5,431,115)</u>	<u>(5,408,995)</u>
Total Net Tuition and Fees	<u>5,306,353</u>	<u>-</u>	<u>5,306,353</u>	<u>-</u>	<u>5,306,353</u>	<u>5,126,768</u>
Additional Operating Revenues:						
Federal grants and contracts	-	1,804,266	1,804,266	-	1,804,266	2,538,125
State grants and contracts	-	608,382	608,382	-	608,382	239,327
Local grants and contracts	49,228	-	49,228	-	49,228	-
Sales and services of educational activities	202,732	-	202,732	-	202,732	186,938
Miscellaneous governmental receipts	53,256	-	53,256	-	53,256	32,997
General operating revenues	84,761	-	84,761	-	84,761	281,790
Total Additional Operating Revenues	<u>389,977</u>	<u>2,412,648</u>	<u>2,802,625</u>	<u>-</u>	<u>2,802,625</u>	<u>3,279,177</u>
Auxiliary Enterprises:						
Bookstore	-	-	-	101,710	101,710	112,967
Housing	-	-	-	804,807	804,807	667,283
Less Discounts	-	-	-	(106,722)	(106,722)	(106,155)
Child Care Center	-	-	-	161,306	161,306	153,889
Less Discounts	-	-	-	(27,935)	(27,935)	(25,430)
Facilities Rental	-	-	-	163,261	163,261	178,472
Student Programs	-	-	-	30,819	30,819	43,948
Total Net Auxiliary Enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,127,246</u>	<u>1,127,246</u>	<u>1,024,974</u>
Total Operating Revenues	<u>\$ 5,696,330</u>	<u>\$ 2,412,648</u>	<u>\$ 8,108,978</u>	<u>\$ 1,127,246</u>	<u>\$ 9,236,224</u>	<u>\$ 9,430,920</u>
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.003, \$278,327 and \$344,676 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended August 31, 2017 and 2016, respectively.

COASTAL BEND COLLEGE
Schedule of Operating Expenses by Object
For the Year Ended August 31, 2017 and 2016

	Operating Expenses			2017 Total	2016 Total	
	Salaries and Wages	Benefits	Other Expenses			
	State Benefits	Local Benefits				
Unrestricted - Educational Activities						
Instruction	\$ 5,090,104	\$ -	\$ 943,671	\$ 333,194	\$ 6,366,969	\$ 7,251,411
Public service	21,440	-	141	6,334	27,915	18,907
Academic support	1,134,357	-	217,423	331,394	1,683,174	1,777,103
Student services	711,270	-	128,439	148,750	988,459	1,122,716
Institutional support	1,643,849	-	397,923	2,267,984	4,309,756	4,207,651
Operation and maintenance of plant	1,207,647	-	282,568	486,571	1,976,786	2,177,713
Scholarships and fellowships	-	-	-	125,252	125,252	146,682
Total Unrestricted Educational Activities	9,808,667	-	1,970,165	3,699,479	15,478,311	16,702,183
Restricted - Educational Activities						
Instruction	7,928	902,509	14,755	139,763	1,064,955	994,916
Academic support	43,914	209,714	10,077	5,573	269,278	623,419
Student services	759,741	121,178	125,538	797,200	1,803,657	1,623,156
Institutional support	-	272,886	-	-	272,886	234,351
Operation and maintenance of plant	-	-	-	563,521	563,521	559,181
Scholarships and fellowships	27,574	-	429	2,160,910	2,188,913	2,206,392
Total Restricted Educational Activities	839,157	1,506,287	150,799	3,666,967	6,163,210	6,241,415
Total Educational Activities	10,647,824	1,506,287	2,120,964	7,366,446	21,641,521	22,943,598
Auxiliary Enterprises	495,553	-	213,109	777,583	1,486,245	1,237,918
Depreciation Expense						
Buildings and other real estate improvements	-	-	-	842,441	842,441	850,215
Equipment and furniture	-	-	-	691,716	691,716	775,737
Total Operating Expenses	\$ 11,143,377	\$ 1,506,287	\$ 2,334,073	\$ 9,678,186	\$ 24,661,923	\$ 25,807,468
				(Exhibit 2)	(Exhibit 2)	

