

# Kilgore Junior College District

## Kilgore, Texas

Comprehensive Annual Financial Report  
For the Fiscal Year Ended August 31, 2018



# Kilgore Junior College District

1100 Broadway Boulevard

Kilgore, Texas 75662-3204

[www.kilgore.edu](http://www.kilgore.edu)

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FOR THE FISCAL YEAR ENDED AUGUST 31, 2018**

**PREPARED BY BUSINESS OFFICE**

Fred Gore, Vice President of Administrative  
Services Chief Financial Officer

Nancy Wylie, Controller

**Kilgore Junior College District**  
 Comprehensive Annual Financial Report  
 For the Fiscal Year Ended August 31, 2018  
 Table of Contents

	Page	Exhibit
<b>Introductory Section</b>		
Organizational Data .....	3	
Transmittal Letter .....	5	
GFOA Certificate of Achievement .....	8	
<b>Financial Section</b>		
Independent Auditor's Report .....	11	
Management's Discussion and Analysis .....	17	
<b>Basic Financial Statements</b>		
Statements of Net Position .....	26	1
Statements of Financial Position – The Kilgore College Foundation .....	27	1A
Statements of Revenues, Expenses and Changes in Net Position .....	28	2
Statements of Activities – The Kilgore College Foundation .....	29	2A
Statements of Cash Flows .....	30	3
Notes to the Financial Statements .....	31	
	Page	RSS
<b>Required Supplementary Information</b>		
Schedule of the District's Proportionate Share of the Net Pension Liability of a Cost-Sharing Multiple-Employer Pension Plan Teacher Retirement System of Texas .....	62	1
Schedule of the District's Contributions to the Teacher Retirement System of Texas Pension Plan .....	63	2
Schedule of the District's Proportionate Share of the Net OPEB Liability of a Cost-Sharing Multiple-Employer OPEB Plan Employees Retirement System of Texas .....	64	3
Schedule of the District's Contributions to the Teacher Retirement System of Texas OPEB Plan .....	65	4
Notes to the Required Supplementary Information .....	67	
	Page	Schedule
<b>Supplementary Information</b>		
Schedule of Operating Revenues .....	71	A
Schedule of Operating Expenses by Object .....	72	B
Schedule of Nonoperating Revenues and Expenses .....	74	C
Schedule of Net Position by Source and Availability .....	76	D
Schedule of Expenditures of Federal Awards .....	78	E
Notes to the Schedule of Expenditures of Federal Awards .....	79	
Schedule of Expenditures of State Awards .....	80	F
Notes to the Schedule of Expenditures of State Awards .....	81	

**Kilgore Junior College District**  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended August 31, 2018  
Table of Contents - Continued

**Federal and State Awards Section**

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	83
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance .....	85
Schedule of Findings and Questioned Costs .....	87
Corrective Action Plan .....	93

# Introductory Section



**Kilgore Junior College District**  
 Organizational Data  
 For the Fiscal Year Ended August 31, 2018

**Board of Trustees**

<u>Officers</u>	<u>Term Expires</u> <u>May</u>
Larry A. Woodfin, President	2023
Brian Nutt, Vice President	2019
J. Karol Pruett, Secretary	2021
 <u>Members</u>	
G. Scott Andrews	2023
Joe Carrington	2019
Lon Ford	2023
Janice Bagley	2019
Jon Rowe	2021
Cecilia Sanders	2021

**Principal Administrative Officers**

<u>Name</u>	<u>Department</u>
Dr. Brenda Kays	President
Dr. Michael Turpin	Vice-President of Instruction
Fred Gore	Vice-President of Administrative Services, Chief Financial Officer
Nancy Wylie	Controller
Dr. Michael W. Jenkins	Vice-President of Student Development
Dr. Staci Martin	Vice-President of Institutional Planning
Michael Hageloh	Chief Development Officer
Tony Johnson	Director of Human Resources
Nancy Law	Assistant to the President
Dr. Julie H. Fowler	Community Relations Executive Dean KC-Longview





March 18, 2019

Honorable Chair, Board of Trustees, and President  
The Citizens of the Kilgore Junior College District

Dear Board Members and President:

The following comprehensive annual financial report of the Kilgore Junior College District (“the District”) for the fiscal year ended August 31, 2018, is hereby submitted. Responsibility for the preparation and integrity of the financial information, and the completeness and fairness of the presentation, including all disclosures, rests with the District. The District relies upon a comprehensive framework of internal controls. Since the cost of controls should not exceed the benefits derived, the internal controls are designed to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

The financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and follow any applicable Governmental Accounting Standards Board (GASB) pronouncements. The independent accounting firm of Weaver & Tidwell, L.L.P. conducted the audit of the financial statements and related notes and has issued unmodified (“clean”) opinion on the Kilgore Junior College financial statements for the year ended August 31, 2018.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

#### PROFILE OF DISTRICT

The Kilgore Junior College District main campus is located in Kilgore, Texas, a city of approximately 14,000, located in the northeast section of the state commonly referred to as the Piney Woods. Additionally, since 1976, the District has maintained an educational center in Longview. The District was created in 1935 as a part of the Kilgore Independent School District. In 1946, additional school districts were invited to join a union for junior college purposes and the District is currently comprised of seven independent school districts including Gladewater, Kilgore, Leverett’s Chapel, Overton, Sabine, West Rusk County Consolidated and White Oak school districts located in Gregg, Rusk, Smith and Upshur counties. The District is governed by a nine-member Board of Trustees, which has governance responsibilities over all activities related to the District. This District is considered a special-purpose government engaged in business-type activities for financial reporting purposes.

The Kilgore Junior College District is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award associates degrees in Arts, Mathematical Sciences, Business, Computer Science, Public Service, Industrial Technologies, Science and Health Sciences. The District also offers education and training in a wide variety of workforce programs. Kilgore College is also the home of excellent athletic programs, the world famous Kilgore College Rangerettes, and The East Texas Oil Museum.

## COMPONENT UNIT REPORTING

In accordance with the provisions of GASB 39, the financial statements of the Kilgore College Foundation, a separate 501(c)(3) corporation, are presented discretely in the accompanying financial statements. The Kilgore College Foundation is a nonprofit corporation organized under the Texas Corporation Act. Its mission is to support educational, scientific and charitable purposes in order to promote and support the District.

## MISSION STATEMENT

The mission of Kilgore College is to “provide a learner-centered environment that focuses on student access, success and completion via collaborative partnerships.”

