# South Plains College

## Levelland, Texas

Annual Financial Report

For the Years ended August 31, 2018 and 2017

KEITH DOWNS, C.P.A
RUSS PINKERTON, C.P.A

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# SOUTH PLAINS COLLEGE

## ANNUAL FINANCIAL REPORT

## FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

**SOUTH PLAINS COLLEGE**
**TABLE OF CONTENTS**
**AUGUST 31, 2018 AND 2017**


| | Page Number |
|---|---|
| INTRODUCTORY SECTION | |
| Certificate of Board of Regents | 1 |
| Organizational Data | 2 |
| FINANCIAL SECTION | |
| Independent Auditor's Report | 3-5 |
| Required Supplementary Information | |
| Management's Discussion and Analysis | 6-14 |
| Financial Statements | |
| Exhibit 1 - Statement of Net Position | |
| Affiliated Organizations Statement of Financial Position | 15-16 |
| Exhibit 2 - Statement of Revenues, Expenses, and Changes in Net Position | |
| Affiliated Organizations Statement of Activities | 17-19 |
| Exhibit 3 - Statement of Cash Flows | 20-21 |
| Notes to the Financial Statements | 22-47 |
| Required Supplementary Information | |
| Schedule of the College's Proportionate Share of the Net Pension Liability - Teacher Retirement System Of Texas | 48 |
| Schedule of the College's Contributions - Teacher Retirement System Of Texas | 49 |
| Notes to Required Supplementary Information | 50 |
| Schedule of the College's Proportionate Share of the Net OPEB Liability - OPEB Plan | 51 |
| Schedule of the College's Contributions - OPEB Plan | 52 |
| Notes to Required Supplementary Information for OPEB | 53 |
| OTHER SUPPLEMENTARY INFORMATION SECTION | |
| Schedule A - Schedule of Operating Revenues | 54 |
| Schedule B - Schedule of Operating Expenses by Object | 55 |
| Schedule C - Schedule of Non-Operating Revenues and Expenses | 56 |
| Schedule D - Schedule of Net Position by Source and Availability | 57 |
| Schedule E - Schedule of Expenditures of Federal Awards | 58-59 |
| Schedule F - Schedule of Expenditures of State Awards | 60 |
| 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 and the State of Texas Single Audit Circular | 61-62 |
| Report on Compliance for each Major Program and on Internal Control over Compliance required by OMB Uniform Grant Guidance and the State of Texas Single Audit Circular | 63-64 |

**SOUTH PLAINS COLLEGE**
**TABLE OF CONTENTS**
**AUGUST 31, 2018 AND 2017**


| | Page Number |
|---|---|
| Schedule of Findings and Questioned Costs | 65 |
| Schedule of Corrective Action For Audit Findings and Questioned Costs | 66 |
| Summary Schedule of Prior Audit Findings | 67 |

**SOUTH PLAINS COLLEGE**
**CERTIFICATE OF BOARD OF REGENTS**
**FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017**

We, the undersigned, certify that the attached annual financial report of South Plains College was reviewed and was (check one):

Approved ✓ Disapproved _____

for the year ended August 31, 2018, at a meeting of the Board of Regents of South Plains College on the

15th day of November, 2018

Mike Box
Signature Board of Regents President

Linda Patton
Signature Board of Regents Secretary

If the Board of Regents disapproved of the annual financial report, the reason(s) for disapproving it is (are):

**SOUTH PLAINS COLLEGE**
**ORGANIZATIONAL DATA**
**AUGUST 31, 2018**

## Board of Regents

### Officers

| | |
|---|---|
| Mike Box | Chairman |
| Bobby G. Neal | Vice-Chairman |
| Linda Patton | Secretary |

### Members

| | | Term Expires |
|---|---|---|
| Mike Box | Sundown, Texas | 2022 |
| Ronny Alexander | Levelland, Texas | 2022 |
| Ken Williams | Levelland, Texas | 2020 |
| Bobby G. Neal | Whiteface, Texas | 2020 |
| Linda Patton | Levelland, Texas | 2024 |
| Alton C. Pettiet | Ropesville, Texas | 2024 |
| Richard Ellis | Levelland, Texas | 2024 |

## Executive Administration

| | |
|---|---|
| Dr. Robin Satterwhite | President |
| Teresa Green, CPA | Vice-President for Business Affairs |
| Dr. Ryan Gibbs | Vice-President for Academic Affairs |
| Stephen John, MBA | Vice-President for Institutional Advancement |
| Dr. Stanley DeMerritt | Vice-President for Student Affairs |

# FINANCIAL SECTION

KEITH DOWNS, C.P.A
RUSS PINKERTON, C.P.A

# PATE, DOWNS & PINKERTON, L.L.P.

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## Independent Auditor's Report

To the Board of Regents
South Plains College
1401 S College Avenue
Levelland, Texas 79336

### Report on the Financial Statements

We have audited the accompanying financial statements of South Plains College, ("the College") and the discretely presented component unit of the College, as of and for the years ended August 31, 2018, and August 31, 2017 and the related notes to the financial statements, which collectively comprise the College's financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Plains College, and the discretely presented component unit, as of August 31, 2018 and August 31, 2017, and the respective changes in financial position, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

*Change in Accounting Principles*

As described in Note 2 to the financial statements, in 2018, South Plains College adopted new accounting guidance:

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions.*

Governmental Accounting Standards Board Statement No. 81, *Irrevocable Split-interest Agreements.*

Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017.*

Governmental Accounting Standards Board Statement No. 86, *Certain Debt Extinguishment Issues.*

Our opinion is not modified with respect to these matters.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the schedule of the College's proportionate share of the net pension liability and schedule of College pension contributions, and schedule of the College's proportionate share of the net OPEB liability and schedule of College OPEB contributions identified as Required Supplementary Information in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Plains College's financial statements. The other supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is not a required part of the financial statements.

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

**Other Reporting Required by *Government Auditing Standards* and the *State of Texas Single Audit Circular***

In accordance with *Government Auditing Standards and the State of Texas Audit Circular*, we have also issued our report dated November 15, 2018 on our consideration of South Plains College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards and the State of Texas Audit Circular* in considering South Plains College's internal control over financial reporting and compliance.

Respectfully submitted,

Pate, Downs & Pinkerton, LLP

Pate, Downs & Pinkerton, LLP

Levelland, Texas
November 15, 2018

# REQUIRED SUPPLEMENTARY INFORMATION

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Plains College Annual Financial Report presents our discussion and analysis of the College's financial performance during the fiscal year ended August 31, 2018. Read this in conjunction with the College's financial statements, in the table that follows.

This section provides an overview of financial activity, identifies changes in financial position, and assists the reader in focusing on significant financial issues. While maintaining financial health is critical to the long-term viability of the College, the primary mission of South Plains College, as a public institution of higher education, is to provide education and public service. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs.

**FINANCIAL HIGHLIGHTS 2016-2018**

| | 2018 | 2017 | % CHANGE 2018 | 2016 | % CHANGE 2018 |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| OPERATING REVENUES | $21,380,120 | $ 21,560,703 | -0.8% | $ 21,953,267 | -2.6% |
| NON-OPERATING REVENUES | $53,519,852 | $ 44,694,712 | 19.7% | $ 48,516,468 | 10.3% |
| **TOTAL** | **$74,899,972** | **$ 66,255,415** | **13.0%** | **$ 70,469,735** | **6.3%** |
| **EXPENSES** | | | | | |
| OPERATING EXPENSES | $67,753,689 | $ 67,146,556 | 0.9% | $ 64,595,308 | 4.9% |
| NON-OPERATING EXPENSES | $ 694,878 | $ 616,585 | 12.7% | $ 573,623 | 21.1% |
| **TOTAL** | **$68,448,567** | **$ 67,763,141** | **1.0%** | **$ 65,168,931** | **5.0%** |
| **INCREASE IN NET POSITION** | **$ 6,451,405** | **$ (1,507,726)** | **527.9%** | **$ 5,300,804** | **21.7%** |
| **TOTAL NET POSITION** | **$12,327,870** | **$ 56,907,456** | **-78.3%** | **$ 58,415,182** | **-78.9%** |
| **CURRENT ASSETS** | **$39,118,684** | **$ 35,290,885** | **10.8%** | **$ 35,561,642** | **10.0%** |
| **CURRENT LIABILITIES** | **$21,996,411** | **$ 19,154,993** | **14.8%** | **$ 17,325,165** | **27.0%** |
| **CURRENT RATIO** | **1.78** | **1.84** | **N/A** | **2.05** | **N/A** |

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis (required supplementary information)*, the *financial statements, and other supplementary information*. The financial statements include the Statement of Net Position (Exhibit 1); Statement of Revenues, Expenses, and Changes in Net Position (Exhibit 2); Statement of Cash Flows (Exhibit 3); and the Notes to the Financial Statements.

One of the most important questions asked about the College's finances is "Is the College as a whole better off or worse off as a result of the year's activities?" The financial statements mentioned above report information about the College as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are recorded when the expense or revenue event takes place, regardless of when cash is received or paid.

The Statement of Net Position (Exhibit 1) reports the assets, liabilities, and the net position of the College as of the end of the fiscal year. The purpose is to give users a snapshot of the financial position of South Plains College on the last day of the fiscal year. Net position is the difference between assets and deferred outflow of resources, less liabilities and deferred inflows of resources. It is one way to measure the financial health, or solvency of the College. Over time, increases or decreases in the College's net position are one indicator of whether its financial health is improving or deteriorating. The College's net position is one way to measure the College's financial health, or solvency.

Other non-financial indicators such as changes in the College's property tax base, enrollment levels, state funding, and the condition of the College's facilities should be considered with analyzing the health of the College.

The Statement of Revenues, Expenses, and Changes in Net Position (Exhibit 2) presents the operating results of the College as well as the non-operating revenues and expenses. Generally, revenues received in exchange for providing the College goods and services are operating revenues. Operating expenses are those paid to acquire the goods and services provided in return for the operating revenues. Non-operating revenue are funds received with no direct relationship to the goods and services provided. Such things as state appropriations, local property taxes, gifts, investment income and federal student aid grants are non-operating revenues.

The Statement of Cash Flows (Exhibit 3) analyzes the cash activities of the College for the year. The statement (divided into activities) include the following:

- Cash provided by or used for operating activities
- Cash flows from non-capital financing activities
- Cash flows from investing activities, and
- Cash provided by or used for capital related financing activities

## FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

The College's combined net position was $12.3 million at August 31, 2018. See Table A-1.

TABLE A-1
CONDENSED STATEMENT OF NET POSITION
(In millions)

| ASSETS | 2018 | 2017 | % CHANGE 2018 | 2016 | % CHANGE 2018 |
|---|---|---|---|---|---|
| CURRENT ASSETS | $ 39.1 | $ 35.3 | **10.8%** | $ 35.6 | **9.8%** |
| CAPITAL ASSETS | $ 72.7 | $ 70.5 | **3.1%** | $ 63.2 | **15.0%** |
| OTHER NON CURRENT ASSETS | $ 0.3 | $ - | **N/A** | $ - | **N/A** |
| TOTAL | **$ 112.1** | **$ 105.8** | **6.0%** | **$ 98.8** | **13.5%** |
| DEFERRED OUTFLOWS | **$ 3.5** | **$ 2.7** | **29.6%** | **$ 3.1** | **12.9%** |
| **LIABILITIES** | | | | | |
| LONG TERM DEBT OUTSTANDING | $ 69.1 | $ 30.5 | **126.6%** | $ 23.6 | **192.8%** |
| OTHER LIABILITIES | $ 22.0 | $ 19.2 | **14.6%** | $ 17.3 | **27.2%** |
| TOTAL | **$ 91.1** | **$ 49.7** | **83.3%** | **$ 40.9** | **122.7%** |
| DEFERRED INFLOWS | **$ 12.3** | **$ 1.9** | **547.4%** | **$ 2.5** | **392.0%** |
| **NET POSITION** | | | | | |
| INVESTED IN CAPITAL ASSETS NET OF DEBT | $ 52.9 | $ 46.9 | **12.8%** | $ 46.1 | **14.8%** |
| RESTRICTED | $ 2.5 | $ 2.5 | **0.0%** | $ 2.7 | **-7.4%** |
| UNRESTRICTED | $ (43.1) | $ 7.5 | **-674.7%** | $ 9.6 | **-549.0%** |
| **TOTAL NET POSITION** | **$ 12.3** | **$ 56.9** | **-78.4%** | **$ 58.4** | **-78.9%** |

The negative $43.1 unrestricted fund balance is primarily due to a prior period adjustment required by GASB 75 to record the OPEB (other post-employment benefits) for South Plains College. The prior period adjustment to restate the beginning fund balance was ($51,030,991).