COASTAL BEND COLLEGE
Schedule of Non-Operating Revenues and Expenses
For the Years Ended August 31, 2017 and 2016

	Unrestricted	Restricted	Auxiliary Enterprises	2017 Total	2016 Total
Non-Operating Revenues					
State Allocations:					
Education and general state support	\$ 6,389,742	\$ -	\$ -	\$ 6,389,742	\$ 6,440,023
State group insurance	-	1,090,297	-	1,090,297	1,017,354
State retirement matching	-	255,559	-	255,559	551,516
Total State Allocations	<u>6,389,742</u>	<u>1,345,856</u>	<u>-</u>	<u>7,735,598</u>	<u>8,008,893</u>
Ad valorem taxes:					
Taxes for maintenance and operations	2,534,136	-	-	2,534,136	2,257,865
Taxes for debt service	-	653,989	-	653,989	799,878
Title IV	-	6,259,403	-	6,259,403	6,246,888
Gifts	248,904	-	-	248,904	283,332
Investment income/(loss)	70,890	-	-	70,890	18,402
Other non-operating revenue	(190,800)	-	-	(190,800)	404,675
Total Non-Operating Revenues	<u>9,052,872</u>	<u>8,259,248</u>	<u>-</u>	<u>17,312,120</u>	<u>18,019,933</u>
Non-Operating Expenses					
Interest on capital related debt	-	248,522	-	248,522	260,546
Other non-operating expense	-	451	-	451	-
Total Non-Operating Expenses	<u>-</u>	<u>248,973</u>	<u>-</u>	<u>248,973</u>	<u>260,546</u>
Net Non-Operating Revenues	<u>\$ 9,052,872</u>	<u>\$ 8,010,275</u>	<u>\$ -</u>	<u>\$ 17,063,147</u> (Exhibit 2)	<u>\$ 17,759,387</u> (Exhibit 2)

COASTAL BEND COLLEGE
Schedule of Net Position by Source and Availability
For the Year Ended August 31, 2017

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets Net of Depreciation and Related Debt	Current Year Total	Yes	No
		Expendable	Non-Expendable				
Current							
Unrestricted	\$ 636,001	\$ -	\$ -	\$ -	\$ 636,001	\$ 636,001	\$ -
Restricted for:							
Nonexpendable:							
Student aid	-	99,955	-	-	99,955	99,955	-
Expendable:							
Student aid	-	-	542,443	-	542,443	-	542,443
Unexpended bond proceeds	-	-	-	-	-	-	-
Construction in progress	-	-	-	-	-	-	-
Auxiliary enterprises	-	-	-	-	-	-	-
Plant							
Debt service	-	1,521	-	-	1,521	-	1,521
Investment in plant	-	-	-	10,656,193	10,656,193	-	10,656,193
Total Net Position, August 31, 2017	636,001	101,476	542,443	10,656,193	11,936,113	735,956	11,200,157
Total Net Position, August 31, 2016	(1,214,918)	243,323	640,614	10,629,646	10,298,665 (Exhibit 1)	(967,785)	11,393,497
Adjustment to net position	-	-	-	-	- (Exhibit 2)	-	-
Net Increase (Decrease) in Net Position	\$ (1,850,919)	\$ (141,847)	\$ (98,171)	\$ 26,547	\$ 1,637,448 (Exhibit 2)	\$ 1,703,741	\$ (193,340)