- Kilgore College promotes **access** through its open-door admission, distance learning opportunities, dual credit courses, developmental education, continuing education, and comprehensive financial aid programs.
- Kilgore College promotes **success** through high quality innovative instruction and holistic student support service and activities.
- Kilgore College promotes **completion** by providing a foundation for students to flourish either through university transfer or entry into the workforce as highly skilled and technologically advanced employees.
- Kilgore College leads and promotes **partnerships** through outreach to area schools and universities, small business/entrepreneurial expansion, adult education and literacy, responsiveness to economic development needs, and promotion of social and cultural advancement.

## FINANCIAL CONDITION

Although Kilgore College experienced a modest decline in enrollment, the District was able to maintain the level tuition and fees revenues through an increase in tuition and fees rates. Despite the increase in rates, Kilgore College’s tuition and fee levels continue to be among the lowest of the fifty Texas community colleges. The cost of attending Kilgore College continues to be very affordable. Efforts on the part of the District to support student progress toward a degree, offer additional continuing education opportunities to meet market needs, and partner with other educational institutions are expected to stabilize and increase enrollments.

The District was pleased to see an increase in its property tax base during FY18 which will lead to increase tax revenues for the District in FY19. The District’s Board was able to balance the FY19 budget without raising the District tax rate and should realize an increase of property tax revenues of 4% over FY18.

Recognizing that revenues from state appropriations are not likely increase, the District has actively continued to review the viability of its programs and its staffing and expense levels. With regard to the manner in which revenues for the District might be enhanced, the District has raised tuition and fees for the 2018-2019 fiscal year, implemented new partnerships, added new adult education programs, and upgraded its development efforts.

## FINANCIAL PLANNING AND BUDGETING

The Board provides leadership and guidance in developing the District’s long-term goals and strategic plans. The Board reviews educational programs, student activities, fiscal needs, and facilities to meet the future needs of the District and community. Current goals are outlined in the Kilgore College “Strategic Plan 2016 – 2019.” This strategic plan reflects the input of the Board of Trustees, faculty, staff, students and the communities served by the District. The Strategic Plan 2016 – 2019 includes the following goals:

- I. Improve student learning and success
- II. Enhance college resources to adequately support student learning and success

- III. Provide students with safe, well-maintained, and accessible environments that foster student achievement and engagement
- IV. Provide instructional programming that enables students to achieve marketable credentials that provide a living wage by focusing and aligning workforce curriculum with service area industry standards and needs

Each of the above goals is supported by specific, actionable steps to enable the District to accomplish each goal. The strategic plan has now been extended to 2021 by the Board of Trustees.

An itemized budget covering the operation of the District must be approved on or before September 1<sup>st</sup> of each year for the fiscal year. The annual budget is developed based upon budget requests of each department budget manager and further scrutinized by their supervising managers and the executive team. After this information is collected, it is compiled into a proposed District-wide budget. That budget, accompanied by revenue projections is then presented to the Board for their review. The revenues and expenditures of the District are monitored by the President, the Vice President of Administration/CFO, and the Board to ensure that the adopted budget of the District is being adhered to and to maintain a balanced budget. Department heads may transfer resources within a department as they see fit. However, additions to the budget or unusual transactions require oversight and approval by the President or her designee, or the Board.

#### CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Kilgore Junior College District for its comprehensive annual financial report (CAFR) for the fiscal year ended August 31, 2017. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standard for preparation of a state and local government financial report.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. The 2017 report was the first submission for the District. We believe that our current CAFR will also meet the Certificate of Achievement Program's requirements.

#### ACKNOWLEDGEMENTS

We are grateful to the Board of Trustees for its interest in planning and oversight of the financial operations of the District. We especially want to acknowledge the staff of the Business Office for their hard work and dedicated service, for we could not have accomplished the preparation of this report without their diligent efforts. We would also like to thank the accounting firm of Weaver & Tidwell for their assistance with the audit.

Respectively submitted,



Frederic S. Gore, CPA  
Vice President of Administration/CFO



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Kilgore Junior College District**  
**Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2017**

*Christopher P. Morrill*

Executive Director/CEO

# Financial Section



## Independent Auditor's Report

To the Board of Trustees of  
Kilgore Junior College District  
Kilgore, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the Kilgore Junior College District (the District), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, The Kilgore College Foundation (Foundation), as of and for the years ended August 31, 2018 and 2017. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

To the Board of Trustees of  
Kilgore Junior College District

### ***Opinion***

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of August 31, 2018, and the changes in financial position and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### *Change in Accounting Principle*

As discussed in Note 2. and Note 25. to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective September 1, 2017. The implementation of this statement resulted in a restatement of net position as of August 31, 2017 in the amount of \$38,805,220. Our opinion is not modified with respect to this matter.

#### *Predecessor Auditor*

The financial statements of the District for the year ended August 31, 2017 were audited by another auditor whose report dated December 6, 2017, expressed an unmodified opinion on those statements.

### ***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 Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The Introductory Section and Supplementary Information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the Schedule of Expenditures of State Awards, as required by the State of Texas Single Audit Circular contained in the Governor's Office of Budget and Planning *Uniform Grant Management Standards*, are also presented for purposes of additional analysis and are also not a required part of the basic financial statements.

To the Board of Trustees of  
Kilgore Junior College District

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

The Introductory Section (Other Information) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 District'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* in considering the District's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
March 18, 2019



## **Management's Discussion and Analysis**



## Management's Discussion and Analysis

Our discussion and analysis of Kilgore Junior College District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2018, with fiscal year 2017 and 2016 data presented for comparative purposes. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes.

### Using this Annual Financial Report

This annual financial report consists of a series of financial statements. The Texas Higher Education Coordinating Board requires all Texas public junior and community colleges to use the *Annual Financial Reporting Requirements for Texas Public Community Colleges* for consistent and uniform reporting. It is intended that each public community and junior college adopt the business-type activities (BTA) model for use in preparing their annual financial reports.

The Statement of Net Position includes all assets and liabilities. The focus of the statement is to report the net resources available to finance future operations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the good or service is provided; and, expenses and liabilities are recognized when others provide the good or service, regardless of when cash is exchanged. The statement is useful to determine the assets available to fund services, as well as identify what the District owes vendors, bondholders, and others at the end of the year. The Statement of Net Position presents to the readers of the financial statements a fiscal snapshot of the District.

