

Financial Statements and  
Independent Auditor's Report

[Howard County Junior College District](#)

August 31, 2016 and 2015



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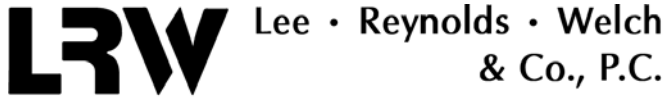
Howard County Junior College District  
 ORGANIZATIONAL DATA  
 For the Fiscal Year 2016

Board of Trustees

<u>Officers</u>	<u>Board Title</u>	
Dr. John E. Freeman	Chairman	
Mr. Maxwell Barr	Vice Chairman	
Mr. Adrian Calvio	Secretary	
<u>Members</u>	<u>Address</u>	<u>Term Expires</u>
Dr. John E. Freeman	Big Spring, Texas	May, 2020
Mr. Adrian Calvio	Big Spring, Texas	May, 2018
Mrs. Patricia Bennett	Big Spring, Texas	May, 2020
Mr. Maxwell Barr	Coahoma, Texas	May, 2018
Mr. Michael L. Flores	Big Spring, Texas	May, 2022
Mr. Ryan Williams	Big Spring, Texas	May, 2020
Mr. Mark Morgan	Big Spring, Texas	May, 2022

Principal Administrative Officers and the Business and Financial Staff

<u>Key Officers</u>	<u>Title</u>
Dr. Cheryl T. Sparks	President
Dr. Amy Burchett	Vice President Academic and Student Affairs
Mr. Steve Smith	Chief Business Officer
Mr. Terry Hansen	Chief Facilities Operations Officer
Ms. Brenda Claxton	Chief Financial Officer
Mr. Terry Hansen	Interim Administrative Dean, Big Spring Area
Ms. Jamie Rainey	Workforce and Community Development Officer, San Angelo
Mr. Danny Campbell	Co-Administrative Dean, Southwest Collegiate Institute for the Deaf
Ms. Nancy Bonura	Co-Administrative Dean, Southwest Collegiate Institute for the Deaf
Ms. Pam Callan	Administrative Dean, San Angelo



CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 3469 \* Big Spring, Texas 79721 \* 432-267-5293

## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Howard County Junior College District  
Big Spring, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Howard County Junior College District (the District) as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District'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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 financial position of the District as of August 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 16, the schedule of employer's share of net pension liability on page 46, and the schedule of District contributions on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

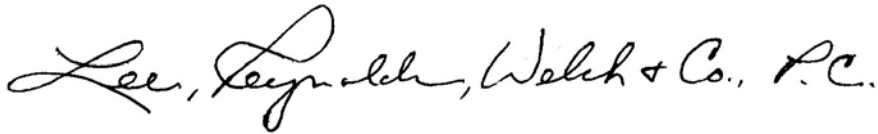
#### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary schedules listed in the table of contents 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 and the schedule of expenditures of State of Texas awards are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Texas Single Audit Circular, and are also not a required part of the basic financial statements.

The supplementary schedules, the schedule of expenditures of federal awards and the schedule of expenditures of State of Texas 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 supplementary schedules, the schedule of expenditures of federal awards and the schedule of expenditures of State of Texas awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lee, Reynolds, Welch & Co., P.C.".

Big Spring, Texas  
December 19, 2016

Howard County Junior College District  
Management's Discussion and Analysis  
August 31, 2016 and 2015

As management of the Howard County Junior College District, we offer this narrative overview and analysis of the college district's financial activities for the fiscal years ended August 31, 2016 and 2015. Since this management's discussion and analysis focuses on current activities, resulting changes, and currently known facts, we encourage readers to consider it in conjunction with the college district's financial statements and related notes.

Financial Highlights

FYE 2016

The college district's net position increased by \$4.0 million and \$1 million in 2016 and 2015, respectively.

The assets of the college district exceeded its liabilities (net position) by \$43.4 million and \$39.4 million, as of August 31, 2016 and 2015, respectively. Approximately \$7.5 million of the net position, as of August 31, 2016, was available for spending at the college district's discretion (unrestricted net position). In comparison, as of August 31, 2015, \$4.8 million was classified as unrestricted net position.

FYE 2015

The college district's net position increased by \$1 million before applying the cumulative effect of change in accounting principle related to GASB 68 (\$4.3 million) to FY 14/15 beginning net position for an overall decrease of \$3.3 million in 2015 and an increase of \$2.4 million in 2014.

For the year ended August 31, 2015, the college district implemented the provisions of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in two new categories to the Statement of Net Position, Deferred outflows related to pensions and Deferred inflows related to pensions, and the Cumulative effect of change in accounting principle reflected in the college's net position as noted above.

The assets of the college district exceeded its liabilities (net position) by \$39.4 million after the cumulative effect of change in accounting principle related to GASB 68 and \$42.7 million, as of August 31, 2015 and 2014, respectively. Approximately \$4.8 million of the net position, as of August 31, 2015, was available for spending at the college district's discretion (unrestricted net position). In comparison, as of August 31, 2014, \$9.6 million was classified as unrestricted net position.

Brief Overview of the Financial Statements

This annual financial report consists of five components: Management's Discussion and Analysis, the basic financial statements, the notes to the financial statements, required supplementary information, and other supplementary information.



The Statements of Net Position present the current and long-term assets, deferred inflows and outflows of resources, and liabilities separately with the difference in total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources reported as net position. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of the college district is improving or deteriorating. However, one may need to consider other non-financial factors to assess the overall health of the college district.

The Statements of Revenues, Expenses, and Changes in Net Position present the change in the college district's net position as a result of the fiscal year's operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transaction occurs. Thus, revenues and expenses may be reported for items that may not affect cash until future fiscal periods.

The Statements of Cash Flows present the operating cash inflows and outflows resulting in net cash flows from operations. These statements are prepared using the direct method as prescribed by the Governmental Accounting Standards Board (GASB) Statement 34.

The college district is reported as a special-purpose government engaged in business-type activities using the full accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they have been reduced to a legal or contractual obligation to pay.

The Notes to the Financial Statements provide additional information that is essential to a better understanding of the data provided in the financial statements.

Other Supplementary Information is provided in addition to the basic financial statements and accompanying notes.

## Financial Analysis

### Net Position

FYE 2016

The schedule below was prepared from the Statements of Net Position. Total net position, which is the difference in total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, at August 31, 2016 and 2015, was \$43.4 million and \$39.4 million, respectively. This represents an overall increase of 10.29% from the prior fiscal year. The majority of the increase was the \$2.7 million improvement in unrestricted net assets due to a combination of several factors. Refer to the Revenue, Expenses, and Changes in Net Position for further details.

In addition, there was an increase of \$1.5 million in the category of invested in capital assets, net of related debt, primarily due to various improvement projects throughout the college district. Refer to the Capital Assets section for further details.

FYE 2015

The schedule below was prepared from the Statements of Net Position. Total net position, which is the difference in total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, at August 31, 2015 and 2014, was \$39.4 million and \$42.7 million, respectively. This represents an overall decrease of 7.69% from the prior fiscal year. The majority of the decrease was due to the cumulative effect of change in accounting principle related to GASB 68 of \$4.3 million. However, there was an increase of \$1.6 million in the category of invested in capital assets, net of related debt, due to the various improvements and construction projects that continued to take place throughout the college district. Refer to the Capital Assets section for further details.

The college's unrestricted net position decreased \$4.7 million for the fiscal year ended August 31, 2015 of which \$4.3 million was the cumulative effect of change in accounting principle related to GASB 68 as noted above. The remaining decrease in the unrestricted net position was largely in part due to the planned spending of reserves to complete, furnish, and equip the two new buildings at the San Angelo site. The college district continued to exercise conservative spending habits in response to reduced state funding and an ongoing reduction in tuition and fees revenue as a result of the slight decline in enrollment due to the improved economy in the state and locally. Refer to the next section on Revenues, Expenses, and Changes in Net Position for further details.

STATEMENTS OF NET POSITION

ASSETS	2016	2015	2014
Total current assets	\$ 19,725,956	\$ 17,706,049	\$ 18,454,080
Restricted cash equivalents	-	-	3,257,507
Total capital assets, net	59,849,317	59,513,156	58,244,277
Total Assets	79,575,273	77,219,205	79,955,864
Deferred outflows related to pensions	673,417	362,031	-
LIABILITIES			
Total current liabilities	5,567,049	5,689,446	8,210,398
Total noncurrent liabilities	30,261,675	31,351,969	29,081,533
Total Liabilities	35,828,724	37,041,415	37,291,931
Deferred inflows related to pensions	983,790	1,156,463	-
NET POSITION			
Invested in capital assets, net of related debt	32,026,326	30,510,564	28,888,094
Restricted			
Nonexpendable	1,177,715	1,217,709	1,217,702
Expendable	2,734,081	2,815,886	2,987,519
Unrestricted	7,498,054	4,839,199	9,570,618
TOTAL NET POSITION	\$ 43,436,176	\$ 39,383,358	\$ 42,663,933

## Revenues, Expenses, and Changes in Net Position

### FYE 2016

The change in net position is the result of operating and non-operating activities during the fiscal year. The college's net position increased \$4.0 million (10.29%) for the fiscal year ended August 31, 2016 and decreased \$3.3 million (7.69%) for the fiscal year ended August 31, 2015.

Total operating revenues decreased \$614 thousand (6.06%) overall from the prior fiscal year, primarily due to the following:

- Federal grants and contracts decreased by \$1.3 million (35.84%) mostly due to the completion of a Title V grant in FY 14/15 as well as another Title V grant and the HSI STEM Coop grant ending in FY 15/16.
- Tuition and fees revenue increased \$508 thousand (13.41%) due to a combination of a slight increase in enrollment and an increase in various tuition and fees.

Operating expenses decreased \$1.4 million (4.37%) overall from the prior fiscal year with a large part of the decrease in payroll and the associated benefits and regular operating expenditures.

As is customary practice, the district continues to be very dedicated to conservative spending habits and controlling expenditures in all areas.

Net non-operating revenues increased \$2.1 million (9.25%) primarily due to a \$1.3 million (22.66%) increase in Maintenance and Operations tax revenue when the college district adopted a tax rate \$0.02 above rollback. The district had experienced a \$608 thousand loss in state appropriations for operating in the most recent legislative session, reflecting several years of declining state funding. The action to go above the rollback rate resulted in an election. The voters of Howard County elected to uphold the tax rate. The district received \$2 million from the state for the Southwest Collegiate Institute for the Deaf (SWCID) for HVAC upgrades. Refer to the Capital Assets section for further details.

### FYE 2015

The change in net position is the result of operating and non-operating activities combined during the fiscal year. The college's net position decreased \$3.3 million (7.69%) for the fiscal year ended August 31, 2015 and increased \$2.4 million (5.86%) for the fiscal year ended August 31, 2014.

Total operating revenues decreased \$687 thousand (6.35%) overall from the prior fiscal year, mainly due to the factors as outlined below:

- Nongovernmental grants and contracts decreased by \$648 thousand (40.84%) mainly due to private donations received in 13/14 for the equipment and furniture for the two new buildings in San Angelo, as well as a donation for program improvements of an instructional program.
- State grants and contracts decreased by \$405 thousand (40.84%) mainly due to the completion of a Skills Development Oil and Gas grant in 13/14 and a reduction in funding for the Adult Education and Literacy grants in 14/15.