**Changes in net position.** As Table A-1 illustrates, the College's net position for FY2018 decreased by 78.4% as compared to FY2017 and decreased by 78.9% compared to the balance reported in FY2016.

## COLLEGE REVENUES AND EXPENSES

The College's total revenues for FY2018 were $74.9 million. This represents an $8.7 million increase or 13.2% increase from 2017 and a $4.4 million increase or 6.24% increase from 2016. Approximately 26% comes from State appropriations, 26% from Federal and State grants and contracts, 22% from tuition and fees, 14% from property taxes, and the remaining 12% from other sources. Other sources increased by $5.3 million because of gifts of $6 million. (Table A-2)

The College's total operating expenses were $67.8 million. This represents a 1% increase from 2017 and a 5% increase from 2016.

- Property tax revenues increased $.8 million from 2017 and decreased $2.4 million from 2016.

- State appropriations amounts decreased by $1.3 million due primarily to an increase in OPEB revenue. The appropriations for contact hour funding decreased $359,173.
- The out of district and non-resident student tuition amounts were increased by $7 per semester credit hour
- Gifts increased $6.1 million from FY2017. These funds were used to aid construction and debt service.

**TABLE A-2**
**SOUTH PLAINS COLLEGE**
**SOURCES OF REVENUE**
**FY2018**

| REVENUE SOURCES(millions) | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| STATE APPROPRIATIONS | $ 19.7 | 26.3% | $ 18.4 | 27.8% | $ 19.1 | 27.1% |
| TUITION AND FEES | $ 16.3 | 21.8% | $ 16.7 | 25.2% | $ 16.7 | 23.7% |
| PROPERTY TAXES | $ 10.2 | 13.6% | $ 9.4 | 14.2% | $ 12.7 | 18.0% |
| FEDERAL AND STATE GRANTS | $ 19.9 | 26.6% | $ 18.2 | 26.2% | $ 18.5 | 26.2% |
| OTHER | $ 8.8 | 11.7% | $ 3.5 | 5.3% | $ 3.5 | 5.0% |
| **TOTAL** | **$ 74.9** | **100.0%** | **$ 66.2** | **100.0%** | **$ 70.5** | **100.0%** |

**TABLE A-3**
**CHANGES IN THE NET POSITION OF SOUTH PLAINS COLLEGE**
**(in millions)**

| OPERATING REVENUES | 2018 | 2017 | % CHANGE 2018 | 2016 | % CHANGE 2018 |
|---|---|---|---|---|---|
| TUITION AND FEES(NET OF DISCOUNTS ) | $ 16.3 | $ 16.7 | -2.4% | $ 16.7 | -2.4% |
| FEDERAL GRANTS AND CONTRACTS | $ 2.0 | $ 1.7 | 17.6% | $ 1.8 | 11.1% |
| STATE GRANTS AND CONTRACTS | $ 0.8 | $ 0.9 | -11.1% | $ 1.1 | -27.3% |
| NON GOVERNMENTAL GRANTS AND CONTRACTS | $ 0.1 | $ 0.1 | 0.0% | $ 0.1 | 0.0% |
| SALES AND SERVICES EDUCATIONAL ACTIVITIES | $ 0.1 | $ 0.1 | 0.0% | $ 0.2 | -50.0% |
| AUXILIARY ENTERPRISES (NET OF DISCOUNTS) | $ 1.9 | $ 1.9 | 0.0% | $ 2.0 | -5.0% |
| GENERAL OPERATING REVENUES | $ 0.2 | $ 0.2 | 0.0% | $ 0.1 | 100.0% |
| **TOTAL OPERATING REVENUES** | **$ 21.4** | **$ 21.6** | **-0.9%** | **$ 22.0** | **-2.7%** |
| **OPERATING EXPENSES** | | | | | |
| INSTRUCTION | $ 29.3 | $ 30.9 | -5.2% | $ 29.0 | 1.0% |
| PUBLIC SERVICE | $ 0.5 | $ 0.8 | -37.5% | $ 0.9 | -44.4% |
| ACADEMIC SUPPORT | $ 3.1 | $ 3.1 | 0.0% | $ 3.1 | 0.0% |
| STUDENT SERVICES | $ 6.7 | $ 6.7 | 0.0% | $ 6.5 | 3.1% |
| INSTITUTIONAL SUPPORT | $ 10.5 | $ 7.2 | 45.8% | $ 7.0 | 50.0% |
| OPERATING AND MAINTENANCE OF PLANT | $ 6.3 | $ 6.5 | -3.1% | $ 6.3 | 0.0% |
| SCHOLARSHIPS AND FELLOWSHIPS | $ 6.5 | $ 5.6 | 16.1% | $ 6.2 | 4.8% |
| AUXILIARY ENTERPRISES | $ 2.2 | $ 3.8 | -42.1% | $ 3.1 | -29.0% |
| DEPRECIATION | $ 2.7 | $ 2.5 | 8.0% | $ 2.5 | 8.0% |
| **TOTAL OPERATING EXPENSES** | **$ 67.8** | **$ 67.1** | **1.0%** | **$ 64.6** | **5.0%** |
| **NON-OPERATING REVENUES(EXPENSES)** | | | | | |
| STATE APPROPRIATIONS | $ 19.7 | $ 18.4 | 7.1% | $ 19.1 | 3.1% |
| TAXES-MAINTENANCE AND OPERATIONS | $ 10.2 | $ 9.4 | 8.5% | $ 12.6 | -19.0% |
| FEDERAL REVENUE, NON-OPERATING | $ 17.1 | $ 15.6 | 9.6% | $ 15.7 | 8.9% |
| GIFTS | $ 6.1 | $ 1.0 | 510.0% | $ 1.0 | 510.0% |
| INVESTMENT INCOME | $ 0.4 | $ 0.2 | 100.0% | $ 0.1 | 566.7% |
| INTEREST ON CAPITAL RELATED DEBT | $ (0.7) | $ (0.6) | 16.7% | $ (0.6) | 16.7% |
| **TOTAL NON-OPERATING REVENUES(EXPENSE** | **$ 52.8** | **$ 44.0** | **20.0%** | **$ 47.9** | **10.3%** |
| **INCREASE(DECREASE) IN NET POSITION** | **$ 6.4** | **$ (1.5)** | **527.9%** | **$ 5.3** | **21.7%** |

## Capital Assets

At the end of 2018, the College had invested $130.5 million (excluding accumulated depreciation) in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4) This amount represents a net increase (including additions and deductions) of $4.6 million or 3.7% over last year. The Lubbock Center facility was purchased for $2 million in FY2015, an additional $1 million was added in renovations in FY2016, and an additional $6 million was added in FY2017. This Lubbock Center facility remained as construction in progress at August 31, 2017, but was completed in this fiscal year. A detail listing of activity in the capital assets is presented in Table A-4.

**TABLE A-4**

| CHANGES IN CAPITAL ASSETS (millions) | 2018 | 2017 | % CHANGE 2018 | 2016 | % CHANGE 2018 |
|---|---|---|---|---|---|
| LAND | $ 2.0 | $ 2.0 | 0.0% | $ 2.0 | 0.0% |
| LIBRARY BOOKS | $ 3.0 | $ 2.9 | 3.4% | $ 2.8 | 7.1% |
| CONSTRUCTION IN PROGRESS | $ 4.5 | $ 10.8 | -58.3% | $ 3.0 | 50.0% |
| BUILDINGS | $ 101.0 | $ 90.6 | 11.5% | $ 90.3 | 11.8% |
| LAND IMPROVEMENTS | $ 1.7 | $ 1.7 | 0.0% | $ 1.7 | 0.0% |
| FURNITURE, MACHINERY,VEHICLES, OTHER EQUIP. | $ 10.9 | $ 10.7 | 1.9% | $ 9.7 | 12.4% |
| TELECOMMUNICATIONS AND PERIPHERAL EQUIPT. | $ 7.4 | $ 7.2 | 2.8% | $ 6.6 | 12.1% |
| TOTAL | **$ 130.5** | **$ 125.9** | **3.7%** | **$ 116.1** | **12.4%** |
| | | | | | |
| LESS ACCUMULATED DEPRECIATION | $ (57.8) | $ (55.4) | 4.3% | $ (52.9) | 9.3% |
| | | | | | |
| NET CAPITAL ASSETS | **$ 72.7** | **$ 70.5** | **3.1%** | **$ 63.2** | **15.0%** |

## Long Term Debt

At year-end, the College had $18.5 million in long-term bonds outstanding as shown in Table A-5 below. In addition, there is a decrease in net pension liability associated with TRS of $1.2 million from 2017. This liability is recorded in order to comply with GASB (Governmental Accounting Standards Board) Statement 68. GASB 68 states that beginning in fiscal year 2015; participating employers should report their proportionate share of the unfunded net pension liability on the balance sheet. Additionally, OPEB liability is recorded for $43.7 million. This liability was recorded to comply with GASB 75. More detailed information about the College's debt is presented in the notes to the financial statements.

| South Plains College Long Term Debt (in millions of dollars) | 2018 | 2017 | 2016 |
|---|---|---|---|
| Tuition Revenue Bonds Payable | $ 18.5 | $ 22.4 | $ 15.9 |
| Net Pension Liability (TRS) | $ 6.9 | $ 8.1 | $ 7.7 |
| Net OPEB Liability | $ 43.7 | $ - | $ - |
| **Total long term debt** | **$ 69.1** | **$ 30.5** | **$ 23.6** |

## POSSIBLE FUTURE FINANCIAL EFFECTS ON COLLEGE OPERATIONS

Enrollment levels directly affect tuition and fee revenues and auxiliary enterprise sales, services, and fee revenues. Population demographics (number of potential students) and the overall area economic condition also affect enrollment. South Plains College continues to experience a relatively stable enrollment. In the fall 2016 semester, the student enrollment was 9,459. This represented an increase of about 1% from the fall 2015 semester. The fall 2017 enrollment was 9,283, which represented a 1.9% decrease in unduplicated headcount. The fall 2018 enrollment was 9,279, which was a decrease of only four students. Student enrollment needs to increase or at least stabilize in order for the College to sustain its present level of operations.

The Lubbock Center officially opened in August 2017. The enrollment has increased from 516 students in all 2016 (prior to opening the building) to 1,036 student in fall 2018. This represents a 53% increase. The college completed the renovation of the remaining 10,425 square feet of the building into a Culinary Arts addition. South Plains College collaborated with the Lubbock Economic Development Alliance, the Helen Jones Foundation, J.T. and Margaret Talkington Charitable Foundation, United Supermarkets, and City Bank to complete the project. These partners pledged $2.1 million to renovate the facility for the Culinary Arts Program. This Culinary Arts addition officially opened for the fall 2018 semester.

The State of Texas contributes a significant portion of the College's revenues through state appropriations for educational operations and employee benefits. There was a $1,316,695 increase in state appropriations in FY2018 compared to FY2017. The large increase was due primarily to an increase associated with OPEB that also had an increase in expenditures for the same amount. The contact hour funding decreased by $359,173 in FY2018. Overall, there was a $700,000 decrease in state appropriations in FY2017 as compared to FY2016. The difference was due to the receipt of $718,246 from the Professional Nursing Shortage Reduction Grant program in FY2016 and these grant funds were not received in FY2017. The state appropriations increased $1.1 million in FY2017 compared to FY2015. This is due to an increase in $600,000 in contact hour funding and $500,000 in state benefits. Beginning in FY2015, the College became responsible for paying 50% of the cost of all retired employee insurance premiums in addition to paying 100% of auxiliary and maintenance retired employee insurance premiums that was already required of the College. This change added an additional $827,770 in FY2015. The increase in retiree insurance expense increased an additional $140,000 in FY2016 and an additional $135,000 in FY2017. The retiree insurance expense remained stable in FY2018, with $1,257,624 spent (an increase of only $1,616 compared to FY2017). The judicious use of deferred maintenance funds for normal College operations, raising tuition/fee charges, and the stability of state appropriations has been successful in maintaining normal operations. The implementation of GASB 68 to record the unfunded TRS liability has created a net pension liability of $6.9 million as of FY2018. The implementation of GASB 75 created a restatement of fund balance of $51,030,991 for FY2017. There is currently a liability of OPEB of $43.7 million as of FY2018. In order to receive more state appropriations, the College must implement strategies to increase contact hours through higher enrollment in future semesters.

Investment markets and the economy affect interest rates. Given the current state of the economy, markets, and interest rates, the outlook for the College's investment income is positive. Presently, returns continue to increase. Investment income increased from $58,917 in FY2015 to $125,443 in FY2016, to 226,653 in FY2017, which represents a 384% increase in from FY2015 to FY2017. The investment income increased to $366,429 in FY2018. The College will continue with the stated policy of preserving capital first and maximizing investment returns second.