The Statement of Revenues, Expenses, and Changes in Net Position provides information about the activities of the District as a whole and presents a longer-term view of the District's finances. The District is dependent on three primary sources of revenues: federal and state funding, tuition and fees, and ad-valorem taxes. Activities are presented as either operating or nonoperating. Under this reporting model, state appropriations, ad-valorem taxes and certain federal revenue are reported as nonoperating revenues. Because of the District's dependency on the nonoperating revenues, there is a significant operating deficit. The utilization of long-term assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities

### Change in Accounting Principle

In fiscal year 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – which supersedes GASB Statement No. 45.

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense related to the OPEB plan. Note disclosure and RSI requirements about the OPEB plan also are addressed. The implementation of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. Refer to Note 13. for more information regarding the District's OPEB plan. The implementation of Statement No. 75 resulted in the retroactive reduction of the District's beginning net position by \$38,805,220. See Note 25. for details of the District's prior period adjustment and restatement of beginning net position.

## Statement of Net Position

The District's combined net position decreased \$39.2 million compared to a \$1.4 million increase in the prior year, decreasing from \$69.9 million to \$30.6 million.

### Condensed Statement of Net Position

	2018	2017	2016	2017 to 2018 Change
Current assets	\$ 21,969,487	\$ 21,375,902	\$ 21,241,677	\$ 593,585
Noncurrent assets	12,567,506	12,506,835	11,566,059	60,671
Noncurrent capital assets	47,449,347	48,251,378	48,722,039	(802,031)
<b>Total assets</b>	<b>81,986,340</b>	<b>82,134,115</b>	<b>81,529,775</b>	<b>(147,775)</b>
Total deferred outflows of resources	1,722,832	1,797,899	2,214,478	(75,067)
Current liabilities	5,687,785	5,875,296	6,147,741	(187,511)
Noncurrent liabilities	38,463,296	6,381,637	7,102,981	32,081,659
<b>Total liabilities</b>	<b>44,151,081</b>	<b>12,256,933</b>	<b>13,250,722</b>	<b>31,894,148</b>
Total deferred inflows of resources	8,913,111	1,816,537	1,966,466	7,096,574
Net position:				
Net investment in capital assets	47,016,928	47,301,334	47,371,989	(284,406)
Restricted	11,460,001	11,956,972	11,219,976	(496,971)
Unrestricted (deficit)	(27,831,949)	10,600,238	9,905,100	(38,432,187)
<b>Total net position</b>	<b>\$ 30,644,980</b>	<b>\$ 69,858,544</b>	<b>\$ 68,497,065</b>	<b>\$ (39,213,564)</b>

The Statement of Net Position helps identify the entity's ability to meet future obligations. One of the analytical tools used to determine this is comparing the current assets to current liabilities, or the current ratio. Current assets are those assets which can be converted quickly to pay current obligations, while current obligations are those obligations which are expected to be satisfied within one business cycle. The District's current assets of \$22.0 million were sufficient to cover current liabilities of \$5.7 million, giving a current ratio of 3.9 compared to 3.6 in fiscal year 2017.

Another analytical tool used to evaluate the financial stability of an entity is to compare expendable net position to operating expenses. The District reported a deficit expendable net position of \$(26.9) million at August 31, 2018 compared to a positive \$15.2 million at August 31, 2017. Operating expenses for the same period were \$49.3 million and \$47.1 million. The District reports a deficit in expendable net position at August 31, 2018 as a result of implementing Government Accounting Standards Board Statement No. 75. The District has paid all required contributions to the retirement plans and such deficit reflects that the District does not have funding for future educational programs. Consequently, the retiree health care is a long-term liability which does not require immediate funding by the District or the State. Prior year ratio of expendable net position was 32.2% of operating expenses.

The District's accumulated cash and cash equivalent balances increased from \$10.4 million in 2017 to \$11.3 million in the current year. This increase is largely due to the cash received from Title IV funding and investments.

**Statement of Revenues, Expenses and Changes in Net Position**

Total operating revenues for fiscal year 2018 were \$15.4 million. Operating revenues decreased \$0.9 million or 5.8%.

**Operating Revenues**

	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Tuition and fees, net	\$ 7,997,725	52	\$ 8,007,870	49	\$ 7,859,645	49
Federal grants and contracts	2,573,778	17	2,234,474	14	1,948,530	12
State grant and contracts	713,559	5	748,778	5	815,528	5
Auxiliary enterprises	3,934,293	26	4,363,353	27	4,443,384	28
Other	201,978	1	1,012,047	6	821,308	5
<b>Total</b>	<b>\$ 15,421,333</b>	<b>100</b>	<b>\$ 16,366,522</b>	<b>100</b>	<b>\$ 15,888,395</b>	<b>100</b>

The District also had \$33.6 million in nonoperating state appropriations, ad valorem tax, federal nonoperating revenues, gifts, and other revenues. The largest portion of nonoperating revenues comes from state appropriations which are generated from four areas: general revenue generated from contract hour reimbursement, employee/retiree group insurance payments, employer retirement contributions, and special allocations or adjustments.

**Nonoperating Revenues**

	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
State appropriations	\$ 13,290,932	40	\$ 13,179,513	40	\$ 12,124,339	39
Ad valorem taxes (net)	6,765,580	20	6,560,191	20	6,674,038	22
Federal revenue, nonoperating	11,438,385	34	11,054,470	34	10,038,080	33
Gifts	1,352,763	4	937,126	3	1,421,900	5
Investment, endowment, and other	701,773	2	933,367	3	540,530	2
<b>Total</b>	<b>\$ 33,549,433</b>	<b>100</b>	<b>\$ 32,664,667</b>	<b>100</b>	<b>\$ 30,798,887</b>	<b>100</b>

Total operating expenses totaled \$49.3 million, which is a \$2.1 million or a 4.4% increase from fiscal year 2017. Expenditures for Institutional support held the most significant change totaling \$1.6 million or a 21.7% increase.

#### Operating and Nonoperating Expenses

	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Instruction	\$ 16,833,721	34	\$ 16,702,842	35	\$ 16,690,139	38
Public service	916,419	2	519,977	1	927,066	2
Academic support	3,132,827	6	3,008,788	6	3,182,148	7
Student services	2,816,213	6	2,715,992	6	2,656,965	6
Institutional support	8,799,565	18	7,228,881	15	5,874,814	13
Operation and maintenance of plant	4,705,159	10	4,438,088	9	4,082,558	9
Scholarships and fellowships	4,172,096	8	4,363,302	9	4,002,801	9
Auxiliary enterprises	6,258,923	13	6,577,743	14	5,219,589	12
Depreciation	1,641,154	3	1,632,173	3	1,630,713	4
<b>Total operating expenses</b>	<b>\$ 49,276,077</b>	<b>100</b>	<b>\$ 47,187,786</b>	<b>100</b>	<b>\$ 44,266,793</b>	<b>100</b>
<b>Total nonoperating expenses</b>	<b>\$ 103,033</b>	<b>100</b>	<b>\$ 481,924</b>	<b>100</b>	<b>\$ 3,106,740</b>	<b>100</b>

There was an operating loss for fiscal year 2018 of \$33.9 million, with a decrease in net position of \$0.4 million, compared to fiscal year 2017 operating loss of \$30.8 million and \$1.4 million increase, respectively.

#### Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also helps users assess the District's ability to generate net cash flows to meet its obligations as they come due, and its need for external financing. The District's total cash and cash equivalents increased by \$908 thousand to \$11.3 million.

#### Cash Provided by (Used by)

	2018	2017	2016
Operating activities	\$ (27,314,945)	\$ (27,061,442)	\$ (24,227,366)
Noncapital financing activities	28,923,780	28,356,463	25,474,298
Capital and related financing activities	(1,322,127)	(1,556,088)	(5,125,901)
Investing activities	622,286	(70,374)	(192,600)
<b>Change in cash and cash equivalents</b>	<b>\$ 908,994</b>	<b>\$ (331,441)</b>	<b>\$ (4,071,569)</b>

The primary cash receipts from operating activities consist of tuition and fees, housing, board, bookstore sales, and grant revenues. Cash outlays include payment of wages, benefits, supplies, utilities, plant maintenance, and scholarships. State and federal allocations and ad-valorem taxes are the primary source of noncapital financing. Accounting standards require that we reflect this source of revenue as nonoperating even though these sources are used for operating purposes in the District's budget. Cash flows from capital and related financing activities include disbursements for principal and interest payments on debt and capital acquisitions. Cash flows from investing activities represent the annual effect of investment earnings and the purchase of investments.

## Financial Highlights

- The District's overall activities remained very stable during this year. The overall activities of the District are considered to be business-type activities. The net position decreased by \$0.4 million or 0.6% from current operations.
- As of August 31, 2018, assets of the District exceeded liabilities by \$30.6 million. Of this amount, \$27.8 million is a deficit unrestricted net assets which does not provide net assets for ongoing operations, a decrease from \$10.6 million in fiscal year 2017, as a result of implementing GASB Statement No. 75.
- During the year, the District's \$49.3 million in expenditures was greater than its revenues by \$0.4 million.
- Total cost of the District's instructional programs increased by \$131 thousand, or 0.8%.
- Local property tax rate remained consistent with prior year at 0.175. The net assessed valuation of the District increased 4.1%. Tax revenue collections were down 0.1% or \$4 thousand.
- Net tuition and fees decreased \$10 thousand or 0.1%.

## Capital Asset and Debt Administration

### Capital Assets

The District has a Capital Asset Policy that requires assets whose original purchase price was over \$5,000 to be recorded as a capital asset. At the end of fiscal year 2018, the District had \$47.4 million invested in a broad range of capital assets, including equipment, buildings, and facilities. Included in Equipment is \$0.5 million of equipment additions the District made in fiscal year 2018.

#### Capital Assets at Year-end

(net of depreciation)

	2018	2017	2016
Land	\$ 4,208,950	\$ 4,208,950	\$ 4,208,950
Land improvements and infrastructure	1,572,910	1,517,391	1,168,257
Buildings	37,698,525	38,539,296	38,252,146
Leasehold improvements	1,524,264	1,611,344	1,698,424
Equipment	2,080,647	1,972,910	2,179,054
Capital Lease	28	28	16,707
Books and exhibits	364,023	401,459	390,504
Construction in progress	-	-	807,997
Totals	<u>\$ 47,449,347</u>	<u>\$ 48,251,378</u>	<u>\$ 48,722,039</u>

### Debt

At year-end, the District had \$432 thousand in notes outstanding. The District made the final payment to retire revenue bonds in February 2018.

#### Outstanding Debt, at Year-end

	2018	2017	2016
Revenue bonds (backed by specific fee revenues)	\$ -	\$ 415,000	\$ 815,000
Kilgore ISD tuition payable	432,419	492,610	535,050
Totals	<u>\$ 432,419</u>	<u>\$ 907,610</u>	<u>1,350,050</u>

## Component Unit

The Kilgore College Foundation is presented as a discretely presented component unit. The following is a summary of the Foundations Statements of Financial Position and Statements of Activities for the fiscal year ended August 31, 2018, with fiscal year 2017 and 2016 data presented for comparative purposes.

### Condensed Statement of Financial Position

	2018	2017	2016	2017 to 2018 Change
Cash	\$ 8,537	\$ 51,068	\$ 531,122	\$ (42,531)
Investments	7,991,610	7,428,729	6,494,517	562,881
<b>Total assets</b>	<b>8,000,147</b>	<b>7,479,797</b>	<b>7,025,639</b>	<b>520,350</b>
Net assets:				
Unrestricted	321,925	422,005	414,137	(100,080)
Temporarily restricted	2,955,235	2,369,805	1,982,171	585,430
Permanently restricted	4,722,987	4,687,987	4,629,331	35,000
<b>Total net position</b>	<b>\$ 8,000,147</b>	<b>\$ 7,479,797</b>	<b>\$ 7,025,639</b>	<b>\$ 520,350</b>

### Condensed Statement of Activities

	2018	2017	2016	2017 to 2018 Change
Total support	\$ 1,897,269	\$ 1,654,266	\$ 786,279	\$ 243,003
Total expenditures	1,376,919	1,200,108	274,255	176,811
<b>Change in net assets</b>	<b>\$ 520,350</b>	<b>\$ 454,158</b>	<b>\$ 512,024</b>	<b>\$ 66,192</b>

## Related Parties

The Texas Shakespeare Festival Foundation (Festival) is presented as a related party. Due to the interpretation of Governmental Standards Board Statement No. 39, the District does not feel the Festival meets the requirement of discretely presented component unit. During fiscal year 2017 and 2016, the District recognized net earnings of \$164,628 and \$103,162, respectively.

## Economic Factors and Next Year's Budgets and Rates

The District's elected and appointed officials considered many factors when setting the fiscal year 2019 budget, tax rates, and fees that are charged for the its business-type activities. One of those factors is the economy. The District's employment levels have mirrored its population levels over the past ten years with only minimal growth over the span of this period. Over the past two years, the District has actually reduced its total employment slightly in response to tightening in some of its income sources.