Operating expenses decreased \$110 thousand (less than 1%) overall from the prior fiscal year.

As in the past, the district continues to be very dedicated to conservative spending habits and controlling expenditures in all areas.

Net non-operating revenues decreased \$178 thousand, mostly in the category of federal financial aid programs due to the decrease in enrollment as noted above. However, as a result of the upswing in the local economy, there was an 8.29% increase in Maintenance and Operations tax revenue.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2016	2015	2014
REVENUES			
Operating revenues			
Tuition & fees (net of discounts)	\$ 4,292,218	\$ 3,784,684	\$ 4,180,218
Federal grants and contracts	2,357,836	3,674,792	2,841,448
State grants and contracts	578,286	586,130	990,745
Local grants and contracts	109,508	12,868	11,479
Nongovernmental grants and contracts	1,040,986	938,759	1,586,823
Sales and services of educational activities	395,734	363,384	399,371
Auxiliary enterprises (net of discounts)	283,544	259,837	297,683
Other operating revenues	458,077	509,751	509,022
Total operating revenues	<u>9,516,189</u>	<u>10,130,205</u>	<u>10,816,789</u>
EXPENSES			
Operating expenses			
Instruction	9,432,059	9,724,068	10,675,989
Public service	1,141,805	1,047,065	1,296,592
Academic support	2,371,376	3,131,692	2,902,692
Student services	2,202,443	2,061,395	2,139,733
Institutional support	5,775,815	5,724,173	5,346,324
Operation and maintenance of plant	3,336,764	3,810,866	3,543,242
Scholarships and fellowships	1,953,506	2,411,217	2,691,540
Auxiliary enterprises	2,094,071	2,103,818	1,805,103
Depreciation	2,410,108	2,108,847	1,832,120
Total operating expenses	<u>30,717,947</u>	<u>32,123,141</u>	<u>32,233,335</u>
Operating loss	(21,201,758)	(21,992,936)	(21,416,546)
NON-OPERATING REVENUES (EXPENSES)			
State appropriations	12,985,476	11,446,649	11,498,988
Property taxes for operations	6,798,219	5,542,489	5,118,233
Property taxes for debt service	1,673,612	1,647,492	1,791,602
Payments in lieu of taxes	152,542	148,822	145,192
Federal revenue, non-operating	3,785,222	4,436,533	5,037,332
Investment income (net of investment expenses)	37,081	38,060	38,785
Interest on capital related debt	(1,234,696)	(896,481)	(935,326)
Loss on disposal of fixed assets	(420,295)	(16,911)	(150,215)
Other non-operating revenues	1,102,261	425,717	405,935
	<u>24,879,422</u>	<u>22,772,370</u>	<u>22,950,526</u>
Income before other revenue	3,677,664	779,434	1,533,980
Other revenue			
Capital contributions	<u>375,154</u>	<u>223,303</u>	<u>829,409</u>

Increase in net position	4,052,818	1,002,737	2,363,389
Net Position – beginning of year, as previously reported	39,383,358	42,663,933	40,300,544
Cumulative effect of change in accounting principle	-	(4,283,312)	-
Net Position – beginning of year, as adjusted	39,383,358	38,380,621	40,300,544
Net Position – end of year	\$ 43,436,176	\$ 39,383,358	\$ 42,663,933

## Cash Flows

### FYE 2016

In addition to the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, presented below, are another way to assess the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments by the college district during the fiscal year. There was an increase in cash and cash equivalents of \$1.98 million for the year ended August 31, 2016. The majority of this increase was attributable to the following:

- The additional Maintenance and Operations tax revenue of which several projects were not completed as planned using these additional funds due to the timing of the rollback election as the college awaited the results.
- Approximately \$300 thousand in insurance claim funds from a couple of severe storms in the spring of 2016 for which all repairs were not completed by fiscal year end.
- Approximately \$334 thousand from an oil and gas lease.
- An overall reduction in standard operating expenditures.

### FYE 2015

In addition to the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, presented below, are another way to assess the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments by the college district during the fiscal year. There was a decrease in cash and cash equivalents of \$3.78 million for the year ended August 31, 2015. Most of this decrease was attributable to spending of the remaining \$3.3 million in bond proceeds for the two new buildings at the San Angelo site mentioned earlier.

#### STATEMENTS OF CASH FLOWS

Cash Provided (Used) by:	2016	2015	2014
Operating activities	\$ (16,334,916)	\$ (17,828,194)	\$ (17,675,324)
Noncapital financing activities	21,872,351	20,003,866	20,563,475
Capital and related financing activities	(3,596,947)	(5,997,650)	(8,904,721)
Investing activities	37,081	38,060	38,785
Net increase (decrease) in cash and cash equivalents	1,977,569	(3,783,918)	(5,977,785)
Cash and cash equivalents Sept 1	14,518,747	18,302,665	24,280,450
Cash and cash equivalents Aug 31	\$ 16,496,316	\$ 14,518,747	\$ 18,302,665

## Overall Financial Position

### FYE 2016

As reflected in the schedules and narrative, the college's financial position improved during the fiscal year ended August 31, 2016. A brief explanation for the significant changes is discussed in other sections of the Financial Analysis. The college district shares a competitive market and strives to provide quality instructional programs and services while continuing to be committed to controlling expenditures in order to continue to be a good steward of the funds afforded the college. This commitment has helped to maintain the stability of the college's financial position.

As in the past, the college continues to seek additional funding from outside sources such as federal, state, and non-governmental grants. In an effort to meet the needs of the college's thirteen county service area, the college continues to seek ways to enhance existing programs, pursue new course delivery methods, and to provide new services as needed or requested. The college also continues to control expenditures through conservative budgeting strategies, freezing the filling of some vacant positions, limiting or reducing staff in certain areas, as well as purchasing techniques and controls that reduce costs and maximize value.

### FYE 2015

As reflected in the schedules and narrative, the college's financial position improved during the fiscal year ended August 31, 2015 prior to the \$4.3 million adjustment for the cumulative effect of change in accounting principle to the FY 14/15 beginning net position due to the implementation of GASB 68. A brief explanation for the significant changes is discussed in other sections of the Financial Analysis. The college district shares a competitive market and strives to provide quality instructional programs and services while continuing to be committed to controlling expenditures. This commitment has helped to maintain the stability of the college's financial position.

As in the past, the college continues to seek additional funding from outside sources such as federal, state, and non-governmental grants. In an effort to meet the needs of the college's thirteen county service area, the college continues to seek ways to enhance existing programs, pursue new course delivery methods, and to provide new services as needed or requested. The college also continues to control expenditures through conservative budgeting strategies, freezing the filling of some vacant positions, limiting or reducing staff in certain areas, as well as purchasing techniques and controls that reduce costs and maximize value.

## Capital Assets

### FYE 2016

As of August 31, 2016 and 2015, the college district had invested \$85.2 million and \$82.8 million, respectively, in capital assets. Net of accumulated depreciation, the college district's net capital assets at August 31, 2016 totaled \$59.8 million and totaled \$59.5 million at August 31, 2015. The approximate \$2.4 million increase in capital assets was largely due to the completion of the much-needed HVAC upgrades to the administration building and dormitories at the Southwest Collegiate Institute for the Deaf (SWCID) funded by the state for \$2 million. There was an offsetting net decrease in other asset categories as well as an increase in depreciation expense. The district also

completed the first housing pod of the Southwest Collegiate Institute for the Deaf Village consisting of three cottages with privately donated funds of \$321 thousand.

#### FYE 2015

As of August 31, 2015 and 2014, the college district had invested \$82.8 million and \$79.9 million, respectively, in capital assets. Net of accumulated depreciation, the college district's net capital assets at August 31, 2015 totaled \$59.5 million and totaled \$58.2 million at August 31, 2014. The approximate \$1.3 million increase in net capital assets was mainly due to the completion of the expansion and construction projects at the San Angelo site and two remodeled biology labs at the San Angelo site made possible with grant funds.

#### Debt Administration

##### FYE 2016

The college district's long-term debt was comprised of capital lease agreements, notes payable, the general obligation bond issued August 2007, a consolidated revenue bond issued November 2009, and a consolidated revenue bond issued June 2013. The current portion was \$1,535,538 and the non-current portion was \$26,328,217 for a total of \$27,863,755 at August 31, 2016. The college entered into operating lease agreements beginning September 1, 2008 for two facilities in San Angelo with the lease with Shannon Medical Center amended twice for additional space effective July 2009 and July 2011. Refer to Notes 6, 7, 8, 9, 10 and 11 to the financial statements for detailed information.

The college district continues to maintain a bond rating of "AA- with a stable outlook" with Standard and Poor's and Fitch Ratings on the General Obligation Bond, Series 2007.

##### FYE 2015

The college district's long-term debt was comprised of capital lease agreements, notes payable, the general obligation bond issued August 2007, a consolidated revenue bond issued November 2009, and a consolidated revenue bond issued June 2013. The current portion was \$1,475,421 and the non-current portion was \$27,571,480 for a total of \$29,046,901 at August 31, 2015. The college entered into operating lease agreements beginning September 1, 2008 for two facilities in San Angelo with the lease with Shannon Medical Center being amended twice for additional space effective July 2009 and July 2011. See Notes 6, 7, 8, 9, 10 and 11 to the financial statements for detailed information.

The college district continues to maintain a bond rating of "AA-" with Standard and Poor's and Fitch Ratings on the General Obligation Bond, Series 2007.

#### Currently Known Facts, Decisions, or Conditions

The District's main sources of revenue are tuition and fees, state funding, local taxes, and gifts and grants. The overall economic condition of the state and the local area, both of which are heavily dependent on the oil and natural gas industry, have an impact on each of these funding sources. There has been a downward trend in the oil and natural gas industry the past couple of years which

has affected mineral values significantly in the state and the local area resulting in a decline in the tax base for the 2015 and 2016 tax years. In addition, the new state funding model, combined with the decline in enrollment the past few years, resulted in a decrease in tuition/fees revenue and state funding for the college. Effective the 2015/16 biennium, the state mandated that community colleges fund 50% of an employee's TRS and ORP contributions. Both of these continue for the 2017/18 biennium reflecting the state's continued downward trend of support for community colleges. Even though enrollment increased slightly in fiscal year 15/16, there was a slight decrease in contact hours. In response to reduced state funding for the above mentioned reasons, the potential loss in local maintenance and operations tax revenue, and fluctuating tuition/fees revenue, the college adopted a tax rate \$0.02 above the rollback rate for fiscal year 15/16. The action to go above the rollback rate resulted in an election. The voters of Howard County elected to uphold the tax rate. This should help to position the tax levy for upcoming years to provide funding needed for the college to continue striving to fulfill its mission.

In an effort to help reduce the tax burden on the college's taxpayers, the college refunded its General Obligation Bonds, Series 2007. In September 2016, the district delivered General Obligation Refunding Bonds, Series 2016 to refund \$13,840,000 of the outstanding bonds. The refunding reduces the average coupon by approximately 1% from 4.9495% to 3.9531% and reduces the debt service to maturity by approximately \$2.5 million.

The college was not able to complete some of the planned repairs and maintenance and capital projects budgeted in 2015/16 by fiscal year end due to the timing of the rollback election as the college awaited the results. However, the plan is to complete these projects in fiscal year 16/17 with the funds added to unrestricted net assets from 15/16.

The college is preparing to address changes in the Fair Labor Standard Act regulations when finalized as well as addressing historically low and non-competitive compensation compared to similar institutions.