The volatility of the oil and gas market will continue to affect the mineral tax base of the College. The taxable assessed value fell from $4.7 billion in FY2015 to $3.4 billion in FY2016. The values decreased again for FY2017 to $2.3 billion. South Plains College reached the cap of .40 per $100 valuation in FY2017 causing the College to lose approximately $3.3 million in revenue in FY2017. The taxable assessed value for FY2018 was $2.5 billion, an increase of $212 million from the previous year. This resulted in an increase of $748,541 received in FY2018. The values increased again for FY2019 to $3.1 billion. This increase represents an increase in budgeted taxes of $626,022 in FY2018. Hopefully, the mineral valuations will increase in the coming years, but the current volatile market is difficult to predict.

The College has several initiatives underway that will contribute to needed enrollment growth once fully implemented. New program development, such as the Culinary Arts Program, will contribute to future enrollment growth. The College will also begin expanding its career and technical education dual credit course offerings beginning the spring 2019 semester which is expected to increase dual credit student enrollment. Efforts have also been made to strengthen SPC's academic transfer partnership with Texas Tech University with a new Memorandum of Understanding that was signed in spring 2018. Destination Raiderland is a new concurrent enrollment articulation agreement with Texas Tech University that is designed to increase enrollment for both institutions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## AFFILIATED UNIT INFORMATION
## SOUTH PLAINS COLLEGE FOUNDATION

The South Plains College Foundation is governed by a 30-member Board of Directors that is committed to a long-standing tradition of service to the students of South Plains College. The purpose of the Foundation is to advance the College by raising and receiving funds to support the educational mission of the College through scholarships, program enrichment and capital improvements. To this end, the Foundation has traditionally focused its operations on maximizing efforts to grow scholarship endowments to support the educational dreams of SPC students. However, development efforts recently have been directed at securing private and public grants to support capital improvements, such as the Lubbock Center project and the culinary arts program start-up. The Foundation began receiving these grants for capital improvements during the 2018 fiscal year and will continue to receive grants for these two projects through Fiscal Year 2021.

The South Plains College Foundation recorded an 8.9 percent increase in total net position over the prior period with total net assets of $22,609,809 for FY 2018. This increase was due in large part to an estimated 9.7 percent average return on investment for the fiscal year resulting in $2,113,148 of short-term investment revenue, as illustrated in the Financial Highlights Table. Return on investment for prior years was 11.4 percent for FY 2017, and 5.6 percent for FY 2016. The Foundation's investment goal is twofold: 1) provide long-term growth of fund assets with preservation of capital and purchasing power; and 2) provide sufficient current income to support the activities of the Foundation.

| FINANCIAL HIGHLIGHTS FY 2016 to FY 2018 | | | | | |
|---|---|---|---|---|---|
| | FY 2018 | FY 2017 | Percent Change 2018 | FY 2016 | Percent Change 2018 |
| **REVENUES** | | | | | |
| Gifts | $503,749 | $630,739 | -20.1% | $628,987 | -19.9% |
| Grants for SPC | $5,128,798 | $18,700 | NA | $2,500 | NA |
| Fundraising | $284,010 | $202,645 | 40.2% | $228,292 | 24.4% |
| Investments | $2,113,148 | $2,200,682 | -4.0% | $1,086,860 | 94.4% |
| Other | $21,120 | $18,943 | 11.5% | $11,413 | 85.1% |
| **Total** | **$8,050,825** | **$3,071,709** | **162.1%** | **$1,958,052** | **311.2%** |
| | | | | | |
| **EXPENSES** | | | | | |
| Scholarships | $909,844 | $846,864 | 7.4% | $814,487 | 11.7% |
| Grants to SPC | $5,134,798 | $20,070 | NA | $18,900 | NA |
| Fundraising | $44,851 | $37,837 | 18.5% | $46,728 | -4.0% |
| Operating | $107,490 | $92,902 | 15.7% | $91,126 | 18.0% |
| **Total** | **$6,196,983** | **$997,673** | **521.1%** | **$971,241** | **538.0%** |
| | | | | | |
| **INCREASE IN NET POSITION** | **$1,853,842** | **$2,074,036** | **-10.6%** | **$986,811** | **87.9%** |
| | | | | | |
| **TOTAL NET POSITION** | **$22,609,809** | **$20,755,967** | **8.9%** | **$18,681,931** | **21.0%** |

In order to provide South Plains College with adequate annual scholarship funds, the South Plains College Foundation Board of Directors has set a target annual return on investment of 8.0 percent. This allows the Foundation to disburse on the average, 5.0 percent annually from scholarship endowment funds, while hedging for inflation. Over the past three years, the Foundation Board of Directors, working with its investment managers, has met this benchmark with an average annual return on investment of 8.9 percent net of fees.

For fiscal year 2018, the Foundation recorded $787,759 in gifts and fundraising, about 5.5 percent less than the prior year. However, the Foundation also received $5,128,798 in non-scholarship grant funds for the benefit of South Plains College. Total revenues for the fiscal year was $8,050,825.

The Foundation distributed to the College a record $909,844 in scholarship funds, providing financial assistance to 916 South Plains College students during the academic year. This was a 7.4 percent increase in scholarship spending. A major goal of the Foundation's Board of Directors has been to provide an increasing amount of scholarship funds annually. Over the past five years, the amount of Foundation Scholarship funds awarded has increased 47.2 percent. An additional $5,134,798 in non-scholarship restricted and unrestricted grants were disbursed for total support of $6,044,642 to the College.

The direct operating expenses of the Foundation grew by a 15.7 percent to $107,490. These expenses included investment expense (84 percent), planned gift expense (6 percent), liability insurance (4 percent), and miscellaneous operational expense (6 percent). The College, through its partnership with the Foundation, contributes to the operations of the Foundation by providing in-kind support of personnel, office space, computer resources, travel, office supplies and other operational support estimated to be $270,732 (unaudited).

The Foundation's permanent endowment increased 5.7 percent during the fiscal year to $13,707,256 due to the establishment of new endowments and additions to existing funds. Overall, 12 new scholarship endowments, totaling $214,100, were established during the fiscal year and one existing scholarship fund reached permanent endowment status. The total endowment increased in value by 10.0 percent to $20,445,372 with 67.0 percent of funds permanently restricted. For FY 2018, the permanent endowment of the Foundation funded $694,736 in scholarships, or 76.4 percent of the total scholarship disbursement. The remaining $215,108 or 23.6 percent of scholarships came from non-permanent funds and impact scholarship contributions from donors.

| ENDOWMENT GROWTH FY 2016 to FY 2018 | | | | | |
|---|---|---|---|---|---|
| | **FY 2018** | **FY 2017** | **Percent Change 2018** | **FY 2016** | **Percent Change 2018** |
| **Permanently Restricted** | $13,707,256 | $12,974,004 | 5.7% | $12,339,786 | 11.1% |
| **Temporarily Restricted** | $6,738,116 | $5,606,611 | 20.2% | $4,260,239 | 58.2% |
| **Total Endowment Value** | **$20,445,372** | **$18,580,615** | **10.0%** | **$16,600,025** | **23.2%** |
| **% Permanent Endowment** | **67.0%** | **69.8%** | | **74.3%** | |

# FINANCIAL STATEMENTS

SOUTH PLAINS COLLEGE

EXHIBIT 1

STATEMENT OF NET POSITION
AUGUST 31, 2018 AND AUGUST 31, 2017

| ASSETS | 2018 | 2017 |
|---|---|---|
| **Current Assets:** | | |
| Cash and Cash Equivalents | $ 26,144,646 | $ 23,761,878 |
| Accounts Receivable (net) | 12,812,663 | 11,529,007 |
| Other Receivables | 135,000 | - |
| Inventories | 26,375 | - |
| **Total Current Assets** | 39,118,684 | 35,290,885 |
| **Noncurrent Assets:** | | |
| Capital Assets (net) (See Note 7) | 72,728,456 | 70,520,913 |
| Other Receivables | 340,000 | - |
| **Total Noncurrent Assets** | 73,068,456 | 70,520,913 |
| **Total Assets** | 112,187,140 | 105,811,798 |
| **Deferred Outflows of Resouces:** | | |
| Deferred Outflows Related to TRS | 2,224,111 | 2,642,467 |
| Deferred Outflows Related to OPEB | 1,317,755 | - |
| Other Deferred Outflows | - | 93,894 |
| **Total Deferred Outflows** | 3,541,866 | 2,736,361 |
| **LIABILITIES** | | |
| **Current Liabilities:** | | |
| Accounts Payable | 926,650 | 1,256,834 |
| Accrued Liabilities | 4,040,807 | 1,700,721 |
| Funds Held for Others | 706,022 | 732,549 |
| Unearned Revenues | 15,072,932 | 14,214,889 |
| Bonds Payable - Current Portion | 1,250,000 | 1,250,000 |
| **Total Current Liabilities** | 21,996,411 | 19,154,993 |
| **Noncurrent Liabilities:** | | |
| Bonds Payable | 18,500,000 | 22,415,136 |
| Net TRS Pension Liability | 6,920,283 | 8,137,965 |
| Net OPEB Liability | 43,723,593 | - |
| **Total Noncurrent Liabilities** | 69,143,876 | 30,553,101 |
| **Total Liabilities** | 91,140,287 | 49,708,094 |
| **Deferred Inflow of Resources:** | | |
| Deferred Inflows Related to TRS | 2,593,353 | 1,932,609 |
| Deferred Inflows Related to OPEB | 9,667,496 | - |
| **Total Deferred Inflows** | 12,260,849 | 1,932,609 |
| **NET POSITION** | | |
| Invested in Capital Assets, Net of related Debt | 52,978,456 | 46,855,777 |
| Restricted for: | | |
| Expendable | | |
| Student Aid | 373,894 | 349,369 |
| Debt Service | 1,667,091 | 1,644,684 |
| Nursing Program | 416,622 | 550,798 |
| Unrestricted | (43,108,193) | 7,506,828 |
| **Total Net Position (Schedule D)** | $ 12,327,870 | $ 56,907,456 |

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

SOUTH PLAINS COLLEGE
SOUTH PLAINS COLLEGE FOUNDATION
AFFILIATED ORGANIZATION
STATEMENT OF FINANCIAL POSITION
YEARS ENDED AUGUST 31, 2018 AND AUGUST 31, 2017

EXHIBIT 1

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and Cash Equivalents | $ 625,618 | $ 676,885 |
| Accrued Interest Receivable | 1,874 | 1,714 |
| Investments | 21,694,151 | 19,810,323 |
| Planned Gift Cash Value | 275,666 | 254,545 |
| Vacation Time Share | 12,500 | 12,500 |
| Fall Semester Deferred Outflow Scholarships | 341,084 | 367,600 |
| **Total Assets** | 22,950,893 | 21,123,567 |
| **Liabilities** | | |
| Fall 2018 Scholarships to South Plains College | 341,084 | 367,600 |
| **Total Liabilities** | 341,084 | 367,600 |
| **Net Assets** | | |
| Unrestricted | 265,426 | 250,255 |
| Temporarily Restricted | 8,530,021 | 7,464,653 |
| Permanently Restricted | 13,814,362 | 13,041,059 |
| **Total Net Assets** | $ 22,609,809 | $ 20,755,967 |

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

SOUTH PLAINS COLLEGE

EXHIBIT 2

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
## YEARS ENDED AUGUST 31, 2018 AND AUGUST 31, 2017

| **Operating Revenues** | 2018 | 2017 |
|---|---|---|
| Tuition and Fees (net of discounts of $14,777,755 and $13,209,594 respectively) | $ 16,300,832 | $ 16,686,853 |
| Federal Grants and Contracts | 1,974,669 | 1,689,964 |
| State Grants and Contracts | 795,983 | 861,592 |
| Non-Governmental Grants and Contracts | 43,894 | 47,750 |
| Sales and Services of Educational Activities | 180,557 | 128,578 |
| Investment Income - Program Restricted | 1,693 | 1,589 |
| Auxiliary Enterprises (net of discounts of $741,390 & $764,157) | 1,874,257 | 1,926,729 |
| General Operating Revenues | 208,235 | 217,648 |
| Total Operating Revenues (Schedule A) | 21,380,120 | 21,560,703 |
| **Operating Expenses** | | |
| Instruction | 29,304,452 | 30,901,968 |
| Public Service | 454,098 | 819,582 |
| Academic Support | 3,140,110 | 3,116,597 |
| Student Services | 6,679,015 | 6,716,280 |
| Institutional Support | 10,478,703 | 7,225,836 |
| Operation and Maintenance of Plant | 6,276,791 | 6,471,533 |
| Scholarships and Fellowships | 6,560,270 | 5,545,040 |
| Auxiliary Enterprises | 2,191,800 | 3,842,195 |
| Depreciation | 2,668,450 | 2,507,525 |
| Total Operating Expenses (Schedule B) | 67,753,689 | 67,146,556 |
| **Operating Loss** | (46,373,569) | (45,585,853) |
| **Non-Operating Revenues (Expenses)** | | |
| State Appropriations | 19,742,032 | 18,425,338 |
| Maintenance Ad Valorem Taxes | 10,156,583 | 9,408,042 |
| Federal Revenue, Non-Operating | 17,132,884 | 15,649,277 |
| Gifts | 450 | 969,370 |
| Gifts in Kind | 13,915 | 16,032 |
| Gifts in Aid of Debt Service | 4,000,000 | - |
| Gifts in Aid of Construction | 2,100,000 | - |
| Investment income | 364,736 | 226,653 |
| Interest on Capital Related Debt | (694,878) | (616,585) |
| Gain/(Loss) on Disposal of Fixed Assets | 9,252 | - |
| Net Non-Operating Revenues (Schedule C) | 52,824,974 | 44,078,127 |