Despite some challenges in the East Texas economy in recent years that impacted the District primarily through declines in the District's tax base, the District did reverse this trend and showed a modest .34% increase in its tax base during 2018. Enrollments have declined slightly over recent years as well. The District continues to be optimistic concerning the regional economy. The unemployment rate for the East Texas Region has declined over the past year from 4.1% in December of 2017 to 3.9% in December of 2018. While still higher than the statewide unemployment percentage for these same periods of 3.7% and 3.6%, these are nevertheless very encouraging trends.

The District has faced various economic issues centered on its traditional funding sources. A mix of state appropriations, local property taxes, tuition and fees, state and federal grants, and private giving fund Texas public community college districts. During the 83<sup>rd</sup> Legislature, funding patterns were changed to where now community colleges will receive funding based on three strategies: core operations, student success, and contact hour funding. How the District's funding from the legislature may be impacted as we move to the next legislative session is still unclear. The legislature also fixed the rate which the state would pay versus the institution would pay for employee insurance and retirement. As stated, the District's tax base valuation has increased slightly by 0.34% going into the 2020 fiscal year. Tuition and fee rates were increased for academic year 2017-2018 by 7.4% for in-district students and 4.3% for out-of-district students. For the 2018-2019 academic year, tuition and fee rates were increased by 8.2% for both in-district and out-of-district students. Additionally, the District instituted course fees for high-cost workforce courses aimed at offsetting the financial impact to the District of offering these courses. State and federal grants continue to fluctuate from year to year. As a significant boost to the District's financial outlook, the District has recently seen significant fundraising successes from its Institutional Advancement efforts and joint efforts with the Kilgore College Foundation. There is every indication that these successes will continue to benefit the District's students through increased scholarships and the District's information technology infrastructure.

The District has made major strides in addressing the condition of its facilities. In the summer of 2018, the District board approved an \$18.5 million project to provide energy-saving improvements to the Kilgore and Longview campuses. These improvements will accomplish significant energy savings through the replacement or refurbishment of all environmental systems, environmental controls, all interior and exterior lighting, and plumbing fixtures. The cost of this project will be entirely bourn through realized energy savings and the repurposing of funds previously earmarked for the payment of recently retired bonds. As stated above, the District continues to make strides in improving the information technology infrastructure of its campuses, providing an improved learning environment for its students and faculty.

While it is not possible to predict the effects of future economic conditions, management believes the District has a solid and stable financial position and is well equipped to handle the increasing demands for a better educated workforce.

### **Contacting the District's Financial Management**

This discussion is presented in a condensed format as additional analysis. The financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Kilgore College Vice President of Administrative Services and CFO Fred Gore, 1100 Broadway, Kilgore, TX 75662.



# Basic Financial Statements

**Kilgore Junior College District – Kilgore, Texas**  
**Statements of Net Position**  
**August 31, 2018 and 2017**

**Exhibit 1**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,691,845	\$ 7,809,541
Short-term investments	8,837,835	8,792,662
Accounts receivable, net	3,358,290	3,121,810
Inventories	848,795	1,041,574
Prepaid expenses	147,962	525,555
Other assets	84,760	84,760
	<u>21,969,487</u>	<u>21,375,902</u>
Total current assets		
Noncurrent assets:		
Restricted cash and cash equivalents	2,654,949	2,628,259
Other long-term investments	-	425,000
Endowment investments	9,912,557	9,453,576
Capital assets, net	47,449,347	48,251,378
	<u>60,016,853</u>	<u>60,758,213</u>
Total noncurrent assets		
Total assets		
	81,986,340	82,134,115
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension	724,087	1,797,899
Deferred outflows - OPEB	998,745	-
	<u>1,722,832</u>	<u>1,797,899</u>
Total deferred outflows of resources		
	1,722,832	1,797,899
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	269,806	269,607
Accrued liabilities	607,208	811,001
Funds held for others	1,430,306	1,156,451
Unearned revenue	2,860,767	2,823,337
Deposits	226,932	122,731
Accrued compensable absences - current portion	242,766	227,169
Long-term liabilities - current portion	50,000	465,000
	<u>5,687,785</u>	<u>5,875,296</u>
Total current liabilities		
	5,687,785	5,875,296
Noncurrent liabilities:		
Accrued compensable absences	270,203	371,630
Long-term liabilities	38,193,093	6,010,007
	<u>38,463,296</u>	<u>6,381,637</u>
Total noncurrent liabilities		
	38,463,296	6,381,637
Total liabilities		
	44,151,081	12,256,933
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	1,562,675	1,816,537
Deferred inflows - OPEB	7,350,436	-
	<u>8,913,111</u>	<u>1,816,537</u>
Total deferred inflows of resources		
	8,913,111	1,816,537
<b>NET POSITION</b>		
Net investment in capital assets	47,016,928	47,301,334
Restricted for expendable	888,529	4,565,538
Restricted for nonexpendable	10,571,472	7,391,434
Unrestricted (deficit)	(27,831,949)	10,600,238
	<u>\$ 30,644,980</u>	<u>\$ 69,858,544</u>
<b>TOTAL NET POSITION</b>		
	<u>\$ 30,644,980</u>	<u>\$ 69,858,544</u>

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

**The Kilgore College Foundation**  
 Statements of Financial Position  
 August 31, 2018 and 2017

**Exhibit 1A**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,537	\$ 51,068
Investments	7,991,610	7,428,729
	<hr/>	<hr/>
Total assets	8,000,147	7,479,797
 <b>NET ASSETS</b>		
Unrestricted	321,925	422,005
Temporarily restricted	2,955,235	2,369,805
Permanently restricted	4,722,987	4,687,987
	<hr/>	<hr/>
<b>TOTAL NET POSITION</b>	<u>8,000,147</u>	<u>7,479,797</u>

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

**Kilgore Junior College District – Kilgore, Texas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended August 31, 2018 and 2017**