#### Contacting the District's Financial Management

This financial report is designed to provide a general overview of the Howard County Junior College District's finances for all those with an interest in the college's finances.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Financial Officer, Howard College, 1001 Birdwell Lane, Big Spring, TX 79720.



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Howard County Junior College District  
STATEMENTS OF NET POSITION  
Exhibit 1  
August 31,

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 16,496,316	\$ 14,518,747
Accounts receivable, net	2,847,625	2,919,394
Prepaid expenses	370,515	248,733
Inventories for resale	11,500	19,175
Total current assets	<u>19,725,956</u>	<u>17,706,049</u>
Noncurrent Assets		
Capital assets, net of accumulated depreciation	59,849,317	59,513,156
Total noncurrent assets	<u>59,849,317</u>	<u>59,513,156</u>
<b>TOTAL ASSETS</b>	<u>79,575,273</u>	<u>77,219,205</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions	<u>673,417</u>	<u>362,031</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	796,110	1,028,424
Accrued liabilities	1,687,215	1,660,860
Deposits payable	36,825	40,200
Unearned revenue	1,294,092	1,265,493
Accrued compensable absences	217,269	219,048
Bonds and notes payable – current portion	1,525,004	1,461,264
Capital lease agreements – current portion	10,534	14,157
Total current liabilities	<u>5,567,049</u>	<u>5,689,446</u>
Noncurrent liabilities		
Bonds and notes payable, noncurrent portion	26,279,768	27,565,279
Capital lease agreements, noncurrent portion	48,449	6,201
Net pension liability	3,933,458	3,780,489
Total noncurrent liabilities	<u>30,261,675</u>	<u>31,351,969</u>
<b>TOTAL LIABILITIES</b>	<u>35,828,724</u>	<u>37,041,415</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	<u>983,790</u>	<u>1,156,463</u>
<b>NET POSITION</b>		
Net investment in capital assets	32,026,326	30,510,564
Restricted for:		
Nonexpendable		
Student aid	1,177,715	1,217,709
Expendable		
Student aid	593,655	608,612
Instructional programs	261,078	415,576
Capital projects	31,972	2,502
Debt service	1,567,774	1,521,636
Other	279,602	267,560
Unrestricted	7,498,054	4,839,199
<b>TOTAL NET POSITION (Schedule D)</b>	<u>\$ 43,436,176</u>	<u>\$ 39,383,358</u>

The accompanying notes are an integral part of these statements.

Howard County Junior College District  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Exhibit 2  
Year Ended August 31,

	2016	2015
REVENUES		
Operating revenues		
Tuition and fees (net of discounts of \$4,475,835 and \$4,150,470)	\$ 4,292,218	\$ 3,784,684
Federal grants and contracts	2,357,836	3,674,792
State grants and contracts	578,286	586,130
Local grants and contracts	109,508	12,868
Nongovernmental grants and contracts	1,040,986	938,759
Sales and services of educational activities	395,734	363,384
Auxiliary enterprises (net of discounts of \$1,114,483 and \$1,140,457)	283,544	259,837
Other operating revenues	458,077	509,751
Total operating revenues (Schedule A)	9,516,189	10,130,205
EXPENSES		
Operating expenses		
Instruction	9,432,059	9,724,068
Public service	1,141,805	1,047,065
Academic support	2,371,376	3,131,692
Student services	2,202,443	2,061,395
Institutional support	5,775,815	5,724,173
Operation and maintenance of plant	3,336,764	3,810,866
Scholarships and fellowships	1,953,506	2,411,217
Auxiliary enterprises	2,094,071	2,103,818
Depreciation	2,410,108	2,108,847
Total operating expenses (Schedule B)	30,717,947	32,123,141
Operating loss	(21,201,758)	(21,992,936)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	12,985,476	11,446,649
Property taxes for operations	6,798,219	5,542,489
Property taxes for debt service	1,673,612	1,647,492
Payments in lieu of taxes	152,542	148,822
Federal revenue, non operating	3,785,222	4,436,533
Investment income (net of investment expenses)	37,081	38,060
Interest on capital related debt	(1,234,696)	(896,481)
Loss on disposal of fixed assets	(420,295)	(16,911)
Other non-operating revenues	1,102,261	425,717
Net non-operating revenues (Schedule C)	24,879,422	22,772,370
Income before other revenue	3,677,664	779,434
Other revenue		
Capital contributions	375,154	223,303
Increase in net position	4,052,818	1,002,737
Net position – beginning of year	39,383,358	38,380,621
Net position – end of year	\$ 43,436,176	\$ 39,383,358

The accompanying notes are an integral part of these statements.

Howard County Junior College District  
STATEMENTS OF CASH FLOWS  
Exhibit 3  
Year ended August 31,

	2016	2015
Cash flows from operating activities		
Receipts from students and other customers	\$ 4,300,050	\$ 4,910,048
Receipts of grants and contracts	4,947,545	4,938,458
Other receipts	1,560,338	935,468
Payments to or on behalf of employees	(17,064,114)	(17,315,697)
Payments to suppliers for goods and services	(8,125,229)	(8,885,254)
Payments of scholarships	(1,953,506)	(2,411,217)
Net cash used by operating activities	(16,334,916)	(17,828,194)
Cash flows from noncapital financing activities		
Property tax receipts and payments in lieu of taxes	6,880,971	5,685,167
Receipts of state appropriations	11,217,675	9,869,682
Receipts of non-operating federal revenue	3,773,705	4,449,017
Net cash provided by noncapital financing activities	21,872,351	20,003,866
Cash flows from capital and related financing activities		
Property tax receipts	1,662,429	1,648,774
Capital contracts, grants, and gifts	375,154	181,036
Payments from accounts payable related to fixed asset additions	(240,237)	(2,365,445)
Purchases of capital assets	(2,919,067)	(2,727,535)
Proceeds from capital debt	288,400	-
Payments on capital debt and leases	(1,502,218)	(1,420,896)
Interest payments on capital debt and leases	(1,261,408)	(1,313,584)
Net cash used by capital and related financing activities	(3,596,947)	(5,997,650)
Cash flows from investing activities		
Investment earnings	37,081	38,060
Increase (decrease) in cash and cash equivalents	1,977,569	(3,783,918)
Cash and cash equivalents – September 1	14,518,747	18,302,665
Cash and cash equivalents – August 31	\$ 16,496,316	\$ 14,518,747
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (21,201,758)	\$ (21,992,936)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	2,410,108	2,108,847
Other revenue	1,102,261	425,717
Payments made directly by state for benefits	1,767,801	1,576,967
Changes in assets and liabilities:		
Receivables, net	164,259	(237,048)
Inventories	7,675	(8,475)
Other assets	(125,327)	455,976
Deferred outflows related to pensions	(311,386)	(362,031)
Accounts payable	(189,307)	(424,652)
Accrued liabilities	37,017	7,056
Unearned revenue	28,599	(25,656)
Deposits payable	(3,375)	1,698
Accrued compensable absences	(1,779)	(7,297)
Net pension liability	152,969	(502,823)
Deferred inflows related to pensions	(172,673)	1,156,463
Net cash used by operating activities	\$ (16,334,916)	\$ (17,828,194)
Noncash investing, capital, and financing activities:		
Acquisition of capital assets through accounts payable	\$ 197,230	\$ 240,237
Acquisition of capital assets through capitalized interest	-	384,598
Acquisition of capital assets through capital lease	61,039	-
Amortization of prepaid bond insurance and bond premium	16,050	22,326
Net effect of noncash transactions	\$ 274,319	\$ 647,161

The accompanying notes are an integral part of these statements.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 1 – REPORTING ENTITY

The Howard County Junior College District (District) was created by a county-wide vote on November 17, 1945. The District is located in Howard County, Texas, and operates as a county-wide Junior College District under the laws of the State of Texas, to serve the educational needs of Howard County and the surrounding communities. The District is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*. The District also operates extension campuses, some of which are located outside of Howard County. The District also operates the Southwest Collegiate Institute for the Deaf (SWCID), located in Big Spring, which was established as part of the District by the Board on November 6, 1979. All of the extension campuses' financial activity is included in the District's financial statements. While the District receives funding from local, state and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The District offers course work designed to prepare students to continue their education at senior institutions or to enter specific occupational areas at the end of a one- or two-year period of specialized training in occupational education. Arts and Sciences programs are designed for transfer to baccalaureate degree-granting institutions. Associate in Arts and Associate in Science degrees are available to students completing a two-year curriculum. Vocational/Technical Education programs seek to develop intellectual abilities and skills that will enable the student to enter a technical or semi-professional occupation. It is the purpose of these programs to prepare the student for jobs in industry.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting guidelines*

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

B. *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 Sec. 56.033). When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act Program Funds

Certain Title IV HEA Program funds are received by the District to pass through to the student. These funds are initially received by the District and recorded as revenue. When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Other tuition discounts

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

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. *Basis of accounting*

The financial statements of the District 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.

D. *Budgetary data*

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

E. *Cash and cash equivalents*

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

F. *Deferred inflows*

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

G. *Deferred outflows*

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

H. *Investments*

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. The governing board has designated public funds investment pools comprised of \$519,580 and \$518,210 as of August 31, 2016 and 2015, respectively, to be cash equivalents.

I. *Inventories*

Inventories consist of livestock. Inventories are stated at the lower of cost or market on a first-in, first-out basis and are charged to expense as consumed.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. *Capital assets*

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The District’s capitalization policy includes real or personal property with a value equal to or greater than \$5,000 and has an estimated life of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are charged to operating expense in the year in which the expense is incurred. The District reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

Buildings	50 years
Facilities and other improvements	20 years
Library books	15 years
Furniture, machinery, vehicles and other equipment	10 years
Telecommunications and peripheral equipment	5 years

K. *Capitalization of interest costs on borrowings*

The District capitalizes interest costs on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the years ended August 31, 2016 and 2015, the District capitalized \$0 and \$384,598 of interest, respectively, in connection with various capital expansion projects. The total amount of interest cost incurred for the year ended August 31, 2016 and 2015 was \$1,234,696 and \$1,281,079, respectively.

L. *Unearned revenue*

Tuition and fees of \$1,080,718 and \$1,015,993, federal grants of \$9,385 and \$22,719, state grants of \$39,037 and \$83,342, local grants of \$4,264 and \$500, and private grants of \$160,688 and \$142,939 have been reported as unearned revenue at August 31, 2016 and 2015, respectively.

M. *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.

N. *Operating and non-operating revenue and expense policy*

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the District’s principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The operation of the bookstore and food service is not performed by the District.

It is the District’s policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

O. *Pensions*

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

P. *New pronouncements*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The objectives of this Statement are to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures around fair value measurements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2015. The District has implemented this Statement for the fiscal year ended August 31, 2016 to comply with GASB requirements with no material impact on the District's financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions for GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68 and amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions of this Statement are generally effective for fiscal years beginning after June 15, 2015. The District has implemented this Statement for the fiscal year ended August 31, 2016 to comply with GASB requirements and the adoption of this Statement did not have an effect on the District's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The District has implemented this Statement for the fiscal year ended August 31, 2016 to comply with GASB requirements and the adoption of this Statement did not have an effect on the District's financial statements.



Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Q. *Pending pronouncements*

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. This Statement is effective for fiscal years beginning after June 15, 2017.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. GASB 77 is effective for financial statements for periods beginning after December 15, 2015.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* (GASB 78). This Statement amends the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions* to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. GASB 78 is effective for financial statements for periods beginning after December 15, 2015.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Q. *Pending pronouncements - continued*

pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. GASB 79 is generally effective for financial statements for periods beginning after December 15, 2015.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units— an amendment of GASB Statement No. 14* (GASB 80). The requirements of this Statement enhance the comparability of financial statements among governments. Greater comparability improves the usefulness of information reported in financial statements and enhances its value for assessing government accountability. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB 80 is effective for financial statements for periods beginning after June 15, 2016.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. GASB 81 is effective for financial statements for periods beginning after December 15, 2016.

In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 is generally effective for financial statements for periods beginning after June 15, 2016.

The District has not yet completed the process of evaluating the impact of GASB Statements Nos. 74, 75, 77, 78, 79, 80, 81 and 82 on its financial statements.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 3 – AUTHORIZED INVESTMENTS

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) local government investment pools continuously rated no lower than AAA or AAAM or equivalent by a nationally recognized rating service, (4) certificates of deposit and (5) other instruments and obligations authorized by statute and approved by Board policy.

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount of the District’s deposits at August 31, 2016 and 2015 was \$15,970,778 and \$13,993,877, respectively. Total bank balances at August 31, 2016 and 2015 were \$16,554,745 and \$14,204,817, respectively. Of the bank balances, \$310,814 and \$290,322 were covered by federal deposit insurance and \$16,243,931 and \$13,914,495 were uninsured but collateralized in accordance with provisions of the Public Funds Investment Act as of August 31, 2016 and 2015, respectively. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 per depositor, per insured bank, for each account ownership category.

Cash and Deposits as reported on Exhibit 1, Statements of Net Position, consist of the items reported below, as of August 31,:

	2016	2015
Bank Deposits		
Demand deposits	\$ 15,970,778	\$ 13,993,877
Cash on hand	5,958	6,660
Total Cash and Deposits	\$ 15,976,736	\$ 14,000,537
<u>Reconciliation of deposits and investments to Exhibit 1, as of August 31,</u>		
<u>Total deposits and investments:</u>	2016	2015
Per Exhibit 1:		
Cash and cash equivalents	\$ 16,496,316	\$ 14,518,747
Total deposits and investments	\$ 16,496,316	\$ 14,518,747
Per Note 4:		
Deposits and cash on hand	\$ 15,976,736	\$ 14,000,537
Investments	519,580	518,210
Total	\$ 16,496,316	\$ 14,518,747

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

		Investment Maturities (in Years)
Investment Type	Fair Value	Less than 1
Investment Pool	\$ 519,580	\$ 519,580

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 4 – DEPOSITS AND INVESTMENTS - Continued

The Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

TexPool is managed according to requirements of the Public Funds Investment Act and TexPool Investment Policy. Investments are stated at amortized cost, which in most cases approximates the fair value of securities. TexPool seeks to maintain a stable \$1.00 price per unit; however, this is not guaranteed or insured by the State of Texas.

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

**Credit Risk** – In accordance with state law and the District’s investment policy, investments in investment pools must be rated at least AAA. The District’s investment pools are rated AAAM.

**Concentration of Credit Risk** – The District does not place a limit on the amount the District may invest in any one issuer.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 5 – CAPITAL ASSETS

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

	Balance September 1, 2015	Increases	Decreases	Balance August 31, 2016
Not depreciated:				
Land	\$ 371,871	\$ -	\$ -	\$ 371,871
Construction in process	<u>19,718</u>	<u>61,686</u>	<u>(26,312)</u>	<u>55,092</u>
Subtotal	<u>391,589</u>	<u>61,686</u>	<u>(26,312)</u>	<u>426,963</u>
Buildings and other capital assets				
Buildings and building improvements	49,044,164	2,324,228	(185,071)	51,183,321
Leasehold improvements	16,949,206	-	-	16,949,206
Other real estate improvements	<u>8,559,525</u>	<u>378,830</u>	<u>(288,400)</u>	<u>8,649,955</u>
Total buildings and other real estate improvements	74,552,895	2,703,058	(473,471)	76,782,482
Library books	901,035	16,913	(7,547)	910,401
Furniture, machinery, and equipment	<u>6,971,600</u>	<u>421,991</u>	<u>(275,670)</u>	<u>7,117,921</u>
Total buildings and other capital assets	<u>82,425,530</u>	<u>3,141,962</u>	<u>(756,688)</u>	<u>84,810,804</u>
Accumulated depreciation				
Buildings and building improvements	(14,572,999)	(892,443)	33,963	(15,431,479)
Leasehold improvements	(1,332,234)	(491,794)	-	(1,824,028)
Other real estate improvements	<u>(2,229,854)</u>	<u>(364,708)</u>	<u>28,840</u>	<u>(2,565,722)</u>
Total buildings and other real estate improvements	(18,135,087)	(1,748,945)	62,803	(19,821,229)
Library books	(739,277)	(20,519)	6,884	(752,912)
Furniture, machinery, and equipment	<u>(4,429,599)</u>	<u>(640,644)</u>	<u>255,934</u>	<u>(4,814,309)</u>
Total buildings and other capital assets	<u>(23,303,963)</u>	<u>(2,410,108)</u>	<u>325,621</u>	<u>(25,388,450)</u>
Net capital assets	<u>\$ 59,513,156</u>	<u>\$ 793,540</u>	<u>\$ (457,379)</u>	<u>\$ 59,849,317</u>

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

	Balance September 1, 2014	Increases	Decreases	Balance August 31, 2015
Not depreciated:				
Land	\$ 371,871	\$ -	\$ -	\$ 371,871
Construction in process	<u>5,830,285</u>	<u>1,895,547</u>	<u>(7,706,114)</u>	<u>19,718</u>
Subtotal	<u>6,202,156</u>	<u>1,895,547</u>	<u>(7,706,114)</u>	<u>391,589</u>

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 5 – CAPITAL ASSETS - Continued

	Balance September 1, 2014	Increases	Decreases	Balance August 31, 2015
Buildings and other capital assets				
Buildings and building improvements	48,848,947	195,217	-	49,044,164
Leasehold improvements	8,989,328	7,959,878	-	16,949,206
Other real estate improvements	<u>8,543,796</u>	<u>15,729</u>	<u>-</u>	<u>8,559,525</u>
Total buildings and other real estate improvements	66,382,071	8,170,824	-	74,552,895
Library books	888,776	20,594	(8,335)	901,035
Furniture, machinery, and equipment	<u>6,396,679</u>	<u>1,013,786</u>	<u>(438,865)</u>	<u>6,971,600</u>
Total buildings and other capital assets	<u>73,667,526</u>	<u>9,205,204</u>	<u>(447,200)</u>	<u>82,425,530</u>
Accumulated depreciation				
Buildings and building improvements	(13,692,312)	(880,687)	-	(14,572,999)
Leasehold improvements	(1,007,712)	(324,522)	-	(1,332,234)
Other real estate improvements	<u>(1,865,932)</u>	<u>(363,922)</u>	<u>-</u>	<u>(2,229,854)</u>
Total buildings and other real estate improvements	(16,565,956)	(1,569,131)	-	(18,135,087)
Library books	(727,209)	(20,389)	8,321	(739,277)
Furniture, machinery, and equipment	<u>(4,332,240)</u>	<u>(519,327)</u>	<u>421,968</u>	<u>(4,429,599)</u>
Total buildings and other capital assets	<u>(21,625,405)</u>	<u>(2,108,847)</u>	<u>430,289</u>	<u>(23,303,963)</u>
Net capital assets	<u>\$ 58,244,277</u>	<u>\$ 8,991,904</u>	<u>\$ (7,723,025)</u>	<u>\$ 59,513,156</u>

NOTE 6 – NON-CURRENT LIABILITIES

Non-current liability activity for the year ended August 31, 2016 was as follows:

	Balance September 1, 2015	Additions	Reductions	Balance August 31, 2016	Current Portion
Leases, bonds and notes					
Leases	\$ 20,358	\$ 61,039	\$ (22,414)	\$ 58,983	\$ 10,534
Bonds	28,970,000	-	(1,425,000)	27,545,000	1,480,000
Unamortized bond premium	9,880	-	(19,595)	(9,715)	-
Notes payable	46,663	288,400	(65,576)	269,487	45,004
Net pension liability	<u>3,780,489</u>	<u>1,465,318</u>	<u>(1,312,349)</u>	<u>3,933,458</u>	<u>-</u>
Total long-term liabilities	<u>\$ 32,827,390</u>	<u>\$ 1,814,757</u>	<u>\$ (2,844,934)</u>	<u>\$ 31,797,213</u>	<u>\$ 1,535,538</u>

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 6 – NON-CURRENT LIABILITIES – Continued

Non-current liability activity for the year ended August 31, 2015 was as follows:

	Balance September 1, 2014	Additions	Reductions	Balance August 31, 2015	Current Portion
Leases, bonds and notes					
Leases	\$ 33,101	\$ -	\$ (12,743)	\$ 20,358	\$ 14,157
Bonds	30,335,000	-	(1,365,000)	28,970,000	1,425,000
Unamortized bond premium	35,752	-	(25,872)	9,880	-
Notes payable	89,815	-	(43,152)	46,663	36,264
Net pension liability	-	3,780,489	-	3,780,489	-
Total long-term liabilities	<u>\$ 30,493,668</u>	<u>\$ 3,780,489</u>	<u>\$ (1,446,767)</u>	<u>\$ 32,827,390</u>	<u>\$ 1,475,421</u>

NOTE 7 – DEBT AND LEASE OBLIGATIONS

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

For the year ending <u>August 31,</u>	<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,480,000	\$ 1,184,685
2018	1,545,000	1,121,355
2019	1,610,000	1,055,164
2020	1,680,000	985,485
2021	1,755,000	909,226
2022-2026	10,130,000	3,210,968
2027-2031	7,210,000	951,583
2032-2034	<u>2,135,000</u>	<u>122,156</u>
	<u>\$ 27,545,000</u>	<u>\$ 9,540,622</u>

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

For the year ending <u>August 31,</u>	
2017	\$ 14,820
2018	14,820
2019	14,820
2020	14,820
2021	<u>11,776</u>
	71,056
Less interest portion	<u>12,073</u>
Present value of net minimum lease payments	58,983
Less current portion	<u>10,534</u>
Noncurrent portion	<u>\$ 48,449</u>

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 8 – BONDS PAYABLE

General information related to bonds payable is summarized below:

- Consolidated Fund Revenue Bonds, Series 2013.
  - Construction and equipment for two college buildings and related infrastructure.
  - Issued June 1, 2013.
  - \$10,600,000: \$9,790,000 “Tax-Exempt Bonds” and \$810,000 “Taxable Bonds”; all authorized bonds have been issued.
  - Source of revenue for debt service – tuition pledge, building use fees, student service fees, lab fees, other fees, gross revenue of Auxiliary Services, and investment earnings on all investments.
  - \$9,855,000 and \$10,235,000 outstanding as of August 31, 2016 and 2015, respectively.

The range of installment payments on an annual basis is from \$390,000 to \$740,000 with an interest rate of 3.75%, with the final installment due October 1, 2033.

- Consolidated Fund Revenue Bonds, Series 2009.
  - Renovations, remodel and construction of student housing facilities.
  - Issued November 1, 2009.
  - \$3,570,000; all authorized bonds have been issued.
  - Source of revenue for debt service – tuition pledge, building use fees, student service fees, lab fees, gross revenue of Auxiliary Services, other fees, and investment earnings on all investments.
  - \$2,910,000 and \$3,055,000 outstanding as of August 31, 2016 and 2015, respectively.