COASTAL BEND COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Direct Programs:</i>			
TRIO Cluster			
TRIO Upward Bound	84.044		384,534
TRIO Educational Talent Search	84.047		525,948
TRIO Upward Bound GOST	84.047M		248,078
Total TRIO Cluster:			<u>1,158,560</u>
Student Financial Assistance Cluster			
Supplemental Educational Opportunity Grants	84.007		77,987
Work-Study Program	84.033		87,192
Pell Grant Program	84.063		6,181,417
Direct Student Loans	84.268		3,301,619
Total Student Financial Assistance Cluster:			<u>9,648,215</u>
STEM Program	84.120		243,868
Total Direct Programs			<u>11,050,643</u>
<i>Pass Through From Del Mar College:</i>			
Title V - Celebrando Educacion	84.031s		38,412
Total Del Mar College			<u>38,412</u>
<i>Pass Through From Texas State University</i>			
REENERGIZE Texas	84.12		11,018
Total Texas State University			<u>11,018</u>
<i>Pass Through From Texas Higher Education Coordinating Board:</i>			
Carl Perkins Vocational	84.048		265,215
Total Texas Higher Education Coordinating Board			<u>265,215</u>
Total U.S. Department of Education			<u>314,645</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 11,365,288</u></u>

COASTAL BEND COLLEGE
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2017

Note 1: Federal Assistance Reconciliation

Federal Assistance Reconciliation

Federal Grants and Contracts revenue - per Schedule A	\$ 1,804,266
Add: Non-Operating Revenue from Schedule C	6,259,403
Add: Direct Student Loans	<u>3,301,619</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 11,365,288</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

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

COASTAL BEND COLLEGE
Schedule of Expenditures of State Awards
For the Year Ended August 31, 2017

Grantor Agency/ Program Title	Grant Contract Number	Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD		
<i>Direct funding:</i>		
College Work-study Program	9920050M	\$ 20,064
Work-study mentorship Program	15554	7,510
Texas Educational Opportunity Grant Program	PCA13399	263,858
Nursing Shortage Reduction		270,000
Childrens Learning Institute		6,950
JET Grant LPN & LVN		40,000
Total Direct Funding		<u>608,382</u>
TOTAL STATE FINANCIAL ASSISTANCE		<u>\$ 608,382</u>

Notes to the Schedule below.

Note 1: State Assistance Reconciliation

State Assistance Reconciliation	
per Schedule of Expenditures of State Awards	<u>\$ 608,382</u>
 Total State Revenues per Schedule A	 <u>\$ 608,382</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

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

**OVERALL COMPLIANCE AND
INTERNAL CONTROLS SECTION**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

December 19, 2017

Board of Trustees
Coastal Bend College
Beeville, Texas

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 the Coastal Bend College (the College) as of and for the years ended August 31, 2017, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 19, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedules of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-01 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-03 and 2017-04 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's basic 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedules of federal findings and questioned costs as item 2017-02.

Coastal Bend College's Response to Findings

Coastal Bend College's response to the findings identified in our audit is described in the accompanying schedule of state findings and questioned costs. Coastal Bend College's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on their response.

Purpose of this Report

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

Collier, Johnson & Woods

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

December 19, 2017

Board of Trustees
Coastal Bend College
Beeville, Texas

Report on Compliance for Each Major Federal Program

We have audited the Coastal Bend College's (the College'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 the College's major federal programs for the year ended August 31, 2017. The College's major federal programs are identified in the summary of auditor's results section of the accompanying federal schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Programs

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Collier, Johnson & Woods

COASTAL BEND COLLEGE

SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2017

Section I:
Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	Yes
• Significant deficiencies reported that are not considered to be material weaknesses?	Yes
• Noncompliance material to the financial statements noted?	Yes
Federal Awards:	
• Material weakness identified?	No
• Significant deficiencies reported that are not considered to be material weaknesses?	None reported
Type of auditor's report on compliance for major federal programs:	Unmodified
Any audit findings required to be reported in accordance with the Uniform Guidance?	No
The programs tested as major programs include:	
U.S. Department of Education Financial Aid Cluster:	
84.007 Federal Supplemental Educational Opportunity Grants (FSEOG)	
84.033 Federal College Work Study Program	
84.063 Federal Pell Grant Program	
84.268 Federal Direct Loan Program	
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low risk auditee:	Yes

Section II:
Findings - Financial Statement Audit

Material Weakness

2017-01 –Investments, payroll and debt were not regularly reconciled to the general ledger which is used to accumulate balances reported in the financial statements.