**Exhibit 2**

	<b>2018</b>	<b>2017</b>
<b>OPERATING REVENUES</b>		
Tuition and fees (net of discounts \$8,182,811 and \$7,846,915, respectively)	\$ 7,997,725	\$ 8,007,870
Federal grants and contracts	2,573,778	2,234,474
State grants and contracts	713,559	748,778
Nongovernmental grants and contracts	111,444	137,643
Sales and services of educational activities	21,485	20,257
Auxiliary enterprises (net of discounts of \$2,008,626 and \$2,171,087, respectively)	3,934,293	4,363,353
Other operating revenues	69,049	854,147
	<hr/>	<hr/>
Total operating revenue (Schedule A)	15,421,333	16,366,522
<b>OPERATING EXPENSES</b>		
Instruction	16,833,721	16,702,842
Public service	916,419	519,977
Academic support	3,132,827	3,008,788
Student services	2,816,213	2,715,992
Institutional support	8,799,565	7,228,881
Operation and maintenance of plant	4,705,159	4,438,088
Scholarships and fellowships	4,172,096	4,363,302
Auxiliary enterprises	6,258,923	6,577,743
Depreciation	1,641,154	1,632,173
	<hr/>	<hr/>
Total operating expenses (Schedule B)	49,276,077	47,187,786
Operating loss	(33,854,744)	(30,821,264)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	13,290,932	13,179,513
Ad valorem taxes (net)	6,765,580	6,560,191
Federal revenue, nonoperating	11,438,385	11,054,470
Gifts	1,352,763	937,126
Investment income	222,148	111,738
Endowment income	479,292	821,629
Disposal of capital assets - gain	333	-
Interest on capital related debt	(7,815)	(23,555)
Other nonoperating expenses	(95,218)	(458,369)
	<hr/>	<hr/>
Total nonoperating revenues (expenses) (Schedule C)	33,446,400	32,182,743
Change in net position	(408,344)	1,361,479
Net position - beginning, as originally reported	69,858,544	68,497,065
Prior period adjustment - implementation of GASB 75 for OPEB	(38,805,220)	-
	<hr/>	<hr/>
Net position - beginning, as restated	31,053,324	68,497,065
	<hr/>	<hr/>
<b>NET POSITION - ENDING</b>	<b>\$ 30,644,980</b>	<b>\$ 69,858,544</b>

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

**The Kilgore College Foundation**  
**Statements of Activities**  
**For the Years Ended August 31, 2018 and 2017**

**Exhibit 2A**

	<u>2018</u>	<u>2017</u>
<b>UNRESTRICTED NET ASSETS</b>		
Support:		
Contributions	\$ 28,624	\$ 13,659
Realized gains on securities	7,668	606
Net unrealized gains on securities	17,888	30,198
Interest and dividends earned	13,651	15,412
Net assets released from restrictions	<u>604,299</u>	<u>574,051</u>
Total support	672,130	633,926
Expenditures:		
Administrative costs	14,296	8,048
Executive search fees	41,929	26,666
Scholarships and other distributions	<u>715,985</u>	<u>591,343</u>
Total expenditures	<u>772,210</u>	<u>626,057</u>
Net increase (decrease) in unrestricted net assets	(100,080)	7,869
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Support:		
Contributions	499,333	297,784
Realized gains on securities	10,815	27,537
Net unrealized gains on securities	439,183	412,298
Interest and dividends earned	<u>240,808</u>	<u>224,065</u>
Total support	1,190,139	961,684
Expenditures:		
Administrative costs	<u>410</u>	-
Total expenditures	410	-
Net assets released from restrictions	<u>604,299</u>	<u>574,051</u>
Total net assets released from restrictions	<u>604,299</u>	<u>574,051</u>
Net increase in temporarily restricted net assets	585,430	387,633
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Support:		
Contributions	<u>35,000</u>	<u>58,656</u>
Total support	<u>35,000</u>	<u>58,656</u>
Net increase in permanently restricted net assets	<u>35,000</u>	<u>58,656</u>
Increase in net assets	520,350	454,158
Net assets at beginning of year	<u>7,479,797</u>	<u>7,025,639</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 8,000,147</u></u>	<u><u>\$ 7,479,797</u></u>

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

**Kilgore Junior College District – Kilgore, Texas**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended August 31, 2018 and 2017**

**Exhibit 3**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from students and other customers	\$ 13,756,759	\$ 13,881,922
Receipts from grants and contracts	6,239,710	3,120,895
Payments to suppliers for goods and services	(15,120,107)	(15,953,495)
Payments to or on behalf of employees	(27,452,076)	(23,646,677)
Payments to students under federal grants	(4,644,013)	(4,115,079)
Other cash payments	(95,218)	(349,008)
Net cash used for operating activities	(27,314,945)	(27,061,442)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Receipts from state appropriations	9,778,004	10,046,393
Ad valorem tax revenues	6,548,022	6,560,191
Receipts for Title IV transactions	11,404,711	10,892,711
Gifts and grants (other than capital)	1,193,043	927,124
Disbursements for student organizations and other agency transactions	-	(69,956)
Net cash provided by noncapital financing activities	28,923,780	28,356,463
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(839,121)	(1,132,533)
Payments on capital debt and leases - principal	(475,191)	(400,000)
Payments on capital debt and leases - interest	(7,815)	(23,555)
Net cash used for capital and related financing activities	(1,322,127)	(1,556,088)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment earnings (losses)	701,440	943,227
Investment and endowment purchases	(79,154)	(1,013,601)
Net cash provided by (used for) investing activities	622,286	(70,374)
Net decrease in cash and cash equivalents	908,994	(331,441)
Cash and cash equivalents, beginning of year	10,437,800	10,769,241
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 11,346,794</u>	<u>\$ 10,437,800</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (33,854,744)	\$ (30,821,264)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,641,154	1,632,173
On-behalf state benefits	2,978,510	2,536,613
Miscellaneous nonoperating expense	-	(419,085)
Change in operating assets and liabilities:		
Receivables, net	695,031	153,191
Inventories	192,779	(16,927)
Prepaid expenses	377,593	(310,097)
Deposits	23,401	-
Funds held for others	274,044	-
Accounts payable and accrued liabilities	(204,011)	(840,273)
Unearned revenue	37,430	483,099
Compensated absences	(85,830)	(55,380)
Net pension/OPEB liability	(7,476,383)	-
Change in deferred inflows and outflows:		
Deferred outflows	989,507	416,579
Deferred inflows	7,096,574	179,929
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (27,314,945)</u>	<u>\$ (27,061,442)</u>

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

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Note 1. Reporting Entity

Kilgore Junior College District (District) was established in 1935, in accordance with the laws of the State of Texas, to serve the educational needs of the District and the surrounding communities. The District is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the District receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The District is a comprehensive, public, two-year institution offering academic, general, occupational, developmental, and continuing adult education programs through a network of campuses in East Texas. The District is governed by a nine-member Board of Trustees, which has governance responsibilities over all activities related to the District.

#### Discrete Component Unit

Using the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, the District's management has determined that the Kilgore College Foundation (Foundation) should be reported as a discrete component unit because of the nature and significance of its relationship with the District.