The accompanying notes are an integral part of the financial statements

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
## YEARS ENDED AUGUST 31, 2018 AND AUGUST 31, 2017

| | 2018 | 2017 |
|---|---|---|
| **Increase in Net Position** | $ 6,451,405 | $ (1,507,726) |
| **Net Position** | | |
| Net Position - Beginning of Year | 56,907,456 | 58,415,182 |
| Prior Period Adjustment | (51,030,991) | - |
| Beginning Net Position, as restated | 5,876,465 | 58,415,182 |
| Net Position - End of Year | $ 12,327,870 | $ 56,907,456 |

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

**SOUTH PLAINS COLLEGE** **EXHIBIT 2**
**SOUTH PLAINS COLLEGE FOUNDATION**
**AFFILIATED ORGANIZATION**
**STATEMENT OF ACTIVITIES**
**YEARS ENDED AUGUST 31, 2018 AND AUGUST 31, 2017**

| | 2018 | 2017 |
|---|---|---|
| **Revenue** | | |
| Cash Gifts | $ 5,584,143 | $ 619,961 |
| Non-Cash Gifts | 48,404 | 29,478 |
| Fund Raising Revenue | 284,010 | 202,645 |
| Investment Income | 392,317 | 329,177 |
| Realized Capital Gain/(Loss) | 227,296 | 234,464 |
| Planned Gift Change in Value | 21,120 | 18,944 |
| Unrealized Market Gain/(Loss) | 1,493,535 | 1,637,040 |
| **Total Revenue** | 8,050,825 | 3,071,709 |
| | | |
| **Expense** | | |
| Scholarships | 909,844 | 846,864 |
| Fund Raising Expenses | 44,851 | 37,837 |
| Planned Gift Expenses | 6,711 | 6,711 |
| Restricted Program Support | 5,125,000 | 13,000 |
| Unrestricted Program Support | 9,798 | 7,070 |
| Bank/Brokerage Fees | 90,272 | 76,965 |
| Other Expenses | 10,507 | 9,226 |
| **Total Expenses** | 6,196,983 | 997,673 |
| | | |
| **Change in Net Assets** | 1,853,842 | 2,074,036 |
| Net Assets at beginning of year | 20,755,967 | 18,681,931 |
| **Net Assets at end of year** | $ 22,609,809 | $ 20,755,967 |

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

## STATEMENT OF CASH FLOWS
## YEARS ENDED AUGUST 31, 2018 AND AUGUST 31, 2017

| | 2018 | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Receipts from students and other customers | $ 18,247,774 | $ 18,507,828 |
| Receipts from grants and contracts | 2,766,698 | 3,102,444 |
| Payments to suppliers for goods and services | (12,000,865) | (13,876,591) |
| Payments to or on behalf of employees | (27,950,932) | (40,191,774) |
| Payments for scholarships and fellowships | (6,560,270) | (6,177,220) |
| Other receipts | 209,927 | 219,237 |
| Net cash used by operating activities | (25,287,668) | (38,416,076) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:** | | |
| Receipts from state appropriations | 13,932,684 | 14,285,320 |
| Receipts from ad valorem taxes | 10,137,633 | 9,343,447 |
| Receipts from non operating federal revenue | 17,131,324 | 15,649,277 |
| Receipts from gifts | 450 | 969,370 |
| Net cash provided by noncapital financing activities | 41,202,091 | 40,247,414 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:** | | |
| Proceeds on issuance of capital debt | 390,642 | 7,717,654 |
| Contributions received in aid of construction | 1,125,000 | - |
| Contributions received in aid of debt service | 4,000,000 | - |
| Purchases of capital assets | (14,719,772) | (9,639,023) |
| Proceeds from sale of capital assets | 9,252 | - |
| Payments on capital debt - principal | (4,000,000) | (1,250,000) |
| Payments on capital debt - interest | (708,299) | (439,836) |
| Net cash used by capital and related financing activities | (13,903,177) | (3,611,205) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Investment earnings | 371,522 | 224,235 |
| Net cash provided by investing activities | 371,522 | 224,235 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 2,382,768 | (1,555,632) |
| **CASH AND CASH EQUIVALENTS—September 1** | 23,761,878 | 25,317,510 |
| **CASH AND CASH EQUIVALENTS—August 31** | $ 26,144,646 | $ 23,761,878 |

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

## STATEMENT OF CASH FLOWS
## YEARS ENDED AUGUST 31, 2018 AND AUGUST 31, 2017

| | 2018 | 2017 |
|---|---|---|
| **RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:** | | |
| Operating loss | $ (46,373,569) | $ (45,585,853) |
| Adjustments to reconcile net loss to net cash provided (used) by operating activities: | | |
| Depreciation expense | 2,668,449 | 2,507,525 |
| Bad debt expense | 109,160 | 175,853 |
| Gift in kind expenditure | 13,915 | 16,032 |
| Payments made directly by state for benefits | 5,809,352 | 4,140,018 |
| TRS non-cash items | (138,582) | 167,238 |
| ERS non-cash items | 1,042,343 | - |
| Changes in assets and liabilities: | | |
| Receivables (net) | (1,575,710) | (208,395) |
| Inventories | (26,375) | - |
| Deferred outflows related to TRS | (805,505) | (43,622) |
| Other deferred outflows | - | 372,821 |
| Accounts payable | (24,407) | 172,842 |
| Accrued liabilities | 2,353,506 | (7,114) |
| Funds held for others | (26,527) | (15,176) |
| Unearned revenue | 1,358,042 | 493,061 |
| Deferred inflows related to TRS | 10,328,240 | (601,306) |
| Net cash used by operating activities | $ (25,287,668) | $ (38,416,076) |

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

## 1. Reporting Entity

South Plains College (the College) was established in 1958, in accordance with the laws of the State of Texas, to serve the educational needs of Hockley County and the surrounding communities. The College is considered a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

## 2. Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants (TPEG)
Certain tuition amounts must be set aside for use as scholarships by qualifying students. This set aside, called the TPEG, is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code (TEC) § 56.033). When the award is used by the student for tuition and fees, the College records the amount as tuition discount. If the amount is dispersed directly to the student, the College records the amount as a scholarship expense.

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

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

Basis of Accounting

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

Budgetary Data

Each community college in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of 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 (THECB), Legislative Budget Board (LBB), Legislative Reference Library, and Governor's Office of Budget and Planning by December 1.

Cash and Cash Equivalents

The College considers cash and cash equivalents as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Deferred Outflows

In addition to assets, the College 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 a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are only permitted to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on refunding debt.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, the College reports investments at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of $4,889,199 and $11,367,172 at 2018 and 2017, respectively to be short-term investments. Long-term investments have an original maturity of greater than one year at time of purchase.

Inventories

Inventories consist of consumable office supplies and physical plant supplies. Inventories are valued at cost and charged to expense when purchased, except for miscellaneous items purchased at year end which are more appropriately charged to the subsequent year.

Capital Assets

The College records capital assets at cost at the date of acquisition or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life in excess of one year. The College capitalizes renovations of $100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure. The College charges costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives to operating expense in the year in which the expense is incurred.

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

Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Employees Retirement System of Texas (ERS) State Retiree Health Plan (SRHP) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits; OPEB expense; and information about assets, liabilities and additions to/deductions from SRHP's fiduciary net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

Pensions

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

Unearned Revenue

Tuition and fees of $15,022,844 and $13,710,854 and federal, state and local grants of $50,088 and $504,035 have been reported by the College as unearned revenue at August 31, 2018 and 2017, respectively.

Deferred Inflows

In addition to liabilities, the College 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 a future period(s) 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.

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, the College is aware that actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expense Policy

The College distinguishes operating revenues and expenses from non-operating items. The College reports as a BTA and as a single proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state 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 the cafeteria are not performed by the College.

Prior Year Restatement
Restatement to Beginning Net Position

Effective for fiscal year 2018, the College implemented GASB Statement No. 75, *Accounting for OPEB*. Accordingly, a restatement to beginning net position was required for the recording of the beginning net OPEB liability and for the recording of deferred outflows of resources related to OPEB for contributions made to the ERS OPEB plan subsequent to the measurement date of the beginning net OPEB liability.

Because audited beginning balances could not be obtained for all the deferred outflows of resources and deferred inflows of resources related to OPEB, the College determined it was impractical to restate its fiscal year 2017 financial statements. As such, the College recorded a restatement to beginning net position in the fiscal year 2018 financial statements as a cumulative effect of a change in accounting principle.

Beginning net position as of September 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75:

| | |
|---|---|
| Beginning Net position | $ 56,907,456 |
| Cumulative effect of change in accounting principle (GASB 75): | |
| Beginning Net OPEB liability (measurement date as of August 31, 2017) | -52,240,396 |
| Deferred outflow for College contributions to ERS plan during FY 17 | 1,209,405 |
| Beginning net position, as restated | $ 5,876,465 |

Restatement to Beginning Accounts Receivable (Net) and Unearned Revenue

Accounts Receivable (Net) and Unearned Revenue have been restated due to a change in accounting software. In the past, Fall tuition and fees were recorded as unearned only if cash payments were received in advance before year end. The new accounting system now records an account receivable for tuition and fees when the student registers for the Fall semester. Early registration begins in April. The change has no impact on net position and the changed accounts are as follows:

| | Accounts Receivable (Net) | Unearned Revenue |
|---|---|---|
| Beginning Balances September 1, 2017 | $ 2,668,567 | $ 5,354,449 |
| Additional Fall Tuition and Fees | 8,860,440 | 8,860,440 |
| Beginning Balances, as restated | $ 11,529,007 | $ 14,214,889 |

Change in Accounting Policies

**Governmental Accounting Standards Board (GASB) Statement No. 75**
**Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions**

The purpose of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). The Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The Statement also establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, expense and creating additional transparency.

The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017. The College has implemented the provisions of this Statement for the year ended August 31, 2018.

**Governmental Accounting Standards Board (GASB) Statement No .81**
**Irrevocable Split-interest Agreements**

The purpose 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. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries.

This Statement is effective for financial statements for periods beginning after December 15, 2016. The College has implemented the provisions of this Statement for the year ended August 31, 2018. As of August 31, 2018, the College is not a party to this type of agreement.

**Governmental Accounting Standards Board (GASB) Statement No. 85**
**Omnibus 2017**

The purpose of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (OPEB).

This Statement is effective for reporting periods beginning after June15, 2017. The College has implemented the provisions of this Statement for the year ended August 31, 2018.

**Governmental Accounting Standards Board (GASB) Statement No. 86**
**Certain Debt Extinguishment Issues**

The primary purpose of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

This Statement is effective for reporting periods beginning after June 15, 2017. The College has implemented the provisions of this Statement for the year ended August 31, 2018.

## 3. Authorized Investments

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

South Plains College is required to adopt, implement and publicize an investment policy. That policy must address the following areas (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposits. The Public Funds Investment Act requires an annual audit of investments practices.

We have performed tests designed to verify South Plains College's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2018, no instances of noncompliance were found.

## 4. Deposits and Investments

At August 31, 2018 and 2017, South Plains College's deposits were covered by federal depository insurance or by collateral pledged in South Plains College's name. The collateral was held by the College's agent.