The range of installment payments on an annual basis is from \$150,000 to \$275,000 with an interest rate of 4.60%, with the final installment due October 1, 2029.

- General Obligation Bonds, Series 2007.
  - Renovation, construction, and equipment of college buildings.
  - Issued August 28, 2007.
  - \$21,550,000; all authorized bonds have been issued.
  - Source of revenue for debt service – continuing direct annual ad valorem tax levied by the District on all taxable property therein.
  - \$14,780,000 and \$15,680,000 outstanding as of August 31, 2016 and 2015, respectively.

The range of installment payments on an annual basis is from \$940,000 to \$1,595,000 with interest rates from 4.25% to 5.00%, with the final installment due February 15, 2028.

NOTE 9 – CAPITAL LEASE AGREEMENTS

Certain leases to finance the purchase of equipment are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such equipment under capital leases as of August 31, 2016 and 2015, is \$61,039 and \$60,527, respectively, and accumulated amortization on those assets is \$2,507 and \$43,492, respectively, as of August 31, 2016 and 2015. Amortization expense on assets recorded under capital leases is included with depreciation expense.



Howard County Junior College District  
 NOTES TO THE FINANCIAL STATEMENTS  
 August 31, 2016 and 2015

NOTE 10 – OPERATING LEASE AGREEMENTS

The District entered into a lease beginning September 1, 2008 for a facility under a long-term, non-cancelable operating lease agreement. The lease expires in 2018 and provides for a five-year renewal option. Lease expenses under these leases were \$166,370 and \$166,370 for the years ended August 31, 2016 and 2015, respectively.

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

For the year ending		
<u>August 31,</u>		
2017	\$	166,370
2018		<u>166,370</u>
	\$	<u><u>332,740</u></u>

NOTE 11 – NOTES PAYABLE

The District has notes payable consisting of the following at August 31, 2016:

5.00% note payable, payable in semi-annual installments of \$8,013, maturing December 2016, collateralized by the District’s bank deposits	\$ 7,894
4.50% note payable, payable in monthly installments of \$4,023, maturing November 2022, collateralized by the District’s bank deposits	<u>261,593</u>
	269,487
Less current maturities	<u>45,004</u>
	<u><u>\$ 224,483</u></u>

The following is a schedule by year of future maturities required under the notes:

<u>Year ending August 31,</u>	
2017	\$ 45,004
2018	38,839
2019	40,649
2020	42,527
2021	44,524
2022	<u>57,944</u>
	<u><u>\$ 269,487</u></u>

NOTE 12 – ENDOWMENTS

When spending an endowment’s net appreciation, donor established guidelines are followed. If the donor does not provide specific guidelines, State law permits the Board of Trustees to authorize the expenditure of net appreciation of an endowment. The Scholarship Committee meets each semester to review awards and insure endowment guidelines are followed. District investment policy specifies permissible investments of endowment funds with maturity dates matching semester scholarship requirements.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 12 – ENDOWMENTS - Continued

At August 31, 2016, net appreciation on investment of donor-restricted endowments available for authorization for expenditure was \$2,467, of which \$2,461 was restricted for student aid, instruction, and athletics.

At August 31, 2015, net appreciation on investment of donor-restricted endowments available for authorization for expenditure was \$3,046, of which \$3,038 was restricted for student aid, instruction, and athletics.

NOTE 13 – DEFINED BENEFIT PENSION PLANS

**Plan Description**

The District 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

**Pension Plan Fiduciary Net Position**

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

**Benefits Provided**

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

Howard County Junior College District  
 NOTES TO THE FINANCIAL STATEMENTS  
 August 31, 2016 and 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

**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 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>Contribution Rates</u>	
	<u>2015</u>	<u>2016</u>
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
	<u>2015</u>	<u>2016</u>
Member Contributions	\$ 509,948	\$ 521,645
State of Texas On-behalf Contributions	\$ 184,724	\$ 202,534
District Contributions	\$ 358,821	\$ 329,494

The District’s contributions to the TRS pension plan in FY 2016 and FY 2015 were \$318,304 and \$57,829, respectively, as reported in the Schedule of District Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for FY 2016 were \$198,397.

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

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

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

**Actuarial Assumptions**

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

• Valuation date	August 31, 2015
• Actuarial cost method	Individual entry age normal
• Asset valuation method	Market value
• Single discount rate	8.00%
• Long-term expected investment rate of return*	8.00%
• Inflation	2.50%
• Salary increases including inflation	3.50% to 9.50%
• Payroll growth rate	2.50%
• Benefit changes during the year	None
• Ad hoc post-employment benefit changes	None

\* Includes inflation of 2.5%

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

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

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of both measurement dates August 31, 2015 and 2014, are summarized below:

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>	<u>Expected Contribution to Long-Term Portfolio Returns*</u>
<b>Global Equity</b>			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
<b>Stable Value</b>			
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%
<b>Real Return</b>			
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%
<b>Risk Parity</b>			
Risk Parity	<u>5.0%</u>	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			<u>1.0%</u>
<b>Total</b>	<u>100.0%</u>		<u>8.7%</u>

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

Source: Teacher Retirement System of Texas 2015 and 2014 Comprehensive Annual Financial Reports

**Discount Rate Sensitivity Analysis**

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

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase in Discount Rate (9.0%)</u>
District's proportionate share of the net pension liability	\$ 6,162,988	\$ 3,933,458	\$ 2,076,399

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (8%) in measuring the 2014 Net Pension Liability.

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase in Discount Rate (9.0%)</u>
District's proportionate share of the net pension liability	\$ 6,755,504	\$ 3,780,489	\$ 1,555,731

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

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

At August 31, 2016 and 2015, the District reported a liability of \$3,933,458 and \$3,780,489, respectively, for its proportionate share of the TRS’s net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District 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 District were as follows:

	2016	2015
District’s proportionate share of the collective net pension liability	\$ 3,933,458	\$ 3,780,489
State’s proportionate share that is associated with the District	2,417,113	1,950,379
Total	\$ 6,350,571	\$ 5,730,868

The net pension liability was measured as of August 31, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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 periods September 1, 2014 thru August 31, 2015 and September 1, 2013 thru August 31, 2014, respectively.

At the measurement date of August 31, 2015, the employer’s proportion of the collective net pension liability was 0.0111276%, which was a decrease of 0.0030255% from its proportion measured as of August 31, 2014.

For the year ended August 31, 2016, the District recognized pension expense of \$344,400 and revenue of \$344,400 for support provided by the State. For the year ended August 31, 2015, the District recognized pension expense of \$180,309 and revenue of \$180,309 for support provided by the State. The total payroll for all District employees was \$13,715,982 and \$14,113,853 for the fiscal years ended August 31, 2016 and 2015, respectively. The total payroll of employees covered by the Teacher Retirement System was \$7,598,544 and \$7,789,830.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 48,624	\$ 151,166
Changes in actuarial assumptions	204,370	140,329
Difference between projected and actual investment earnings	102,119	-
Changes in proportion and difference between the employer’s contributions and the proportionate share of contributions	-	692,295
Contributions paid to TRS subsequent to the measurement date	318,304	-
Total	\$ 673,417	\$ 983,790

The \$318,304 reported as deferred outflows of resources related to pensions, resulting from contributions paid to TRS subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending August 31, 2017.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS - Continued

At August 31, 2015, the District reported its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual actuarial experience	\$ 58,466	\$ -
Changes in actuarial assumptions	245,736	-
Difference between projected and actual investment earnings	-	1,155,472
Changes in proportion and difference between the employer’s contributions and the proportionate share of contributions	-	991
Contributions paid to TRS subsequent to the measurement date	<u>57,829</u>	-
Total	<u>\$ 362,031</u>	<u>\$1,156,463</u>

The \$57,829 reported as deferred outflows of resources related to pensions, resulting from contributions paid to TRS subsequent to the measurement date, was recognized as a reduction of the net pension liability in the year ended August 31, 2016.

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

For the year ending <u>August 31,</u>	<u>Pension Expense Amount</u>
2017	\$ (162,173)
2018	(162,173)
2019	(162,173)
2020	126,695
2021	(118,516)
Thereafter	<u>(150,337)</u>
	<u>\$ (628,677)</u>

NOTE 14 – DEFINED CONTRIBUTION PENSION PLANS

**Optional Retirement Plan – Defined Contribution Plan**

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

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.6 percent and 6.65 percent, respectively. The District contributes 0.71 percent for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. S.B.1812, effective September 1, 2013, limits the amount of the state’s contribution to 50% of eligible employees in the reporting district.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 14 – DEFINED CONTRIBUTION PENSION PLANS - Continued

The retirement expense to the State for the District was \$120,243 and \$146,930 for the fiscal years ended August 31, 2016 and 2015, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the District.

The total payroll for all District employees was \$13,715,982 and \$14,113,853 for the fiscal years ended August 31, 2016 and 2015, respectively. The total payroll of employees covered by the Optional Retirement System was \$4,250,781 and \$4,457,476 for the fiscal years ended August 31, 2016 and 2015, respectively.

NOTE 15 – DEFERRED COMPENSATION PROGRAM

District 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. The District had no employees participating in the program during the years ended August 31, 2016 and 2015.

NOTE 16 – COMPENSABLE ABSENCES

All full-time exempt and non-exempt employees working twelve months are entitled to accrue paid vacation time from the date of employment. On September 1, current employees are credited 80 hours to be used during the year. Employees hired after September 1 accrue vacation time at 6.67 hours each month worked. The monthly vacation credit may be pro-rated if the employee's regular work week is less than 38 hours in the fall and spring; and 36 hours in the summer. The District's policy allows employees to carry their accrued leave forward from one fiscal year to the next fiscal year with a maximum accrual of 160 hours per employee. The District recognizes the accrued liability at August 31, 2016 and 2015 of \$217,269 and \$219,048, respectively, for the unpaid annual leave in the Unrestricted Current Fund. Sick leave is earned at the rate of 8 hours per month for non-faculty and 6 hours per month for faculty and may be pro-rated if the employee's work week is less than 40 hours. The maximum sick leave that may be accumulated is 720 hours. The District's policy is to recognize the cost of sick leave when paid. The liability is not recorded in the financial statements because experience indicates the expenditure for sick leave to be minimal.

NOTE 17 – HEALTH CARE AND LIFE INSURANCE BENEFITS

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee was \$576.54 per month for the year ended August 31, 2016 (\$537.66 per month for 2015) and totaled \$1,303,158 for 2016 (\$1,249,728 for the year 2015). The cost of providing those benefits for 100 retirees in the year ended 2016 was \$400,540 (retiree benefits for 94 retirees cost \$369,171 in 2015). For 228 active employees, the cost of providing benefits was \$902,618 for the year ended 2016 (active employee benefits for 238 employees cost \$880,557 for the year ended 2015). S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.



Howard County Junior College District  
 NOTES TO THE FINANCIAL STATEMENTS  
 August 31, 2016 and 2015

NOTE 18 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

*Plan Description.* In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state. The District contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postemployment healthcare plan administered by the 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/>.

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

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

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

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

The District’s contributions to SRHP for the years ended August 31, 2016, 2015, and 2014 were \$479,957, \$439,859, and \$401,875, respectively, which equaled the required contributions each year.