Condition: There are no written procedures for reconciliations of key accounting information used to accumulate financial statement reports.

Criteria: The College is required to ensure that all financial reports are properly reported and supported by the underlying accounting records.

Cause: Not having written accounting procedures or transitioning training when employee turnover occurs.

Effect: Employee turnover in key accounting functions resulted in some duties; such as, reconciliations, being overlooked.

Recommendation: Procedures for producing and retaining underlying supporting information for the financial statements should be written. Employees should be provided with additional training on the reporting requirements of the THECB to facilitate the production of information necessary to provide complete and accurate financial reports. Monthly reconciliations should be performed and approved by management. Management's approval should be documented by signatures.

View of Responsible Officials and Planned Corrective Actions: The College is implementing a new computer system and will incorporate written procedures for performing monthly reconciliations and producing financial reports.

2017-02– Government Code Chapter 2256 -Public Funds Investment Act (PFIA)

Condition: (1) The College failed to perform a quarterly investment report to the Board of Trustees for the Quarter ended February 28, 2017. (2) The College invested in 2 foreign bonds totaling \$54,779 which is not an allowable investment under the PFIA. (3) After the date of purchase, 10 bonds amounting to \$302,880 experienced downgrading to below the required rating of A for municipal bonds and AA- for corporate bonds by a nationally recognized rating agency. (4) Investments are held by a custodian that is not compliant with the delivery versus payment standard.

Criteria: (1) The PFIA requires the governing board to review investments quarterly. (2) The PFIA disallows investments in foreign bonds for public institutions. (3) The PFIA and the College's investment policy requires the College to take all prudent measure to liquidate an investment that does not have the minimum rating. (4) The PFIA government code section 2256.005 (b)(4)(E) requires public institutions to hold investments in a delivery versus payment status.

Cause: Lack of standardized monitoring and follow up procedures to ensure that compliance with this state regulation.

Effect: Noncompliance with the PFIA.

Recommendation: The College Investment Officer must work with the Governing Board to ensure compliance with all facets of the PFIA, particularly in regards to training, portfolio compliance and the annual Policy review. The College should establish procedures during their quarterly investment reviews to liquidate investment securities that are downgraded or no longer in compliance with their investment policy.

View of Responsible Officials and Planned Corrective Actions: The College agrees with the finding and is in the process of restructuring the investment portfolio by selling the foreign bonds and bonds that have ratings below the required rating. The College will provide training to ensure compliance with this regulation.

Significant Deficiencies

2017-03 – Segregation of duties

Condition: The accounts payable clerk performed the incompatible duties of approving transactions, recording transactions and reconciling bank accounts.

Criteria: There should be a segregation of duties between the authorization of financial transactions, the recording of those financial transactions and the reconciliation of accounts.

Cause: A limited number of staff available to optimize proper segregation of duties.

Effect: Because one person is recording payable transactions and reconciles the bank account, error or fraud could occur and not be detected by employees or management in the normal course of performing their duties.

Recommendation: The College should re-align the duties of accounting personnel to segregate incompatible duties whenever possible.

View of Responsible Officials and Planned Corrective Actions: College Management became aware of the lack of documented procedures after the departure of multiple business office staff in FY 2017. New leadership has since addressed the failure to segregate duties. The new Enterprise Resource Planning Software has security classes and role access to ensure appropriate segregation of duties.

2017-04 - Payroll

Condition: Written authority, signed by an authorized official, is not required to add or make changes to payroll records, including adding people or changing pay rates. Furthermore, payroll reports are not reviewed *after* production of the payroll by anyone other than the payroll clerk.