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

| | Cash and Deposits | | | |
|---|---|---|---|---|
| | Primary Institution | | Component Unit | |
| Bank Deposits | 2018 | 2017 | 2018 | 2017 |
| Demand Deposits | $ 7,979,607 | $ 5,891,271 | $ 409,487 | $ 441,912 |
| Savings and Money Market Accounts | 13,268,541 | 4,679,795 | 216,131 | 225,081 |
| Certificates of Deposit | - | 1,816,892 | - | 9,892 |
| Total Bank Deposits | $ 21,248,148 | $ 12,387,958 | $ 625,618 | $ 676,885 |
| Cash and Cash Equivalents | | | | |
| Petty Cash on Hand | 7,299 | 6,748 | - | - |
| Investment Pool | 4,889,199 | 11,367,172 | - | - |
| Total (Exhibit 1) | $ 26,144,646 | $ 23,761,878 | $ 625,618 | $ 676,885 |

Reconciliation of Deposits and Investments to Exhibit 1:

| | Primary Institution | | Component Unit | |
|---|---|---|---|---|
| Type of Security | Market Value August 31, 2018 | Market Value August 31, 2017 | Market Value August 31, 2018 | Market Value August 31, 2017 |
| Preferred Securities | $ - | $ - | $ - | $ - |
| Corporate Equities | - | - | 2,240,512 | 2,125,359 |
| U.S. Government Agencies | - | - | 318,683 | 158,993 |
| Corporate Bonds and Notes | - | - | - | - |
| Mutual Funds | - | - | 18,405,548 | 16,606,746 |
| Other | - | - | 1,017,574 | 1,186,270 |
| Totals | $ - | $ - | $ 21,982,317 | $ 20,077,368 |
| Total Cash and Deposits | $ 26,144,646 | $ 23,761,878 | $ 625,618 | $ 676,885 |
| Total Investments | - | - | 21,982,317 | 20,077,368 |
| Total Deposits and Investments | $ 26,144,646 | $ 23,761,878 | $ 22,607,935 | $ 20,754,253 |
| Cash and Cash Equivalents (Exhibit 1) | $ 26,144,646 | $ 23,761,878 | $ 625,618 | $ 676,885 |
| Investments (Exhibit 1) | - | - | 21,982,317 | 20,077,368 |
| Total Deposits and Investments | $ 26,144,646 | $ 23,761,878 | $ 22,607,935 | $ 20,754,253 |

As of August 31, 2018, the College had the following investments and maturities:

| Investment Type | | Fair Value | Weight Average Maturity (Years) |
|---|---|---|---|
| None | $ | N/A | N/A |
| Component Unit | | | |
| None | | N/A | N/A |

Portfolio Weighted Average Maturity – N/A

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

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

| Type of Investment | Rating |
|---|---|
| Money Market Accounts | Unrated |
| Investment Pools | AAA |

**Concentration of Credit Risk** - The College does not place a limit on the amount the College may invest in any one issuer. More than 5% of the Component Unit's investments are in Inst Multi-Strategy Equity Fund (43.10%), Inst Multi-Strategy Bond Fund (17.03%), and Global Multi-Asset Fund LLC (13.69%).

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College did not invest in repurchase agreements.

## 5. Fair Value of Financial Instruments

If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to their fair value measurement of the instrument.

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy of investments for the component unit at August 31, 2018 follows:

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Total |
| Fixed income securities | $ - | $ - | $ - | $ - | $ - |
| Mutual Funds | 18,405,548 | - | - | 18,405,548 | 16,606,746 |
| Marketable Securities | 2,240,512 | - | - | 2,240,512 | 2,125,359 |
| U.S. government securities | 318,683 | - | - | 318,683 | 158,993 |
| Municipal bonds | - | - | - | - | - |
| Other Investments | 729,409 | - | 288,165 | 1,017,574 | 1,186,270 |
| Total | $21,694,152 | $ - | $ 288,165 | $21,982,317 | $20,077,368 |

## 6. Derivatives

South Plains College did not investment in derivatives during the years ended August 31, 2018 and 2017.

## 7. Capital Assets

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

| | Balance September 1, 2017 | Increases | Decreases | Balance August 31, 2018 |
|---|---|---|---|---|
| Not Depreciated: | | | | |
| Land | $ 2,013,473 | $ - | $ - | $ 2,013,473 |
| Construction in Process | 10,843,300 | 3,185,576 | 9,614,096 | 4,414,780 |
| Subtotal | 12,856,773 | 3,185,576 | 9,614,096 | 6,428,253 |
| Buildings and Other Capital Assets: | | | | |
| Buildings and Improvements | 90,564,041 | 10,428,828 | - | 100,992,869 |
| Other Real Estate Improvements | 1,682,859 | 48,825 | - | 1,731,684 |
| Furniture, Machinery, Vehicles, and Other Equipment | 10,653,029 | 374,168 | 129,368 | 10,897,829 |
| Telecommunications and Peripheral Equipment | 7,180,809 | 236,472 | - | 7,417,281 |
| Library Books | 2,941,807 | 98,928 | - | 3,040,735 |
| Total Buildings and Other Capital Assets | 113,022,545 | 11,187,221 | 129,368 | 124,080,398 |

| | | | | |
|---|---|---|---|---|
| Accumulated Depreciation: | | | | |
| Buildings and Improvements | 38,449,873 | 1,416,678 | - | 39,866,551 |
| Other Real Estate Improvements | 675,054 | 76,278 | - | 751,332 |
| Furniture, Machinery, Vehicles, and Other Equipment | 7,162,895 | 620,272 | 129,368 | 7,653,799 |
| Telecommunications and Peripheral Equipment | 6,138,303 | 352,506 | - | 6,490,809 |
| Library Books | 2,932,280 | 202,717 | 117,291 | 3,017,704 |
| Total Accumulated Depreciation | 55,358,405 | 2,668,449 | 246,659 | 57,780,195 |
| Net Buildings and Other Capital Assets | 57,664,140 | 8,518,772 | -117,291 | 66,300,203 |
| Net Capital Assets | $ 70,520,913 | $ 11,704,348 | $ 9,496,805 | $ 72,728,456 |

**Capital Assets Comparative**

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

| | Balance September 1, 2016 | Increases | Decreases | Balance August 31, 2017 |
|---|---|---|---|---|
| Not Depreciated: | | | | |
| Land | $ 2,013,473 | $ - | $ - | $ 2,013,473 |
| Construction in Process | 3,080,922 | 7,762,378 | - | 10,843,300 |
| Subtotal | 5,094,395 | 7,762,378 | | 12,856,773 |
| Buildings and Other Capital Assets: | | | | |
| Buildings and Improvements | 90,318,466 | 245,575 | - | 90,564,041 |
| Other Real Estate Improvements | 1,666,996 | 15,864 | - | 1,682,859 |
| Furniture, Machinery, Vehicles, and Other Equipment | 9,655,973 | 997,056 | - | 10,653,029 |
| Telecommunications and Peripheral Equipment | 6,602,579 | 578,230 | - | 7,180,809 |
| Library Books | 2,831,291 | 110,517 | - | 2,941,808 |
| Total Buildings and Other Capital Assets | 111,075,305 | 1,947,242 | - | 113,022,547 |

| | | | | |
|---|---|---|---|---|
| Accumulated Depreciation: | | | | |
| Buildings and Improvements | 37,170,853 | 1,279,020 | - | 38,449,873 |
| Other Real Estate Improvements | 591,572 | 83,482 | - | 675,054 |
| Furniture, Machinery, Vehicles, and Other Equipment | 6,600,566 | 562,330 | - | 7,162,895 |
| Telecommunications and Peripheral Equipment | 5,751,731 | 386,573 | - | 6,138,303 |
| Library Books | 2,821,099 | 196,120 | 84,939 | 2,932,280 |
| Total Accumulated Depreciation | 52,935,821 | 2,507,525 | 84,939 | 55,358,405 |
| Net Buildings and Other Capital Assets | 58,139,484 | -560,283 | -84,939 | 57,664,140 |
| Net Capital Assets | $ 63,233,879 | $ 7,202,095 | $ -84,939 | $ 70,520,913 |

## 8. Non-Current Liabilities

Non- Current liability activity for the year ended August 31, 2018, was as follows:

| | Balance September 1, 2017 | Additions | Reductions | Balance August 31, 2018 | Current Portion |
|---|---|---|---|---|---|
| Leases, Bonds and Notes | | | | | |
| Revenue Bonds | $ 23,665,136 | $ 84,864 | $ 4,000,000 | $19,750,000 | $1,250,000 |
| Net Pension Liability | 8,137,965 | -508,349 | 709,333 | 6,920,283 | N/A |
| Net OPEB Liability | 52,240,396 | -7,314,106 | 1,202,697 | 43,723,593 | N/A |
| Total Long-term Liabilities | $ 84,043,497 | $ -7,737,591 | $ 5,912,030 | $70,393,876 | $1,250,000 |

Non-Current liability activity for the year ended August 31, 2017, was as follows:

| | Balance September 1, 2016 | Additions | Reductions | Balance August 31, 2017 | Current Portion |
|---|---|---|---|---|---|
| Leases, Bonds and Notes | | | | | |
| Revenue Bonds | $ 17,094,578 | $ 7,820,558 | $ 1,250,000 | $23,665,136 | $1,250,000 |
| Net Pension Liability | 7,742,242 | 1,081,323 | 685,600 | 8,137,965 | N/A |
| Total Long-term Liabilities | $ 24,836,820 | $ 8,901,881 | $ 1,935,600 | $31,803,101 | $1,250,000 |

## 9. Debt and Lease Obligations

Debt service requirements at August 31, 2018, were as follows:

| | Revenue Bonds | | |
|---|---|---|---|
| For the Year Ended August 31, | Principal | Interest | Total |
| 2019 | $ 1,250,000 | $ 621,563 | $ 1,871,563 |
| 2020 | 1,250,000 | 580,937 | 1,830,937 |
| 2021 | 1,250,000 | 540,312 | 1,790,312 |
| 2022 | 1,250,000 | 499,688 | 1,749,688 |
| 2023 | 1,250,000 | 459,062 | 1,709,062 |
| 2024-2028 | 6,250,000 | 1,685,938 | 7,935,938 |
| 2029-2033 | 6,250,000 | 654,062 | 6,904,062 |
| 2034-2037 | 1,000,000 | 16,250 | 1,016,250 |
| TOTAL | $ 19,750,000 | $ 5,057,812 | $ 24,807,812 |

## 10. Bonds Payable

South Plains Junior College District Revenue Financing System Refunding and Improvement Bonds, Series 2016.

Issued for the purpose of providing funds to (i) acquire, purchase, construct, improve, renovate, enlarge, equip, operate, and/or maintain any property, buildings, structures, activities, operations, of any nature, for and on behalf of the Junior College owned and operated by the College, (ii) refund of the Refunded Bonds, and (iii) pay the costs related thereto. Authorized 6/09/2016 and maturing 10/15/2035 in the original amount of $25,000,000. The source of revenues shall be no less than an amount equal to $3.00 per semester hour for each enrolled student in both regular and summer semesters. If the College does need additional revenue, tuition will be pledged not to exceed 25% of the tuition charges collected from each enrolled student. The bond has been issued as a private placement. The amount of the bond outstanding at 8/31/18 is $19,750,000. The interest rate is fixed at 3.25%.

See note 8 for changes in long-term liabilities and note 9 for debt service requirements.

## 11. Advance Refunding Bonds

None

## 12. Defeased Bonds Outstanding

None

## 13. Short-term Debt

The College had no short-term debt at August 31, 2018.

## 14. Employees Retirement Plan

### Teacher Retirement System of Texas – Defined Benefit Pension Plan

Plan Description

The College participates in a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). The TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 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 TRS' fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.texas.gov/TRS%20Documents/cafr_2017.pdf; 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 benefits changes, including ad hoc COLAs, can be granted by the Texas Legislature, as noted in the plan description above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution, which requires the Texas legislature to establish a member contribution rate of not less than 6.0 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10 percent 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 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

| Contribution Rates | 2018 | 2017 |
|---|---|---|
| Member | 7.7% | 7.7% |
| Non-Employer Contributing Entity (State) | 6.8% | 6.8% |
| Employers | 6.8% | 6.8% |
| | | |
| 2017 Member Contributions | $ 1,387,767 | |
| 2017 State of Texas On-Behalf Contributions | $ 518,155 | |
| 2017 College Contributions | $ 684,239 | |

The College's contributions to the TRS pension plan in 2018 were $707,964 as reported in the Schedule of College Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2018 were $536,121.