NOTE 19 – DISAGGREGATION OF RECEIVABLES BALANCES

Receivables at August 31 were as follows:

	<u>2016</u>	<u>2015</u>
Student receivables	\$ 2,117,697	\$ 2,023,232
Taxes receivable	553,740	416,703
Federal receivable	349,172	736,308
Accounts receivable	<u>386,370</u>	<u>212,283</u>
Gross receivables	3,406,979	3,388,526
Less: allowance for uncollectible accounts	<u>(559,354)</u>	<u>(469,132)</u>
Net total receivables	<u>\$ 2,847,625</u>	<u>\$ 2,919,394</u>

Howard County Junior College District  
 NOTES TO THE FINANCIAL STATEMENTS  
 August 31, 2016 and 2015

NOTE 20 – CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal and non-federal contract and grant awards, funds expended, but not collected, are reported as Accounts Receivable on Exhibit 1. For federal and non-federal contract and grant awards, funds collected, but not expended, are reported as Unearned Revenue on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2016 and 2015 for which monies have not been received nor funds expended totaled \$3,454,620 and \$1,236,982, respectively. Of these amounts, \$3,434,620 and \$1,139,575 were from Federal Contract and Grant Awards and \$20,000 and \$97,407 were from State Contract and Grant Awards for the fiscal years ended August 31, 2016 and 2015, respectively.

NOTE 21 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries appropriate commercial insurance. For the years ended August 31, 2016 and 2015, the District also participated in a pool for its workers' compensation program.

Beginning in the year 2000, the District elected participation in the Texas Public and Junior Community College Employee Benefits Consortium. This pool is exclusively for public community and junior college entities thus providing a preferred risk pool for workers' compensation coverage. Under this agreement, the pool retains liability for claims under \$750,000 or less per incident and purchases commercial insurance for claims in excess of the liability retained by the pool. The reinsurance covers losses to the specific and aggregate statutory limits required by the State of Texas. There was no significant reduction in insurance coverage from the year ended August 31, 2015 to the year ended August 31, 2016, and no settlements exceeded insurance for any of the past three fiscal years.

The claims liability of \$59,092 and \$86,061 reported in accrued liabilities at August 31, 2016 and 2015, respectively, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated based on actuarial calculations. Changes in the fund's claims liability amount in fiscal years 2016 and 2015 were:

	<u>August 31, 2016</u>	<u>August 31, 2015</u>
Balance at beginning of year	\$ 86,061	\$ 113,860
Current year claims and changes in estimates	(13,576)	1,274
Claims paid	<u>(13,393)</u>	<u>(29,073)</u>
Balance at end of year	<u>\$ 59,092</u>	<u>\$ 86,061</u>

Howard County Junior College District  
 NOTES TO THE FINANCIAL STATEMENTS  
 August 31, 2016 and 2015

NOTE 22 – PROPERTY TAXES

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

As of August 31,:

	<u>2016</u>	<u>2015</u>
Assessed valuation of the District	\$ 4,051,549,269	\$ 4,758,514,254
Less: Abatements	171,235,034	187,552,733
Less: Exemptions	<u>594,409,519</u>	<u>540,200,760</u>
Net assessed valuation of the District	<u>\$ 3,285,904,716</u>	<u>\$ 4,030,760,761</u>

	<u>2016</u>			<u>2015</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized Tax Rate per \$100 Valuation (Maximum per enabling legislation)	0.700000	0.000000	0.700000	0.700000	0.000000	0.700000
Assessed Tax Rate per \$100 Valuation	0.201916	0.049707	0.251623	0.136171	0.040449	0.176620

Taxes levied for the years ended August 31, 2016 and 2015, were \$8,746,844 and \$7,166,547, respectively, including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

	<u>2016</u>			<u>2015</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 6,558,517	\$ 1,614,521	\$ 8,173,038	\$ 5,432,696	\$ 1,612,794	\$ 7,045,490
Delinquent taxes collected	57,001	15,771	72,772	43,344	14,930	58,274
Penalties and interest collected	<u>53,806</u>	<u>14,460</u>	<u>68,266</u>	<u>32,126</u>	<u>9,487</u>	<u>41,613</u>
Total collections	<u>\$ 6,669,324</u>	<u>\$ 1,644,752</u>	<u>\$ 8,314,076</u>	<u>\$ 5,508,166</u>	<u>\$ 1,637,211</u>	<u>\$ 7,145,377</u>

Tax collections for the years ended August 31, 2016 and 2015, were 97.27% and 98.15% of the current tax levy, respectively. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance, operations, and debt service.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 23 – COMMITMENTS AND CONTINGENCIES

The District has received financial assistance from federal and state agencies in the form of grants. The acceptance of such grants requires compliance with special regulations and grant provisions, and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material adverse effect on the District's financial position at August 31, 2016.

The District has received appropriations from the State for the operation of the Southwest Collegiate Institute for the Deaf. The acceptance of these funds requires compliance with special purchasing regulations, and is subject to audit by the State. Any disallowed expenditures would have to be reimbursed by the District. However, in the opinion of management, the possible reimbursements, if any, will not have a material adverse effect on the District's financial position at August 31, 2016.

NOTE 24 – INCOME TAXES

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

NOTE 25 – SUBSEQUENT EVENT

In September 2016, the District delivered General Obligation Refunding Bonds, Series 2016 in the amount of \$12,780,000. The bonds mature annually from 2017 through 2028 and bear interest at rates from 2.00% to 5.00%. The purpose of the bonds is to refund \$13,840,000 of the outstanding General Obligation Bonds, Series 2007.

REQUIRED SUPPLEMENTARY INFORMATION

Howard County Junior College District  
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY  
Year ended August 31, 2016  
(unaudited)

<u>Fiscal year ending August 31,*</u>	<u>2016**</u>	<u>2015**</u>
TRS net position as percentage of total pension liability	78.43%	83.25%
District's proportionate share of collective net pension liability (NPL) (%)	0.0111276%	0.0141531%
District's proportionate share of collective net pension liability (\$)	\$ 3,933,458	\$ 3,780,489
Portion of NECE's total proportionate share of NPL associated with the District	<u>2,417,113</u>	<u>1,950,379</u>
Total	<u>\$ 6,350,571</u>	<u>\$ 5,730,868</u>
District's covered payroll amount	\$ 7,789,830	\$ 7,968,685
Ratio of: Employer (ER) proportionate share of collective NPL / ER's covered payroll amount	50.49%	47.44%

\* The amounts presented above are as of the measurement date of the collective net pension liability.

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

Howard County Junior College District  
 SCHEDULE OF DISTRICT CONTRIBUTIONS  
 Year ended August 31, 2016  
 (unaudited)

<u>Fiscal year ending August 31,*</u>	<u>2016**</u>	<u>2015**</u>
Legally required contributions	\$ 318,304	\$ 57,829
Actual contributions	<u>318,304</u>	<u>57,829</u>
Total	<u>\$ -</u>	<u>\$ -</u>
 District's covered employee payroll amount	 \$7,598,544	 \$7,789,830
Ratio of: Actual contributions / employer covered payroll amount	4.19%	0.74%

\* The amounts presented above are as of the District's most recent fiscal year end.

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

SUPPLEMENTARY INFORMATION



## SCHEDULES

Howard County Junior College District  
SCHEDULE OF OPERATING REVENUES  
Schedule A  
Year Ended August 31, 2016  
(With Memorandum Totals for the Year Ended August 31, 2015)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>
<b>Tuition</b>				
State Funded Credit Courses				
In-District Resident Tuition	\$ 847,847	\$ -	\$ 847,847	\$ -
Out-of-District Resident Tuition	5,506,156	-	5,506,156	-
TPEG-credit (set aside)*	75,199	-	75,199	-
Non-Resident Tuition	751,426	-	751,426	-
State Funded Continuing Education	236,470	-	236,470	-
TPEG-non-credit (set aside)*	16,650	-	16,650	-
Non-State Funded Continuing Education	24,368	-	24,368	-
Total tuition	<u>7,458,116</u>	<u>-</u>	<u>7,458,116</u>	<u>-</u>
<b>Fees</b>				
Building use fee	-	-	-	675,089
General fees	398,920	-	398,920	-
Student service fee	-	-	-	111,977
Laboratory fee	123,951	-	123,951	-
Total fees	<u>522,871</u>	<u>-</u>	<u>522,871</u>	<u>787,066</u>
<b>Scholarship allowances and discounts</b>				
Scholarship allowances	(285,573)	(520,874)	(806,447)	(126,551)
Remissions and exemptions	(1,088,756)	-	(1,088,756)	36,589
TPEG allowances	-	(103,590)	(103,590)	-
Federal grants to students	-	(2,240,243)	(2,240,243)	-
Other state	-	(146,837)	(146,837)	-
Total scholarship allowances	<u>(1,374,329)</u>	<u>(3,011,544)</u>	<u>(4,385,873)</u>	<u>(89,962)</u>
Total net tuition and fees	<u>6,606,658</u>	<u>(3,011,544)</u>	<u>3,595,114</u>	<u>697,104</u>
<b>Other operating revenues</b>				
Federal grants and contracts	11,630	2,346,206	2,357,836	-
State grants and contracts	-	578,286	578,286	-
Local grants and contracts	-	109,508	109,508	-
Nongovernmental grants and contracts	91,487	949,499	1,040,986	-
Sales and services of educational activities	395,734	-	395,734	-
Investment income (program restricted)	-	3,184	3,184	-
Other operating revenues	445,364	9,529	454,893	-
Total other operating revenues	<u>944,215</u>	<u>3,996,212</u>	<u>4,940,427</u>	<u>-</u>
<b>Auxiliary enterprises</b>				
Intercollegiate athletics	-	-	-	70,356
Diagnostic center	-	-	-	11,675
Residential life, net of discounts of \$1,047,964 and \$1,075,538	-	-	-	136,368
Bookstore, net of discounts of \$66,519 and \$64,919**	-	-	-	65,145
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>283,544</u>
Total operating revenues (Exh. 2)	<u>\$ 7,550,873</u>	<u>\$ 984,668</u>	<u>\$ 8,535,541</u>	<u>\$ 980,648</u>

\* In accordance with Education Code 56.033, \$91,849 and \$86,856 of tuition was set aside for Texas Public Education Grants (TPEG)

\*\* The bookstore auxiliary operations are outsourced.