Criteria: Internal Controls should be in place that provide reasonable assurance that individuals added to the payroll or changes made to pay rates only occur after proper management approval.

Cause: Annually, the payroll clerk is given a list of employees revised pay rates in excel. However, there is no documentation that the pay rate is approved by management. Human resources personnel normally add new employees; however, the payroll clerk can change or add an employee.

Effect: Because no one reviews the payroll records *after* the payroll information is entered by the payroll clerk, error or fraud could occur and not be detected by employees or management in the normal course of performing their duties.

Recommendation: The College should maintain written documentation of authorized pay rates and review payroll journals after they are produced. The review should include edit reports that show rate changes and other master file changes. Payroll rate changes, which include management's authorization, should be included in personnel files.

View of Responsible Officials and Planned Corrective Actions: College Management became aware of the lack of documented procedures after the departure of multiple business office staff in FY2017. New leadership has since addressed this deficiency. Every payroll is now reviewed and signed off by either the CFO or the Finance Manager. Each pay rate is reconciled with the Annual Pay Advice and Time Entry Forms. The new Enterprise Resource Planning Software now has Security Access and Roles to ensure the Payroll Coordinator does not have access to change or add employee information and their pay rates.

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

None reported.

Section IV:
Prior Year Findings

None reported.



Coastal Bend COLLEGE

CORRECTIVE ACTION PLAN

MATERIAL WEAKNESS

2017-01- Investments, payroll and debt were not regularly reconciled to the general ledger which is used to accumulate balances reported in the financial statements

Responsibility for Implementation: Shannon McCarron

Estimated Date of Completion: March 1, 2018

As the College transitions to a new Enterprise Resource Planning System in FY 2018, the Finance Director, is working with the Business Office staff to receive appropriate training on proper Fund Accounting procedures and Texas Higher Education Coordinating Board reporting requirements. A part of the training will include documentation of these processes:

- Monthly reconciliation of Investments, Payroll, and Debt Service to the general ledger.
- Timely closing of grants in the general ledger to Fund Balance.
- Months are closed in the ERP System by the 15th of the following month.

2017-02- Compliance with PFIA- State of Texas

Responsibility for Implementation: Shannon McCarron

Estimated Date of Completion: February 2, 2018

The College CFO, is scheduled to conduct a Work Session with the Board of Trustees on January 31, 2018 to complete an annual review of the College's Investment Policies, perform quarterly investment reviews, ensure the College Investment Policies comply with the Texas Public Fund Investment Act, and that the Investment Portfolio aligns with College Policies. This comprehensive review will now occur in January of every fiscal year. Any current bonds not meeting minimum rating requirements will be sold in FY 2018. The College will also work with the Investment Advisor to comply with the delivery versus payment standard.

SIGNIFICANT DEFICIENCIES

2017-03- Segregation of Duties

Responsibility for Implementation: Shannon McCarron

Estimated Date of Completion: January 4, 2018

After the departure of multiple long serving Business Office staff in FY 2017, College management became aware of multiple duties not being properly segregated among the staff. The failure to segregate duties has been resolved with implementation of the new ERP system. These new custom security classes and role access prevents the AP Accountants from having the ability to set up vendors, originate and approve requisitions and payments, and cut checks. Only the CFO and the Finance Director now can post transactions and approve journal entries and budget adjustments.



2017-04- Payroll

Responsibility for Implementation: Shannon McCarron

Estimated Date of Completion: January 4, 2018

After the departure of multiple long serving Business Office staff in FY 2017, College management became aware of multiple duties not being properly segregated among the staff. Effective with the start of the new fiscal year, either the CFO or the Finance Manager reviews and signs off on every Payroll prior to posting. Each pay rate is reconciled with the Annual Pay Advice and Time Entry Forms. The failure to segregate duties has been also addressed with implementation of the new ERP system. When Payroll goes live January 3rd, the Payroll Coordinator will not have the ability to enter or edit employees and their pay rates.

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