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

Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial evaluation was determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | August 31, 2017 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Single Discount Rate | 8.00% |
| Long-term Expected Investment Rate of Return* | 8.00% |
| Municipal Bond Rate* | N/A* |
| Last year ending August 31 in the 2016 to 2115 projection period (100 years) | 2115 |
| Inflation | 2.50% |
| Payroll Growth Rate | 2.50% |
| Salary Increases including inflation | 3.50% to 9.50% |
| Benefit changes during the year | None |
| Ad hoc post-employment benefit changes | None |

*If a municipal bond rate was to be used, the rate would be 2.84 percent as of August 2017 (i.e., the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent. 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 8.0 percent. The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected

future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the systems target asset allocation as of August 31, 2017 are summarized below:

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

* 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 2017 Comprehensive Annual Financial Report.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1 percent less and 1 percent greater than the discount rate that was used (8%) in measuring the 2017 net pension liability.

| | 1% Decrease in Discount Rate (7.0%) | Discount Rate (8.0%) | 1% Increase in Discount Rate (9.0%) |
|---|---|---|---|
| College's proportionate share of the net pension liability | $ 11,666,229 | $ 6,920,283 | $ 2,968,512 |
| Plan net pension liability (in millions from TRS CAFR) | $ 53,903 | $ 31,975 | $ 13,716 |

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

At August 31, 2018, the College reported a liability of $6,920,283 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the College were as follows:

| | |
|---|---|
| College's proportionate share of the collective net pension liability | $ 6,920,283 |
| State's proportionate share of the net pension liability associated with the College | 5,065,774 |
| Total | $ 11,986,057 |

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

At the measure date of August 31, 2017, the employer's proportion of the collective net pension liability was 0.0216430538% which was an increase of 0.0001075021% from its proportion measured as of August 31, 2016.

For the year ended August 31, 2018, the College recognized pension expense of $386,397 and revenue of $386,397 for support provided by the State. Refer to the 2018 Schedule of On-Behalf Contributions for this information posted on the TRS website under GASB Statements 67 and 68.

At August 31, 2018, the College reported it's proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 101,247 | $ 373,202 |
| Changes in actuarial assumptions | 315,230 | 180,462 |
| Difference between projected and actual investment earnings | 1,064,259 | 1,568,594 |
| Changes in proportion and differences between the District's contributions and the proportionate share of contributions | 29,271 | 471,095 |
| District contributions paid to TRS subsequent to the measurement date | 714,104 | - |
| Total | $ 2,224,111 | $ 2,593,353 |

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

| Year Ended August 31 | | |
|---|---|---|
| 2019 | $ | -334,873 |
| 2020 | $ | 106,867 |
| 2021 | $ | -368,808 |
| 2022 | $ | -465,586 |
| 2023 | $ | -18,297 |
| Thereafter | $ | -2,649 |

**Optional Retirement Plan – Defined Contribution Plan**

*Plan Description.* Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provision 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 6.60% and 6.65%, respectively. The college contributes 1.31 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. Senate Bill (SB) 1812, 83rd Texas Legislature, Regular Session, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense to the State for the College was $687,118 and $922,493 for the fiscal years ended August 31, 2018 and 2017 respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for all College employees was $29,289,414 and $29,522,945 for fiscal years 2018 and 2017 respectively. The total payroll of employees covered by the Teacher Retirement System was $17,207,261 and $17,889,774, and the total payroll of employees covered by the Optional Retirement System was $10,411,134 and $9,773,267 for fiscal years 2018 and 2017, respectively.

## 15. Deferred Compensation Program

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

As of August 31, 2018, the College had 359 employees participating in the program. 209 employees were vested as of August 31, 2018. A total of $111,300 in contributions were invested in the plan during the fiscal year, bringing the total of deferred salaries and accumulated earnings of current employees to $1,888,167 and creating a payable to the vested employee of $1,698,714.

As of August 31, 2017, the College had 358 employees participating in the program. 207 employees were vested as of August 31, 2017. A total of $113,400 in contributions were invested in the plan during the fiscal year, bringing the total of deferred salaries and accumulated earnings of current employees to $1,828,328 and creating a payable to the vested employee of $1,632,251.

**16. Compensated Absences**

The College has adopted a "Use it or lose it" policy, and does not compensate for unused vacation or sick leave.

**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 monthly contribution per full-time employee varied depending on coverage for the years ended August 31, 2018 and 2017. Total contributions for August 31, 2018 and 2017 were $5,422,955 and $3,531,538 respectively. The cost of providing those benefits for retirees is not separable from the cost of providing benefits for the active employees. SB 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

**18. Other Post-Employment Benefits (OPEB)**

(In accordance with GASB Statement 75)

Plan Description.

The College participates in a cost-sharing, multiple-employer, other post-employment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain post-employment health care, life and dental insurance benefits to retired employees of participating universities, community colleges, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

OPEB Plan Fiduciary Net Position.

Detailed information about the GBP's fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report (CAFR) that includes financial statements, notes to the financial statements and required supplementary information. That report may be obtained on the Internet at https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management; or by writing to ERS at: 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377.

Benefits Provided.

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

Contributions.

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

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

Maximum Monthly Employer Contribution
Retiree Health and Basic Life Premium
Fiscal Year 2018

| | |
|---|---|
| Retiree only | $617.30 |
| Retiree & Spouse | $970.98 |
| Retiree & Children | $854.10 |
| Retiree & Family | $1,207.78 |

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

Premium Contributions by Source
Group Benefits Program Plan
For the Years Ended August 31, 2017

| | | 2017 |
|---|---|---|
| Employers | $ | 1,304,810 |
| Members (Employees) | | - |
| Nonemployer Contributing Entity (State of Texas) | | 958,286 |

Actuarial Assumptions.

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

| Actuarial Assumptions<br>ERS Group Benefits Program Plan | |
|---|---|
| | |
| Valuation date | August 31, 2017 |
| Actuarial cost method | Entry age |
| Amortization method | Level percent of payroll, open |
| Remaining amortization period | 30 years |
| Asset valuation method | N/A |
| Discount rate | 3.51% |
| Projected annual salary increase (includes inflation) | 2.50% to 9.50% |

| | |
|---|---|
| Annual healthcare trend rate | 8.50% for 2019, decreasing 0.5% per year to 4.50% for 2027 and later years |
| Inflation assumption rate | 2.50% |
| Ad hoc post-employment benefit changes | None |
| Mortality assumptions: | |
| Service retirees, survivors and other inactive members | Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 |
| Disability retirees | Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members) |
| Active members | Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB |

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

Investment Policy.

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

Discount Rate.

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

Discount Rate Sensitivity Analysis.

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

| | 1% Decrease in Discount Rate (2.51%) | Discount Rate (3.51%) | 1% Increase in Discount Rate (4.51%) |
|---|---|---|---|
| College's proportionate share of the net OPEB liability: | $52,193,194 | $43,723,593 | $37,163,129 |

Healthcare Trend Rate Sensitivity Analysis.

The initial healthcare trend rate is 8.5% and the ultimate rate is 4.5%. The following schedule shows the impact on the College's proportionate share of the collective net OPEB Liability if the healthcare cost trend rate used was 1 percent less than and 1 percent greater than the healthcare cost trend rate that was used (8.50%) in measuring the net OPEB liability.

| | 1% Decrease in Healthcare Cost Trend Rates (7.5% decreasing to 3.5%) | Current Healthcare Cost Trend Rates (8.5% decreasing to 4.5%) | 1% Increase in Healthcare Cost Trend Rates (9.5% decreasing to 5.5%) |
|---|---|---|---|
| College's proportionate share of the net OPEB liability: | $36,757,114 | $43,723,593 | $52,763,000 |

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.

At August 31, 2018, the College reported a liability of $43,723,593 for its proportionate share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to the College for OPEB. The amount recognized by the College as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

| | |
|---|---|
| College's Proportionate share of the collective net OPEB liability | $ 43,723,593 |
| State's proportionate share that is associated with College | $ 34,838,121 |
| Total | $ 78,561,714 |

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

At the measurement date of August 31, 2017, the College's proportion of the collective net OPEB liability was 0.12832324%. Since this is the first year of implementation, the College does not have the proportion measured as of August 31, 2016. The Notes to the Financial Statements for August 31, 2016 for ERS stated that the change in proportion was immaterial and, therefore, disregarded this year.

For the year ended August 31, 2018, the College recognized OPEB expense of $2,906,742 and revenue of $1,864,399 for support provided by the State.

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

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

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

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

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

These minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ - | $ 525,417 |
| Changes in actuarial assumptions | - | 9,142,079 |
| Difference between projected and actual investment earnings | 12,945 | - |
| Changes in proportion and difference between the employer's contributions and the proportionate share of contributions | - | - |
| Contributions paid to ERS subsequent to the measurement date [to be calculated by employer] | 1,304,810 | - |
| Total | $ 1,317,755 | $ 9,667,496 |

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

| Year Ended August 31: | | OPEB Expense Amount |
|---|---|---|
| 2019 | $ | (2,174,128) |
| 2020 | $ | (2,174,128) |
| 2021 | $ | (2,174,128) |
| 2022 | $ | (2,174,128) |
| 2023 | $ | (958,039) |
| Thereafter | | - |

## 19. Pending Lawsuits and Claims

None

## 20. Disaggregation of Receivables and Payables Balances

**Receivables**

Receivables at August 31, 2018 and 2017, were as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Student Receivables (Net of Allowance 3,594,654 and 3,391,113) | $ | 11,471,504 | $ | 9,673,327 |
| Taxes Receivable (Net of Allowance 58,253 and 53,453) | | 361,847 | | 342,896 |
| Bond Issue Receivable | | - | | 305,777 |
| Federal Receivable | | 194,881 | | 253,550 |
| State Receivable | | 48,016 | | 230,407 |
| Interest Receivable | | 2,557 | | 9,344 |
| Other Receivable | | 733,858 | | 713,706 |
| Total | $ | 12,812,663 | $ | 11,529,007 |

**Payables**

Payables at August 31, 2018 and 2017 were as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Vendors Payable | $ | 926,523 | $ | 1,245,701 |
| Salaries & Benefits Payable | | 3,760,546 | | 1,441,248 |
| Students Payable | | 706,022 | | 732,549 |
| Accrued Interest | | 246,052 | | 259,473 |
| Other Payable | | 34,336 | | 11,133 |
| Total | $ | 5,673,479 | $ | 3,690,104 |

## 21. Funds Held in Trust by Others

Not applicable.

## 22. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants (AICPA audit and accounting guide, *State and Local Governments*, 8.99). For Federal Contract and Grant Awards, funds expended but not collected are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services, are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2018 and 2017 for which monies have not been received nor funds expended totaled $3,328,399 and $13,362,299. Of these amounts, $3,328,399 and $4,262,299 were from Federal Contract and Grant Awards; $0.00 and $0.00 were from State Contract and Grant Awards; $0.00 and $500,000 from Local Contract and Grant Awards; and $0.00 and $8,600,000 were from Private Contract and Grant Awards for the fiscal years ended 2018 and 2017 respectively.

## 23. Self-Insured Plans

The College has no self-insurance arrangements. The College has various commercial insurance policies to cover the various risks of loss.

## 24. Ad Valorem Tax

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

At August 31:

| | 2018 | 2017 |
|---|---|---|
| Assessed Valuation of the College | $ 2,941,111,285 | $ 2,718,174,741 |
| Less: Exemptions | -393,989,260 | -387,829,268 |
| Add: Values Under Review | - | - |
| Net Assessed Valuation of the College | $ 2,547,122,025 | $ 2,330,345,473 |

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Current Operations | Debt Service | Total | Current Operations | Debt Service | Total |
| Authorized Tax Rate per $100 Valuation Maximum per enabling legislation | 0.400000 | 0.100000 | 0.500000 | 0.400000 | 0.100000 | 0.500000 |
| Assessed Tax Rate per $100 valuation | 0.395731 | 0.000000 | 0.395731 | 0.400000 | 0.000000 | 0.400000 |

Taxes levied for the years ended August 31, 2018 and 2017, amounted to $10,079,751 and $9,319,818 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.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Current Operations | Debt Service | Total | Current Operations | Debt Service | Total |
| Current Taxes Collected | $ 9,941,428 | $ - | $ 9,941,428 | $ 9,206,886 | $ - | $ 9,206,886 |
| Delinquent Taxes Collected | 129,923 | - | 129,923 | 119,975 | - | 119,975 |
| Penalties and Interest Collected | 90,032 | - | 90,032 | 86,850 | - | 86,850 |
| Total Gross Collections | $ 10,161,383 | - | $ 10,161,383 | $ 9,413,711 | $ - | $ 9,413,711 |
| Tax Appraisal & Collection Fees | -179,132 | - | -179,132 | -179,461 | - | -179,461 |
| Bad Debt Expense | -4,800 | - | -4,800 | -5,669 | - | -5,669 |
| Total Net Collections | $ 9,977,451 | $ - | $ 9,977,451 | $ 9,228,581 | $ - | $ 9,228,581 |

Tax collections for the years ended August 31, 2018 and 2017, were 98.4% and 98.1%, respectively of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted for the use of maintenance and/or general obligation debt service.

**25. Tax Abatements**

None

**26. Branch Campus Maintenance Tax**

Not applicable.