<u>2016</u>	<u>2015</u>
<u>Total</u>	<u>Total</u>
\$ 847,847	\$ 835,717
5,506,156	5,095,484
75,199	73,108
751,426	696,803
236,470	190,485
16,650	13,748
24,368	24,383
<u>7,458,116</u>	<u>6,929,728</u>
675,089	366,569
398,920	391,492
111,977	119,419
123,951	127,946
<u>1,309,937</u>	<u>1,005,426</u>
(932,998)	(771,541)
(1,052,167)	(890,061)
(103,590)	(125,090)
(2,240,243)	(2,282,558)
(146,837)	(81,220)
<u>(4,475,835)</u>	<u>(4,150,470)</u>
<u>4,292,218</u>	<u>3,784,684</u>
2,357,836	3,674,792
578,286	586,130
109,508	12,868
1,040,986	938,759
395,734	363,384
3,184	3,930
454,893	505,821
<u>4,940,427</u>	<u>6,085,684</u>
70,356	74,092
11,675	14,305
136,368	99,911
65,145	71,529
<u>283,544</u>	<u>259,837</u>
<u>\$ 9,516,189</u>	<u>\$ 10,130,205</u>
(Exhibit 2)	(Exhibit 2)

Howard County Junior College District  
SCHEDULE OF OPERATING EXPENSES BY OBJECT  
Schedule B  
Year ended August 31, 2016  
(With Memorandum Totals for the Year ended August 31, 2015)

	Operating Expenses			2016 Total	2015 Total	
	Salaries and Wages	Benefits				Other Expenses
		State	Local			
Unrestricted - Educational Activities						
Instruction	\$ 6,230,213	\$ -	\$1,104,346	\$ 930,556	\$ 8,265,115	\$ 8,712,964
Public service	316,843	-	92,621	3,888	413,352	446,853
Academic support	970,154	-	192,778	365,227	1,528,159	1,387,965
Student services	1,272,787	-	231,451	231,173	1,735,411	1,809,469
Institutional support	2,513,478	-	804,989	1,655,794	4,974,261	5,055,443
Operation and maintenance of plant	951,595	-	270,798	2,080,229	3,302,622	3,674,552
Scholarships and fellowships	-	-	-	22,472	22,472	28,088
Total Unrestricted - Educational Activities	<u>12,255,070</u>	<u>-</u>	<u>2,696,983</u>	<u>5,289,339</u>	<u>20,241,392</u>	<u>21,115,334</u>
Restricted - Educational Activities						
Instruction	196,782	755,323	47,669	167,170	1,166,944	1,011,104
Public service	490,701	198	119,568	117,986	728,453	600,212
Academic support	174,077	123,323	56,461	489,356	843,217	1,743,727
Student services	87,327	154,622	27,358	197,725	467,032	251,926
Institutional support	21,635	710,451	7,528	61,940	801,554	668,730
Operation and maintenance of plant	-	23,884	-	10,258	34,142	136,314
Scholarships and fellowships	-	-	-	1,931,034	1,931,034	2,383,129
Total Restricted - Educational Activities	<u>970,522</u>	<u>1,767,801</u>	<u>258,584</u>	<u>2,975,469</u>	<u>5,972,376</u>	<u>6,795,142</u>
Total Educational Activities	13,225,592	1,767,801	2,955,567	8,264,808	26,213,768	27,910,476
Auxiliary Enterprises	438,287	-	148,816	1,506,968	2,094,071	2,103,818
Depreciation Expense - Buildings and other real estate improvements	-	-	-	1,748,945	1,748,945	1,569,131
Depreciation Expense - Equipment and furniture	-	-	-	661,163	661,163	539,716
Total Operating Expenses	<u>\$13,663,879</u>	<u>\$1,767,801</u>	<u>\$3,104,383</u>	<u>\$12,181,884</u>	<u>\$30,717,947</u> (Exhibit 2)	<u>\$32,123,141</u> (Exhibit 2)

Howard County Junior College District  
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES  
Schedule C  
Year Ended August 31, 2016  
(With Memorandum Totals for the Year Ended August 31, 2015)

	Unrestricted	Restricted	Auxiliary Enterprises	2016 Total	2015 Total
<b>NON-OPERATING REVENUES</b>					
State appropriations					
Education and general state support	\$ 9,157,213	\$ -	\$ -	\$ 9,157,213	\$ 9,765,534
SWCID central plant and HVAC upgrades	-	1,992,158	-	1,992,158	-
State group insurance	-	1,303,158	-	1,303,158	1,249,728
State retirement matching	-	464,643	-	464,643	327,239
Professional nursing shortage reduction	-	68,304	-	68,304	104,148
Total state appropriations	9,157,213	3,828,263	-	12,985,476	11,446,649
Property taxes for operations	6,798,219	-	-	6,798,219	5,542,489
Property taxes for debt service	-	1,673,612	-	1,673,612	1,647,492
Payments in lieu of taxes	152,542	-	-	152,542	148,822
Federal revenue, non operating	-	3,785,222	-	3,785,222	4,436,533
Investment income (net of investment expenses)	30,364	6,717	-	37,081	38,060
Other non-operating revenue	1,029,206	45,993	27,062	1,102,261	425,717
Total non-operating revenues	17,167,544	9,339,807	27,062	26,534,413	23,685,762
<b>NON-OPERATING EXPENSES</b>					
Interest on capital related debt	(1,234,696)	-	-	(1,234,696)	(896,481)
Loss on disposal of fixed assets	(420,295)	-	-	(420,295)	(16,911)
Total non-operating expenses	(1,654,991)	-	-	(1,654,991)	(913,392)
Net non-operating revenues	\$15,512,553	\$ 9,339,807	\$ 27,062	\$24,879,422 (Exhibit 2)	\$22,772,370 (Exhibit 2)

Howard County Junior College District  
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY  
Schedule D  
August 31, 2016  
(With Memorandum Totals for August 31, 2015)

	Detail by Source				Total
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	
		Expendable	Non- Expendable		
Current:					
Unrestricted	\$ 4,974,422	\$ -	\$ -	\$ -	\$ 4,974,422
Restricted	-	1,166,307	-	-	1,166,307
Auxiliary enterprises	2,523,632	-	-	-	2,523,632
Endowment:					
True endowment	-	-	1,177,715	-	1,177,715
Plant:					
Debt service	-	1,567,774	-	-	1,567,774
Investment in plant	-	-	-	32,026,326	32,026,326
Total Net Position, August 31, 2016	\$ 7,498,054	\$ 2,734,081	\$ 1,177,715	\$ 32,026,326	\$43,436,176 (Exhibit 1)
Total Net Position, August 31, 2015	4,839,199	2,815,886	1,217,709	30,510,564	39,383,358 (Exhibit 1)
Net Increase (Decrease) in Net Position	<u>\$ 2,658,855</u>	<u>\$ (81,805)</u>	<u>\$ (39,994)</u>	<u>\$ 1,515,762</u>	<u>\$ 4,052,818</u> (Exhibit 2)

Available for  
Current Operations

---

<u>Yes</u>	<u>No</u>
\$ 4,974,422	\$ -
1,166,307	-
2,523,632	-
-	1,177,715
-	1,567,774
-	<u>32,026,326</u>
\$ 8,664,361	\$ 34,771,815
<u>6,133,449</u>	<u>33,249,909</u>
<u>\$ 2,530,912</u>	<u>\$ 1,521,906</u>

Howard County Junior College District  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Schedule E  
 For the Year Ended August 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Expenditures and Pass-Through Disbursements
<b>U.S. Department of Education</b>				
Direct Programs:				
Student Financial Aid Cluster				
SEOG 15/16	84.007			\$ 77,782
Subtotal SEOG				<u>77,782</u>
Federal College Workstudy Program 15/16	84.033			30,560
Federal College Workstudy Program (100%) 15/16	84.033			12,102
Subtotal Federal College Workstudy Program				<u>42,662</u>
PELL 14/15	84.063			284
PELL 15/16	84.063			3,660,421
PELL 16/17	84.063			4,073
Subtotal PELL				<u>3,664,778</u>
Direct Student Loans 15/16	84.268			2,047,864
Subtotal Direct Student Loans				<u>2,047,864</u>
Total Student Financial Aid Cluster				5,833,086
READE 13/14	84.031S	P031S100004		(554)
READE 14/15	84.031S	P031S100004		5,537
Subtotal Reaching Excellence for All in Development Education				<u>4,983</u>
eSTART 14/15	84.031C	P031C110093		21,669
eSTART 15/16	84.031C	P031C110093		645,367
Subtotal eSTART				<u>667,036</u>
Perfecting Achievement in Student Success 15/16	84.031S	P031S150131		158,741
Subtotal Perfecting Achievement in Student Success				<u>158,741</u>
Pass through from:				
Texas Workforce Commission				
Adult Education and Literacy 231 - BS 14/15	84.002A	1114AELA01		43,520
Adult Education and Literacy 225 - BS 14/15	84.002A	1114AELA01		2,183
Adult Education and Literacy 231 Admin - BS 14/15	84.002A	1114AELA01		1,019
Adult Education and Literacy El Civics - BS 14/15	84.002A	1114AELA01		920
Adult Education and Literacy DL Expansion - BS 14/15	84.002A	1114AELA01		12,660
Adult Education and Literacy Performed Based - BS 14/15	84.002A	1114AELA01		6,000
Adult Education and Literacy 231 - BS 15/16	84.002A	1114AELB01		45,028
Adult Education and Literacy 225 - BS 15/16	84.002A	1114AELB01		10,916
Adult Education and Literacy 223 - BS 15/16	84.002A	1114AELB01		1,398
Adult Education and Literacy El Civics - BS 15/16	84.002A	1114AELB01		1,871
Adult Education and Literacy 231 - BS 16/17	84.002A	1116AEL003		11,029
Adult Education and Literacy 231 Admin - BS 16/17	84.002A	1116AEL003		355
Adult Education and Literacy 225 - BS 16/17	84.002A	1116AEL003		3,295
Adult Education and Literacy 223 - BS 16/17	84.002A	1116AEL003		1,422
Adult Education and Literacy Career Navigator - BS 16/17	84.002A	1116AEL000		5,332
Adult Education and Literacy Career Navigator Adm - BS 16/17	84.002A	1116AEL000		4,962
Adult Education and Literacy 231 - SA 14/15	84.002A	1214AELA00		21,375
Adult Education and Literacy 225 - SA 14/15	84.002A	1214AELA00		2,739
Adult Education and Literacy 231 Admin - SA 14/15	84.002A	1214AELA00		2,405
Adult Education and Literacy 223 - SA 14/15	84.002A	1214AELA00		911
Adult Education and Literacy El Civics - SA 14/15	84.002A	1214AELA00		17,208
Adult Education and Literacy El Civics Admin - SA 14/15	84.002A	1214AELA00		252
Adult Education and Literacy DL Expansion - SA 14/15	84.002A	1214AELA00		6,533

(continued)



Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Schedule E  
For the Year Ended August 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Expenditures and Pass-Through Disbursements
Adult Education and Literacy 231 - SA 15/16	84.002A	1214AELB00		209,320
Adult Education and Literacy 231 Admin - SA 15/16	84.002A	1214AELB00		13,124
Adult Education and Literacy 225 - SA 15/16	84.002A	1214AELB00		34,085
Adult Education and Literacy 223 - SA 15/16	84.002A	1214AELB00		7,108
Adult Education and Literacy El Civics - SA 15/16	84.002A	1214AELB00		67,042
Adult Education and Literacy El Civics Admin - SA 15/16	84.002A	1214AELB00		3,050
Adult Education and Literacy 231 - SA 16/17	84.002A	1216AEL001		36,393
Adult Education and Literacy 231 Admin - SA 16/17	84.002A	1216AEL001		3,767
Adult Education and Literacy 225 - SA 16/17	84.002A	1216AEL001		4,177
Adult Education and Literacy Workforce Training - SA 16/17	84.002A	1216AEL001		4,468
Adult Education and Literacy 223 - SA 16/17	84.002A	1216AEL001		1,304
Adult Education and Literacy El Civics - SA 16/17	84.002A	1216AEL001		5,951
Adult Education and Literacy El Civics Admin - SA 16/17	84.002A	1216AEL001		505
Adult Education and Literacy Career Navigator - SA 16/17	84.002A	1216AEL000		6,520
Adult Education and Literacy - Site-Based Workplace Literacy Project	84.002A	2916AEL004		5,677
Subtotal Texas Workforce Commission				<u>605,824</u>
Angelo State University				
ASU-HC Cooperative H S I - Stem Program 12/13	84.031C	P031C110142-12		4,673
ASU-HC Cooperative H S I - Stem Coop Program 13/14	84.031C	P031C110142-13		5,807
ASU-HC Cooperative H S I - Stem Coop Program 14/15	84.031C	P031C110142-14		15,288
ASU-HC Cooperative H S I - Stem Coop Program 15/16	84.031C	P031C110142-15		235,229
Subtotal Angelo State University				<u>260,997</u>
Texas Higher Education Coordinating Board				
Annual Perkins 14/15	84.048	154239		(173)
Annual Perkins 15/16	84.048	164234		158,568
Subtotal Texas Higher Education Coordinating Board				<u>158,395</u>
Total U.S. Department of Education				<u>7,689,062</u>
<b>U.S. Department of Agriculture</b>				
Pass through from:				
Texas Department of Agriculture				
Child & Adult Care Food Program	10.558	TX-114-0006		17,854
Subtotal Texas Department of Agriculture				<u>17,854</u>
Total U.S. Department of Agriculture				<u>17,854</u>
<b>U.S. Department of Defense</b>				
Direct Programs:				
Goodfellow AFB Scholarship	12.000			4,186
Marine Tuition Assistance	12.000			3,350
Total U.S. Department of Defense				<u>7,536</u>
<b>U.S. Department of Labor</b>				
Employment Service Cluster				
Pass through from:				
Concho Valley Workforce Development Board				
Supplying the Workforce Pipeline for the Energy Industry	17.207	0915WPB000		4,023
West Texas Energy Consortium Career in STEM	17.207	0916WPB000		4,581
Subtotal Concho Valley Workforce Development Board				<u>8,604</u>
Total Employment Service Cluster				8,604

(continued)

Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Schedule E  
For the Year Ended August 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Expenditures and Pass-Through Disbursements
<b>WIA/WIOA Cluster</b>				
Pass through from:				
Permian Basin Workforce Development Board				
Workforce Investment Act - San Angelo	17.258			25,100
Workforce Investment Act	17.258			548
Industry Recognized Certificate Welding Program	17.258			4,647
Subtotal Permian Basin Workforce Development Board				<u>30,295</u>
Concho Valley Workforce Development Board				
High-Demand Job Training Program Grant	17.258	1215HJT000		70,184
Industry Recognized Skills Certificate Program	17.258	1215RSC000		24,679
Subtotal Concho Valley Workforce Development Board				<u>94,863</u>
Total WIA/WIOA Cluster				<u>125,158</u>
Total U.S. Department of Labor				<u>133,762</u>
<b>National Science Foundation</b>				
Pass through from:				
University of Texas of El Paso				
Alliance for Minority Participation, Year 4 - 15/16	47.076	HRD-1202008		9,285
Total National Science Foundation				<u>9,285</u>
<b>U.S. Department of Veterans Affairs</b>				
Direct Programs:				
Vocational Rehab for Disabled Veterans BS	64.116			5,775
Vocational Rehab for Disabled Veterans SA	64.116			18,270
Subtotal Vocational Rehab for Disabled Veterans				<u>24,045</u>
Post 9/11 Veterans Education Assistance BS	64.130			58,170
Post 9/11 Veterans Education Assistance SA	64.130			212,886
Subtotal Post 9/11 Veterans Education Assistance				<u>271,056</u>
Total U.S. Department of Veterans Affairs				<u>295,101</u>
<b>U.S. Department of Health and Human Services</b>				
TANF Cluster				
Pass through from:				
Texas Workforce Commission				
Adult Education and Literacy TANF - BS 15/16	93.558	1114AELB01		2,820
Adult Education and Literacy TANF Admin - BS 15/16	93.558	1114AELB01		881
Adult Education and Literacy TANF - SA 15/16	93.558	1214AELB00		23,859
Adult Education and Literacy TANF Admin - SA 15/16	93.558	1214AELB00		4,181
Adult Education and Literacy TANF - BS 16/17	93.558	1116AEL003		201
Adult Education and Literacy TANF - SA 16/17	93.558	1216AEL001		3,505
Adult Education and Literacy TANF Admin - SA 16/17	93.558	1216AEL001		792
Subtotal Texas Workforce Commission				<u>36,239</u>
Total TANF Cluster				<u>36,239</u>
Greater Opportunities of the Permian Basin				
Headstart Tuition Assistance	93.600			(782)
Subtotal Greater Opportunities of the Permian Basin				<u>(782)</u>
Total U.S. Department of Health and Human Services				<u>35,457</u>
<b>Corporation for Nation &amp; Community Service</b>				
Direct Programs:				
AmeriCorps	94.006			2,865
Total Corporation for Nation & Community Service				<u>2,865</u>
Total Expenditures of Federal Awards				<u>\$ 8,190,922</u>

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED  
Schedule E  
For the Year Ended August 31, 2016

**Note 1: Financial assistance reconciliation**

Federal revenues per Schedule A:	
Federal grants and contracts	\$ 2,357,836
Add: Non-operating federal revenue from Schedule C	3,785,222
Add: Direct student loans	<u>2,047,864</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 8,190,922</u>

**Note 2: Significant accounting policies used in preparing the schedule**

The expenditures included in the schedule are reported for the District'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 District 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 the 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 District has followed all applicable guidelines issued by various entities in the preparation of the schedule. The District has elected not to use the 10% de minimis cost as permitted in the Uniform Guidance, Section 200.414.

**Note 3. Expenditures not subject to federal single audit**

All federal expenditures reported in the financial statements are subject to a federal single audit.

**Note 4. Nonmonetary federal assistance received**

The District did not receive any nonmonetary federal assistance during the fiscal year.

**Note 5. Amounts passed through by Howard County Junior College District**

The District did not pass through any federal assistance during the fiscal year.

Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS  
Schedule F  
For the Year Ended August 31, 2016

State Grantor/Program Title	Contract/ Award Number	Expenditures
<b>Texas Higher Education Coordinating Board</b>		
Texas Education Opportunity Grant – Initial 15/16		\$ 164,502
Texas Education Opportunity Grant – Returning 15/16		25,650
Total TEOG		<u>190,152</u>
Professional Nursing Shortage (Under 70) 14/15		15,309
Professional Nursing Shortage (Regular Program) 14/15		52,995
Texas College Work Study Program 15/16		16,061
Total Texas Higher Education Coordinating Board		<u>274,517</u>
<b>Department of Assistive and Rehabilitative Services</b>		
DARS – Howard College BS		6,810
DARS – Howard College SA		56,164
DARS – SWCID		78,391
Total Department of Assistive and Rehabilitative Services		<u>141,365</u>
<b>Texas Workforce Commission</b>		
Adult Education and Literacy State Admin - SA 14/15	1214AELA00	3,481
Adult Education and Literacy State - SA 15/16	1214AELB00	53,582
Adult Education and Literacy State Admin - SA 15/16	1214AELB00	6,959
Adult Education and Literacy State - BS 15/16	1114AELB01	20,051
Adult Education and Literacy State Admin - BS 15/16	1114AELB01	2,115
Adult Education and Literacy Skills for Small Business - SA 14/15	1214SSD000	2,107
Total Texas Workforce Commission		<u>88,295</u>
<b>Permian Basin Workforce Development Board</b>		
Caregiver Training Scholarship 14/15		750
Total Permian Basin Workforce Development Board		<u>750</u>
<b>Total State of Texas Financial Assistance</b>		<u>\$ 504,927</u>

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS - CONTINUED  
Schedule F  
For the Year Ended August 31, 2016

**Note 1. State Assistance Reconciliation**

State Revenues – Per Schedule A:	
State of Texas Financial Assistance	
Per Schedule of Expenditures of State of Texas Awards	\$ 504,927
State Financial Assistance	
State appropriated funds not included in Schedule A	
Professional Nursing Shortage Reduction	(68,304)
State aid from other states not included as State of Texas	
financial assistance	
Vocational Rehabilitation - SW	<u>141,663</u>
Total State Grants and Contracts Revenues per Schedule A	<u>\$ 578,286</u>

**Note 2.**

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

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

The Board of Trustees  
Howard County Junior College District  
Big Spring, 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 Howard County Junior College District (the District) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2016.

Internal Control Over Financial Reporting

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

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

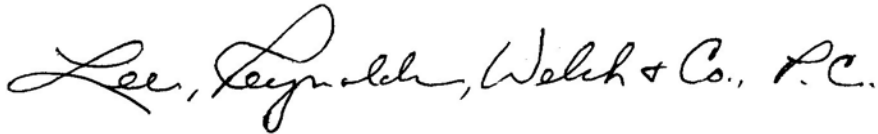
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## Compliance and Other Matters

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

## Purpose of this Report

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

A handwritten signature in cursive script that reads "Lee, Reynolds, Welch & Co., P.C.".

Big Spring, Texas  
December 19, 2016



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

The Board of Trustees  
Howard County Junior College District  
Big Spring, Texas

**Report on Compliance for Each Major Federal Program**

We have audited Howard County Junior College District's (the District) 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 District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

## ***Opinion on Each Major Federal Program***

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

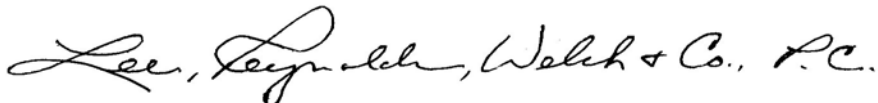
## **Report on Internal Control Over Compliance**

Management of the District 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 District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District'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.



Big Spring, Texas  
December 19, 2016

Howard County Junior College District  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended August 31, 2016

**Section I – Summary of Auditor’s Results**

*Financial Statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

\_\_ yes X no

*Federal Awards*

Internal control over major federal programs:

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

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

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

\_\_ yes X no

Identification of major federal programs:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
84.033, 84.268, 84.007, 84.063	U.S. Department of Education, Student Financial Aid Programs

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

Auditee qualified as low-risk auditee for federal awards? X yes \_\_ no

Howard County Junior College District  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
For the Year Ended August 31, 2016

**Section II – Financial Statement Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.



## HOWARD COUNTY JUNIOR COLLEGE DISTRICT

### Summary Schedule of Prior Audit Findings

***Finding Reference:*** 2015-001

***Initial Fiscal Year  
Finding Occurred:*** 2013

***Finding Summary:*** U. S. Department of Education, Student Financial Aid Programs, CFDA #84.033, 84.268, 84.007, 84.063

Pell, CFDA #84.063 – Disbursement dates reported to COD did not match the date money was credited to the students’ accounts at the school or the date funds were otherwise made available to the student.

***Status:*** Management believes the audit finding does not warrant further action since two years have passed since the audit report in which the finding occurred was submitted to the Federal Audit Clearinghouse, the U.S. Department of Education is not currently following up with the District on the audit finding, and a management decision was not issued.

***Finding Reference:*** 2015-002

***Initial Fiscal Year  
Finding Occurred:*** 2015

***Finding Summary:*** U. S. Department of Education, Student Financial Aid Programs, CFDA #84.033, 84.268, 84.007, 84.063

Direct Loans, CFDA #84.268 – The District did not notify NSLDS within 30 days, or include in the school’s next Roster File within 60 days, changes in a student’s status as a result of a student’s not enrolling or ceasing to be enrolled on at least a half-time basis for a portion of the students tested.

***Status:*** Corrective action has been taken.