The Foundation is a Texas nonprofit corporation chartered in 1997 to support educational, scientific and charitable purposes in order to promote and support the District. The District does not appoint a voting majority nor does it fund or is obligated to pay debt related to this Foundation. However, the District does have the ability to significantly influence the policies of this Foundation. The Foundation is incorporated and chartered entirely separate from the District, with separate management and control, and a separate Board of Directors. It is accounted for separately in the Basic Financial Statements of the District. The Foundation's Notes to financial statements are disclosed in Note 21. Complete financial statements of the Kilgore College Foundation can be obtained from the business office of the District.

### Note 2. Summary of Significant Accounting Policies

#### Reporting Guidelines

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

#### Tuition Discounting

##### Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code Section 56.033). When the student uses the award for tuition and fees and/or auxiliary charges, the amount is recorded as tuition and/or auxiliary revenue and a corresponding amount is recorded as a discount. If the amount is dispersed directly to the student, the amount is recorded as scholarship expense.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

#### Title IV, HEA Program Funds

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

#### Other Tuition Discounts

When the award is used by the student for tuition and fees and/or auxiliary charges, the amount is recorded as tuition and/or auxiliary revenue and a corresponding amount is recorded as a discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

#### **Basis of Accounting**

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

#### **Budgetary Data**

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

#### **Cash and Cash Equivalents**

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

#### **Investments**

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months, but less than one year at time of purchase. (The governing board has designated public funds investment pools comprised of \$10,083,145 and \$9,621,976 at August 31, 2018 and August 31, 2017, respectively, to be short-term investments.) Long-term investments have an original maturity of greater than one year at the time of purchase.

#### **Inventories**

Inventories, consisting of consumable office supplies, physical plant supplies, bookstore stock, and food service supplies, are valued at the lower of cost, under the "first in, first out" method, or market, and are charged to expense as consumed.

#### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Renovations of \$100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are charged to operating expense in the year in which the expense is incurred.

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

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

#### **Pensions**

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

#### **Other Post-Employment Benefits**

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 SHRP's Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a State Treasury cash account.

#### **Unearned Revenue**

Tuition and fees of \$2,860,767 and \$2,823,337 have been reported as unearned revenues at August 31, 2018 and 2017, respectively.

#### **Deferred Outflows/Deferred Inflows**

In addition to assets, the District is aware that the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are permitted only to report deferred outflows in circumstances specifically authorized by the Governmental Accounting Standards Board (GASB). A typical deferred outflow for community colleges is a deferred outflow related to pensions and other post-employment benefits.

In addition to liabilities, the District is aware that the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to 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.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension and OPEB activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and OPEB, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions to the pension and OPEB plans after the measurement date of each plan are recognized in the subsequent fiscal year.

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### 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 District is aware that actual results could differ from those estimates. The significant estimates are the useful lives of capital assets, net pension liability, net OPEB liability, and the allowance for uncollectible property taxes and student billings.

### Operating and Nonoperating Revenue and Expense Policy

The District distinguishes operating revenues and expenses from nonoperating items. The District reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are tuition and related fees. The major nonoperating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

### Change in Accounting Principle

In fiscal year 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – which supersedes GASB Statement No. 45.

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense related to the OPEB plan. Note disclosure and RSI requirements about the OPEB plan also are addressed. The implementation of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. Refer to Note 13. for more information regarding the District's OPEB plan. The implementation of Statement No. 75 resulted in the retroactive reduction of the District's beginning net position by \$38,805,220. See Note 25. for details of the District's prior period adjustment and restatement of beginning net position.

### Note 3. Authorized Investments

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

### Note 4. Deposits and Investments

Cash and deposits included in cash and cash equivalents and short-term investments as reported on Exhibit 1, Statement of Net Position, consist of the items reported below.

	<u>August 31, 2018</u>	<u>August 31, 2017</u>
Bank deposits		
Demand deposits	\$ 11,316,499	\$ 10,412,530
Time deposits	8,667,247	8,624,262
	<u>19,983,746</u>	<u>19,036,792</u>
Petty cash on hand	30,295	25,270
	<u>30,295</u>	<u>25,270</u>
<b>Total cash and deposits</b>	<b><u>\$ 20,014,041</u></b>	<b><u>\$ 19,062,062</u></b>

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Reconciliation of Deposits and Investments to Exhibit 1:

Type of Security	Fair Value August 31, 2018	Fair Value August 31, 2017
Investment pools	\$ 10,083,145	\$ 9,621,976
Time deposits	-	425,000
<b>Total</b>	<b>10,083,145</b>	<b>10,046,976</b>
Total cash and deposits	20,014,041	19,062,062
<b>Total deposits and investments</b>	<b>\$ 30,097,186</b>	<b>\$ 29,109,038</b>
Cash and short-term investments (Exhibit 1)	\$ 20,184,629	\$ 19,230,462
Investments (Exhibit 1)	9,912,557	9,878,576
<b>Total deposits and investments</b>	<b>\$ 30,097,186</b>	<b>\$ 29,109,038</b>

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

Investment Type	Fair Value	Investment Maturities Less than 1 year
Certificates of deposit	\$ 8,667,247	\$ 8,667,247
Investment pools	10,083,145	10,083,145
<b>Total</b>	<b>\$ 18,750,392</b>	<b>\$ 18,750,392</b>

Certificates of deposit that are non-negotiable are reported at costs. The District's investments in certificates of deposit are a component of the depository contract, under which certificates are renewed and repriced every 91 days.

The TexPool investment pool is external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of \$1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and no maximum transaction amounts. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

The District invested in two external investment pools with Texas Presbyterian Foundation funds: TPF Balanced Pooled Fund and TPF Fixed Income Pooled Fund, which are both measured at net asset value of the underlying investment. TPF Balanced Pooled Fund's investment strategy is to produce a total rate of return from a blend of equity and fixed income securities, which provides a stable, predictable and growing source of income to participating institutions to support current programs while preserving the inflation-adjusted purchasing power of the principal over time. Dividends can be reinvested for those institutions not requiring the distribution for current operations. TPF Fixed Income Pooled Fund's investment strategy is, over a full market cycle, to produce a total rate of return, net of expenses, which exceeds the Barclays Aggregate Index and is ranked above the median performance level when compared to a universe of other comparable funds.

#### **Interest Rate Risk**

In accordance with State law and District policy, the District does not purchase any investments with maturities greater than 10 years.

#### **Credit Risk**

In accordance with State law and the District's investment policy, investments in external investment pools, if rated, 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. Investments with TexPool have a credit rating of AAAM as of August 31, 2018 and 2017, respectively.