**27. Income Taxes**

The College is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the years ended August 31, 2018 and 2017.

## 28. Component Unit

South Plains College Foundation - Discrete Component Unit
South Plains College Foundation (the Foundation) was established as a separate nonprofit organization in 1979 for the purpose of providing student scholarships and assistance in the development and growth of the College.

Under Governmental Standards Board Statement 39, Determining Whether Certain Organizations are Component Units, the Foundation is a component unit of the college because:

- The College provides financial support to the Foundation and the economic resources received or held by the Foundation are entirely or almost entirely for the direct benefit of the College;
- The College is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the Foundation; and
- The economic resources held by the Foundation that the College is entitled or has the ability to otherwise access, are significant to the College.

Accordingly, the Foundation financial statements are included in the College's annual report as a discrete component unit (see table of contents). Complete financial statements of the South Plains College Foundation can be obtained from the administrative office of the Foundation/South Plains College.

## 29. Related Parties

Not applicable.

## 30. Subsequent Events

None

# REQUIRED SUPPLEMENTARY INFORMATION

## SOUTH PLAINS COLLEGE

*SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TEACHER RETIREMENT SYSTEM OF TEXAS LAST TEN FISCAL YEARS **

| | Measurement Year Ended August 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| College's proportion of the net pension liability (asset) | 0.021643054% | 0.021535552% | 0.021902500% | 0.024032400% | -- | -- | -- | -- |
| College's proportionate share of the net pension liability (asset) | $ 6,920,283 | $ 8,137,965 | $ 7,742,242 | $ 6,419,386 | $ -- | $ -- | $ -- | $ -- |
| State's proportionate share of the net pension liability (asset) associated with the College | 5,065,774 | 5,863,387 | 5,595,333 | 4,671,566 | -- | -- | -- | -- |
| Total | $ 11,986,057 | $ 14,001,352 | $ 13,337,575 | $ 11,090,952 | $ -- | $ -- | $ -- | $ -- |
| College's covered-employee payroll | $ 18,022,687 | $ 17,207,261 | $ 16,361,175 | $ 15,402,251 | $ -- | $ -- | $ -- | $ -- |
| College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 38.40% | 47.29% | 47.32% | 41.68% | -- | -- | -- | -- |
| Plan fiduciary net position as a percentage of the total pension liability | 82.17% | 78.00% | 78.43% | 83.25% | -- | -- | -- | -- |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

## SOUTH PLAINS COLLEGE

*SCHEDULE OF COLLEGE CONTRIBUTIONS*
*TEACHER RETIREMENT SYSTEM OF TEXAS*
*LAST TEN FISCAL YEARS **

| | Fiscal Year Ended August 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Contractually required contribution | $ 707,964 | $ 684,239 | $ 679,003 | $ 653,502 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| Contributions in relation to the contractually required contribution | (707,964) | (684,239) | (679,003) | (653,502) | -- | -- | -- | -- | -- | -- |
| Contribution deficiency (excess) | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| College's covered-employee payroll | $ 18,062,494 | $ 17,889,774 | $ 17,207,261 | $ 16,361,175 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| Contributions as a percentage of covered-employee payroll | 3.92% | 3.82% | 3.95% | 3.99% | -- | -- | -- | -- | -- | -- |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

## SOUTH PLAINS COLLEGE

*SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY TEACHER RETIREMENT SYSTEM OF TEXAS LAST TEN FISCAL YEARS **

| | Measurement Year Ended August 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| College's proportion of the collective net OPEB liability | 0.128323240% | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| College's proportionate share of the collective net OPEB liability | $ 43,723,593 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| State proportionate share of the collective net OPEB liability associated with the College | $ 34,838,121 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| Total | $ 78,561,714 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| College's covered-employee payroll | $ 24,896,761 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| College's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 175.62% | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Plan fiduciary net position as a percentage of the total OPEB liability | 2.04% | -- | -- | -- | -- | -- | -- | -- | -- | -- |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

## SOUTH PLAINS COLLEGE

*SCHEDULE OF THE COLLEGE'S OPEB CONTRIBUTIONS*
*TEACHER RETIREMENT SYSTEM OF TEXAS*
*LAST TEN FISCAL YEARS **

| | Fiscal Year Ended August 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Statutorily or contractually required College contribution | $ 1,304,810 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| Contributions recognized by OPEB in relation to statutorily or contractually required contribution | 1,304,810 | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Contribution deficiency (excess) | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| College's covered-employee payroll | $ 24,329,118 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| Contributions as a percentage of covered-employee payroll | 5.36% | -- | -- | -- | -- | -- | -- | -- | -- | -- |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

Changes in Benefit Terms

Under Q/A #4.107 of GASB's Implementation Guide No. 2017-2, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, the latest valuation reflects the benefit changes that became effective September 1, 2017, since these changes were communicated to plan members in advance of the preparation of the latest valuation report. The benefit changes for HealthSelect retirees and dependents for whom Medicare is not primary include:

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

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

Changes in Assumptions

Demographic Assumptions

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

In addition, the following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

--- Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
--- Proportion of future retirees covering dependent children.
--- Percentage of future retirees assumed to be married and electing coverage for their spouse.

Economic Assumptions

The assumed rate of general inflation has been updated since the previous valuation to remain consistent with the ERS retirement plan assumption previously adopted by the ERS Trustees.

Assumptions for Expenses, Assumed Per Capita Health Benefit Costs and Health Benefit Cost, Retiree Contribution and Expense trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations and the revised assumed rate of general inflation.

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

Minor benefit changes have been reflected in the FY 2018 Assumed Per Capita Health Benefit Costs.

# OTHER SUPPLEMENTARY INFORMATION

## SCHEDULE OF OPERATING REVENUES

**YEAR ENDED AUGUST 31, 2018 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2017)**

| | Unrestricted | Restricted | Total Educational Activities | Auxiliary Enterprises | 2018 Total | 2017 Total |
|---|---|---|---|---|---|---|
| Tuition: | | | | | | |
| State funded credit courses: | | | | | | |
| In-district resident tuition | $ 470,331 | $ - | $ 470,331 | $ - | $ 470,331 | $ 440,371 |
| Out-of-district resident tuition | 12,884,908 | - | 12,884,908 | - | 12,884,908 | 11,753,657 |
| Non-resident tuition | 1,175,737 | - | 1,175,737 | - | 1,175,737 | 1,088,124 |
| TPEG - credit (set aside) * | 298,196 | - | 298,196 | - | 298,196 | 299,845 |
| State-funded continuing education | 145,355 | - | 145,355 | - | 145,355 | 178,254 |
| Non-state funded educational programs | 193,343 | - | 193,343 | - | 193,343 | 204,651 |
| Total Tuition | 15,167,870 | - | 15,167,870 | - | 15,167,870 | 13,964,902 |
| Fees: | | | | | | |
| General | 12,902,047 | - | 12,902,047 | - | 12,902,047 | 12,854,271 |
| Student service fee | 1,592,029 | - | 1,592,029 | - | 1,592,029 | 1,474,488 |
| Special course Fees | 954,077 | - | 954,077 | - | 954,077 | 966,832 |
| Installment plan fees | 87,545 | - | 87,545 | - | 87,545 | 29,000 |
| Continuing education fees | 85,820 | - | 85,820 | - | 85,820 | 320,767 |
| Three peat fee | 176,756 | - | 176,756 | - | 176,756 | 192,255 |
| Testing fee | 111,393 | | 111,393 | | 111,393 | 93,232 |
| Reinstatement fee | 1,050 | - | 1,050 | - | 1,050 | 700 |
| Total Fees | 15,910,717 | - | 15,910,717 | - | 15,910,717 | 15,931,545 |
| Scholarship allowances and discounts: | | | | | | |
| Bad debt allowances | (99,299) | - | (99,299) | - | (99,299) | (154,112) |
| Remissions and exemptions - state | (2,717,498) | - | (2,717,498) | - | (2,717,498) | (2,303,234) |
| Remissions and exemptions - local | - | - | - | - | - | - |
| Title IV federal grants | (11,219,145) | - | (11,219,145) | - | (11,219,145) | (9,946,275) |
| TPEG awards | (124,367) | - | (124,367) | - | (124,367) | (179,060) |
| Scholarship allowances | (617,446) | - | (617,446) | - | (617,446) | (626,913) |
| Total Scholarship Allowances | (14,777,755) | - | (14,777,755) | - | (14,777,755) | (13,209,594) |
| **Total net tuition and fees** | 16,300,832 | - | 16,300,832 | - | 16,300,832 | 16,686,853 |
| Additional operating revenues: | | | | | | |
| Federal grants and contracts | 86,481 | 1,888,188 | 1,974,669 | - | 1,974,669 | 1,689,964 |
| State grants and contracts | - | 795,983 | 795,983 | - | 795,983 | 861,592 |
| Non-governmental grants and contracts | - | 43,894 | 43,894 | - | 43,894 | 47,750 |
| Sales and services of educational activities | 180,557 | - | 180,557 | - | 180,557 | 128,578 |
| Investment income (program restricted) | - | 1,693 | 1,693 | - | 1,693 | 1,589 |
| General operating revenues | 208,234 | - | 208,235 | - | 208,235 | 217,648 |
| **Total additional operating revenues** | 475,272 | 2,729,758 | 3,205,031 | - | 3,205,031 | 2,947,121 |
| Auxiliary Enterprises: | | | | | | |
| Residential life | - | - | - | 2,126,894 | 2,126,894 | 2,106,463 |
| Scholarship allowances | - | - | - | (192,170) | (192,170) | (182,200) |
| TPEG awards | - | - | - | (21,863) | (21,863) | (14,442) |
| Title IV federal grants | - | - | - | (527,357) | (527,357) | (567,515) |
| Commissions | - | - | - | 330,373 | 330,373 | 347,141 |
| Student Programs | - | - | - | 158,380 | 158,380 | 237,282 |
| **Total net auxiliary enterprises** | - | - | - | 1,874,257 | 1,874,257 | 1,926,729 |
| **Total Operating Revenues** | $ 16,776,104 | $ 2,729,758 | $ 19,505,863 | $ 1,874,257 | $ 21,380,120 | $ 21,560,703 |
| | | | | | **(Exhibit 2)** | **(Exhibit 2)** |

* In accordance with Education Code 56.033, $298,196 and $299,845 for years August 31, 2018 and 2017, respectively, of tuition was set aside for Texas Public Education grants (TPEG)

## SCHEDULE OF OPERATING EXPENSES BY OBJECT
## YEAR ENDED AUGUST 31, 2018 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2017

| | Operating Expenses | | | | | |
|---|---|---|---|---|---|---|
| | Salaries and Wages | Benefits State | Benefits Local | Other Expenses | 2018 Total | 2017 Total |
| Unrestricted - Educational Activities | | | | | | |
| Instruction | $ 18,249,439 | $ - | $ 4,806,273 | $ 2,282,808 | $ 25,338,520 | $ 26,969,710 |
| Public Service | 220,660 | - | 51,447 | 157,787 | 429,894 | 773,262 |
| Academic Support | 1,823,862 | - | 660,227 | 374,483 | 2,858,572 | 2,828,290 |
| Student Services | 2,544,674 | - | 918,925 | 1,993,503 | 5,457,102 | 5,383,113 |
| Institutional Support | 3,116,722 | - | 3,220,657 | 1,748,567 | 8,085,946 | 6,786,496 |
| Operation and Maintenance of Plant | 1,993,783 | - | 1,276,373 | 3,006,635 | 6,276,791 | 6,471,533 |
| Scholarships and Fellowships | - | - | - | 49,843 | 49,843 | 77,818 |
| **Total Unrestricted Educational Activities** | 27,949,140 | - | 10,933,902 | 9,613,626 | 48,496,668 | 49,290,222 |
| Restricted - Educational Activities | | | | | | |
| Instruction | 383,783 | 2,988,029 | 105,994 | 488,126 | 3,965,932 | 3,932,258 |
| Public Service | - | 24,204 | - | - | 24,204 | 46,320 |
| Academic Support | - | 281,538 | - | - | 281,538 | 288,307 |
| Student Services | 475,400 | 424,746 | 191,584 | 130,183 | 1,221,913 | 1,333,167 |
| Institutional Support | - | 2,391,556 | - | 1,201 | 2,392,757 | 439,340 |
| Operation and Maintenance of Plant | - | - | - | - | - | - |
| Scholarships and Fellowships | - | - | - | 6,510,427 | 6,510,427 | 5,467,222 |
| **Total Restricted Educational Activities** | 859,183 | 6,110,073 | 297,578 | 7,129,937 | 14,396,771 | 11,506,614 |
| **Total Educational Activities** | 28,808,323 | 6,110,073 | 11,231,480 | 16,743,563 | 62,893,439 | 60,796,836 |
| **Auxiliary Enterprises** | 204,806 | - | 91,712 | 1,895,282 | 2,191,800 | 3,842,195 |
| **Depreciation Expense - Buildings and other real estate improvements** | - | - | - | 1,492,956 | 1,492,956 | 1,362,502 |
| **Depreciation Expense - Equipment and furniture** | - | - | - | 972,778 | 972,778 | 948,903 |
| **Depreciation Expense - Library books** | - | - | - | 202,716 | 202,716 | 196,120 |
| **Total Operating Expenses** | **$ 29,013,129** | **$ 6,110,073** | **$ 11,323,192** | **$ 21,307,295** | **$ 67,753,689** | **$ 67,146,556** |
| | | | | | (Exhibit 2) | (Exhibit 2) |

## SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
## YEAR ENDED AUGUST 31, 2018 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2017)

| | Unrestricted | Restricted | Auxiliary Enterprises | 2018 Total | 2017 Total |
|---|---|---|---|---|---|
| NON-OPERATING REVENUES: | | | | | |
| State appropriations: | | | | | |
| Education and general state support | $ 13,612,134 | $ - | $ - | $ 13,612,134 | $ 13,971,307 |
| State group insurance | - | 5,422,955 | - | 5,422,955 | 3,531,538 |
| State retirement matching | - | 687,118 | - | 687,118 | 922,493 |
| Hazlewood appropriation | - | - | - | - | - |
| Professional nursing shortage reduction | - | 19,825 | - | 19,825 | - |
| Total state appropriations | 13,612,134 | 6,129,898 | - | 19,742,032 | 18,425,338 |
| Maintenance ad valorem taxes | 10,156,583 | - | - | 10,156,583 | 9,408,042 |
| Federal Revenue, Non-Operating | - | 17,132,884 | - | 17,132,884 | 15,649,277 |
| Gifts | 450 | - | - | 450 | 969,370 |
| Gifts in Kind | 13,915 | - | - | 13,915 | 16,032 |
| Girts in Aid of Debt Service | 4,000,000 | - | - | 4,000,000 | - |
| Gifts in Aid of Construction | 2,100,000 | - | - | 2,100,000 | - |
| Gain on disposal of capital assets | 9,252 | - | - | 9,252 | - |
| Investment income | 338,624 | - | 26,112 | 364,736 | 226,653 |
| Total non-operating revenues | 30,230,958 | 23,262,782 | 26,112 | 53,519,852 | 44,694,712 |
| NON-OPERATING EXPENSES: | | | | | |
| Interest on capital related debt | (694,878) | - | - | (694,878) | (616,585) |
| Total non-operating expenses | (694,878) | - | - | (694,878) | (616,585) |
| **Net non-operating revenues** | $ 29,536,080 | $ 23,262,782 | $ 26,112 | $ 52,824,974 | $ 44,078,127 |
| | | | | **(Exhibit 2)** | **(Exhibit 2)** |

## SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
## YEAR ENDED AUGUST 31, 2018 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2017)

| | Detail by Source | | | | | Available for Current Operations | |
|---|---|---|---|---|---|---|---|
| | | Restricted | | | | | |
| | Unrestricted | Expendable | Non-Expendable | Capital Assets Net of Depreciation & Related Debt | Total | Yes | No |
| Current: | | | | | | | |
| Unrestricted | $ (45,802,029) | $ - | $ - | $ - | $ (45,802,029) | $ (45,802,029) | $ - |
| Restricted | - | 790,516 | - | - | 790,516 | | 790,516 |
| Auxiliary enterprises | 2,693,836 | - | - | - | 2,693,836 | 2,693,836 | |
| Plant: | | | | | | - | - |
| Unexpended | - | - | - | - | - | - | - |
| Debt Service | - | - | - | 1,667,091 | 1,667,091 | - | 1,667,091 |
| Investment in Plant | - | - | - | 52,978,456 | 52,978,456 | - | 52,978,456 |
| **Total Net Position, August 31, 2018** | **$ (43,108,193)** | **$ 790,516** | **$ -** | **$ 54,645,547** | **$ 12,327,870** (Exhibit 1) | **$ (43,108,193)** | **$ 55,436,063** |
| **Total Net Position, August 31, 2017** | **7,506,828** | **900,167** | **-** | **48,500,461** | **56,907,456** (Exhibit 1) | **7,506,828** | **49,400,628** |
| **Prior Period Adjustment** | **(51,030,991)** | **-** | **-** | **-** | **(51,030,991)** | **-** | **-** |
| **Adjusted Net Position, August 31, 2017** | **(43,524,163)** | **900,167** | **-** | **48,500,461** | **5,876,465** | | |
| **Net Increase (Decrease) in Net Position** | **$ (50,615,021)** | **$ (109,651)** | **$ -** | **$ 6,145,086** | **$ (44,579,586)** (Exhibit 2) | **$ (50,615,021)** | **$ 6,035,435** |

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED AUGUST 31, 2018 AND 2017

| Federal Grantor/Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Pass-Through Disbursements and Expenditures |
|---|---|---|---|
| U.S. Department of Education | | | |
| Direct Programs: | | | |
| Student Financial Aid Cluster | | | |
| Federal SEOG | 84.007 * | | $ 180,397 |
| Federal Work Study | 84.033 * | | 231,721 |
| Federal Pell Grant (BEOG) | 84.063 * | | 16,957,319 |
| Direct Loans | 84.268 * | | 11,999,629 |
| Sub-Total Student Financial Aid Cluster | | | 29,369,066 |
| TRIO Cluster | | | |
| TRIO-Student Support Services | 84.042 * | | 250,141 |
| TRIO-Upward Bound program | 84.047 * | | 293,150 |
| Sub-Total TRIO Cluster | | | 543,291 |
| Strengthening High-Demand Technical/Health Occupations | 84.031S | | 669,231 |
| Pass-Through From: | | | |
| Texas Higher Education Coordinating Board | | | |
| Career & Technical Education-Basic Grants | 84.048 | 174255 | 506,308 |
| Total U.S. Department of Education | | | 31,087,896 |
| U.S. Department of Health and Human Services | | | |
| Pass-Through From: | | | |
| Texas Tech University | | | |
| Plains Bridges to the Baccalaureate: Increasing Minorities in Science | 93.859 | 21F085-01 | 19,287 |
| Total U.S. Department of Health and Human Services | | | 19,287 |
| Total Federal Financial Assistance | | | $ 31,107,183 |

* Cluster Program

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Federal Assistance Reconciliation

| | |
|---|---|
| Federal Revenues - per Schedule A | $ 1,974,669 |
| Add: Non Operating Federal Revenue from Schedule C | 17,132,884 |
| Total Federal Financial Assistance-per Schedule A and C | 19,107,553 |
| Reconciling Item: | |
| Add: Direct Loans | 11,999,629 |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018 AND 2017

| Federal Grantor/Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Pass-Through Disbursements and Expenditures |
|---|---|---|---|
| Total Federal Revenues - per Schedule of Expenditures of Federal Awards | | | $ 31,107,183 |

Note 2. Significant Accounting Policies Used in Preparing the Schedule

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

Note 3. Student Loans Processed and Administrative Costs Recovered

| Federal Grantor CFDA Number/Program Name | Total Loans Processed |
|---|---|
| U.S. Department of Education | |
| 84.268 Direct Loans | $ 11,999,629 |
| Total U.S. Department of Education | $ 11,999,629 |

(Administrative cost recovered and included in above amount - $ 0)

## SCHEDULE OF EXPENDITURES OF STATE AWARDS
## FOR THE YEAR ENDED AUGUST 31, 2018 AND 2017

| Grantor Agency/ Program Title | Grantor Contract Number | Expenditures |
|---|---|---|
| Texas Higher Education Coordinating Board | | |
| Texas Educational Opportunity Grant | 13399 | $ 776,233 |
| TEA Education Aide | 36010 | 12,195 |
| Texas Regional Alignment Networks | 18247 | 6,354 |
| Nursing Shortage Reduction Program | 13129 | 154,000 |
| Total Texas Higher Education Coordinating Board | | 948,782 |
| Texas Comptroller of Public Accounts | | |
| Peace Officer Allocation | | 1,201 |
| Total State Financial Assistance | | $ 949,983 |

Notes to the Schedule of Expenditures of State Awards

Note 1. State Assistance Reconciliation

| | |
|---|---|
| State Revenues - per Schedule A | $ 795,983 |
| Total State Financial Assistance - per Schedule of Expenditures of State Awards | 949,983 |
| Difference ( Nursing Shortage Reduction Program Expenditures $154,000) | $ (154,000) |

Note 2. Significant Accounting Policies Used in Preparing the Schedule

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

KEITH DOWNS, C.P.A
RUSS PINKERTON, C.P.A

# PATE, DOWNS & PINKERTON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS
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EMAIL: pdpllp@pdpllp.com

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* and *the State of Texas Single Audit Circular*

Board of Regents
South Plains College
1401 S College Avenue
Levelland, Texas 79336

Members of the Board of Regents:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and *the State of Texas Single Audit Circular*, the financial statements of South Plains College, and the discretely presented component unit, as of and for the years ended August 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise South Plains College's financial statements, and have issued our report thereon dated November 15, 2018.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether South Plains College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance

with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or *the State of Texas Single Audit Circular*.

**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 and the State of Texas Single Audit Circular* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Pate, Downs & Pinkerton, LLP

Pate, Downs & Pinkerton, LLP

Levelland, Texas
November 15, 2018

KEITH DOWNS, C.P.A
RUSS PINKERTON, C.P.A

# PATE, DOWNS & PINKERTON, L.L.P.

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance and *the State of Texas Single Audit Circular*

Board of Regents
South Plains College
1401 S College Avenue
Levelland, Texas 79336

Members of the Board of Regents:

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

We have audited South Plains College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and *the State of Texas Single Audit Circular* that could have a direct and material effect on each of South Plains College's major federal and state programs for the years ended August 31, 2018 and 2017. South Plains College's major federal and state 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 federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of South Plains College's major federal and state 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirments, Cost Principles*, and *Audit Requirements for Federal Awards* (Uniform Guidance) and *the State of Texas Single Audit Circular*. Those standards, the Uniform Guidance and *the State of Texas Single Audit Circular* 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 or state program occurred. An audit includes examining, on a test basis, evidence about South Plains College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal and State Program***

In our opinion, South Plains College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2018 and 2017.

**Report on Internal Control Over Compliance**

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control* over compliance is a deficiency, or a 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 or state 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 and state 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 considered 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 and *the State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Pate, Downs & Pinkerton, LLP

Pate, Downs & Pinkerton, LLP

Levelland, Texas
November 15, 2018

SOUTH PLAINS COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2018

## A. Summary of Auditors' Results

1. Financial Statements

| | | | | |
|---|---|---|---|---|
| Type of auditors' report issued: | Unqualified | | | |
| Internal control over financial reporting: | | | | |
| Material weakness(es) identified? | ____ | Yes | X | No |
| Significant deficiency (ies) identified that are not considered to be material weaknesses? | ____ | Yes | X | None Reported |
| Noncompliance material to financial statements noted? | ____ | Yes | X | No |

2. Federal Awards

| | | | | |
|---|---|---|---|---|
| Type of auditors' report issued on compliance for major programs: | Unqualified | | | |
| Internal control over major programs: | | | | |
| Material weakness(es) identified? | ____ | Yes | X | No |
| Significant deficiency (ies) identified that are not considered to be material weaknesses? | ____ | Yes | X | None Reported |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 or section 510(a) of Uniform Grant Management Standards? | ____ | Yes | X | No |

Identification of major programs:

| Federal Programs | Federal CFDA Number | State Programs |
|---|---|---|
| Federal SEOG | 84.007* | Texas Educational |
| Federal Work Study | 84.033* | Opportunity Grant |
| Federal Pell Grant | 84.063* | |
| Direct Loans | 84.268* | |
| Dollar threshold used to distinguish between type A and type B programs: | $750,000 | $750,000 |

| | | | | |
|---|---|---|---|---|
| Auditee qualified as low-risk auditee? | X | Yes | ____ | No |

## B. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Auditing Standards

None

## C. Findings and Questioned Cost for Major Federal and State Award Programs

| Program | Finding/noncompliance | Questioned Costs |
|---|---|---|
| None | | |

* Cluster Program

**SOUTH PLAINS COLLEGE**

**CORRECTIVE ACTION PLAN**
**FOR THE YEAR ENDED AUGUST 31, 2018**

**Findings - Financial Statement Audit**

NONE

**Findings - Federal Award Programs Audits**

NONE

**SOUTH PLAINS COLLEGE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**
**FOR THE YEAR ENDED AUGUST 31, 2018**

NONE