Investments in external investment pools with Texas Presbyterian Foundation (TPF) are managed by TPF and are exempt from registration requirements of the federal securities law pursuant to the exemption for collective investment funds and similar funds maintained by charitable organizations under the Philanthropy Protection Act of 1995. Accordingly, these investments are unrated.

#### **Concentration of Credit Risk**

The District's investment policy does not place a limit on the amount the District may invest in any one issuer. More than 5% of the District's investments are in external investment pools with Texas Presbyterian Foundation funds (53%).

#### **Custodial Credit Risk – Deposits and Investments**

The District's deposits and investments have no custodial credit risk.

### **Note 5. Fair Value of Financial Instruments**

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 District's investments are not subject to level reporting.

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Note 6. Capital Assets

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

	Balance September 1, 2017	Additions	Reductions	Balance August 31, 2018
Not depreciated:				
Land	\$ 4,208,950	\$ -	\$ -	\$ 4,208,950
Construction in progress	-	-	-	-
Subtotal	4,208,950	-	-	4,208,950
Other capital assets:				
Land improvements and infrastructure	4,587,175	134,300	-	\$ 4,721,475
Buildings	62,233,569	167,047	-	62,400,616
Leasehold improvements	1,872,823	-	-	1,872,823
Equipment	7,538,199	512,344	175,157	7,875,386
Capital lease	100,144	-	-	100,144
Exhibits	1,949,967	-	-	1,949,967
Library books	1,174,830	25,430	167,189	1,033,071
Subtotal	79,456,707	839,121	342,346	79,953,482
Total cost of capital assets	83,665,657	839,121	342,346	84,162,432
Accumulated depreciation:				
Land improvements and infrastructure	3,069,784	78,781	-	3,148,565
Buildings	23,694,273	1,007,818	-	24,702,091
Leasehold improvements	261,479	87,080	-	348,559
Equipment	5,565,289	404,607	175,157	5,794,739
Capital lease	100,116	-	-	100,116
Exhibits	1,888,279	9,927	-	1,898,206
Library books	835,059	52,939	167,189	720,809
Total accumulated depreciation	35,414,279	1,641,152	342,346	36,713,085
<b>Capital assets - net</b>	<b>\$ 48,251,378</b>	<b>\$ (802,031)</b>	<b>\$ -</b>	<b>\$ 47,449,347</b>

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

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

	Balance September 1, 2016	Additions	Reductions	Balance August 31, 2017
Not depreciated:				
Land	\$ 4,208,950	\$ -	\$ -	\$ 4,208,950
Construction in progress	807,997	-	807,997	-
Subtotal	5,016,947	-	807,997	4,208,950
Other capital assets:				
Land improvements and infrastructure	4,162,305	424,870	-	\$ 4,587,175
Buildings	60,919,846	1,313,723	-	62,233,569
Leasehold improvements	1,872,823	-	-	1,872,823
Equipment	7,381,532	156,667	-	7,538,199
Capital lease	100,144	-	-	100,144
Exhibits	1,910,020	39,947	-	1,949,967
Library books	1,221,846	34,307	81,323	1,174,830
Subtotal	77,568,516	1,969,514	81,323	79,456,707
Total cost of capital assets	82,585,463	1,969,514	889,320	83,665,657
Accumulated depreciation:				
Land improvements and infrastructure	2,994,048	75,736	-	3,069,784
Buildings	22,667,700	1,026,573	-	23,694,273
Leasehold improvements	174,399	87,080	-	261,479
Equipment	5,202,478	362,811	-	5,565,289
Capital lease	83,437	16,679	-	100,116
Exhibits	1,880,332	7,947	-	1,888,279
Library books	861,030	55,352	81,323	835,059
Total accumulated depreciation	33,863,424	1,632,178	81,323	35,414,279
<b>Capital assets - net</b>	<b>\$ 48,722,039</b>	<b>\$ 337,336</b>	<b>\$ 807,997</b>	<b>\$ 48,251,378</b>

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Note 7. Noncurrent Liabilities

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

	Balance September 1, 2017	Additions	Reductions	Balance August 31, 2018	Current Portion
Bonds:					
Revenue bonds - 2007	\$ 415,000	\$ -	\$ 415,000	\$ -	\$ -
Other liabilities:					
Note payable - Kilgore ISD (Tuition)	492,610	-	60,191	\$ 432,419	\$ 50,000
Accrued compensable absences	598,799	137,858	223,688	512,969	242,766
Net pension liability	5,567,397	475,904	1,476,751	4,566,550	-
Net OPEB liability*	39,719,660	4,420,786	10,896,322	33,244,124	-
Total other liabilities	46,378,466	5,034,548	12,656,952	38,756,062	292,766
<b>Total long-term liabilities</b>	<b>\$ 46,793,466</b>	<b>\$ 5,034,548</b>	<b>\$ 13,071,952</b>	<b>\$ 38,756,062</b>	<b>\$ 292,766</b>

\*Per GASB 75, beginning balance for net OPEB liability includes the restatement of net OPEB liability September 1, 2017.

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

	Balance September 1, 2016	Additions	Reductions	Balance August 31, 2017	Current Portion
Bonds:					
Revenue bonds - 2007	\$ 815,000	\$ -	\$ 400,000	\$ 415,000	\$ 415,000
Other liabilities:					
Note payable - Kilgore ISD (Tuition)	535,050	-	42,440	\$ 492,610	\$ 50,000
Accrued compensable absences	654,179	112,705	168,085	598,799	227,169
Net pension liability	5,764,767	271,667	469,037	5,567,397	-
Total other liabilities	6,953,996	384,372	679,562	6,658,806	277,169
<b>Total long-term liabilities</b>	<b>\$ 7,768,996</b>	<b>\$ 384,372</b>	<b>\$ 1,079,562</b>	<b>\$ 7,073,806</b>	<b>\$ 692,169</b>

### Note 8. Debt and Lease Obligations

#### Note Payable – Kilgore ISD (Tuition)

The District entered into an agreement with Kilgore Independent School District (ISD) whereas the District purchased property from the ISD. The District’s payments each year are the tuition provided by the District for dual or concurrent credit to students of the ISD. Currently annual requirements are expected to approximate \$50,000.

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Operating Lease Commitments and Rental Agreements

The District is party to lease agreement for a portion of a hospital to be utilized for the expansion of instructional health programs. The lease includes the option for two subsequent five year period renewals and monthly lease payments of \$10,454. Kilgore College has opted to extend this lease through December 2020.

The District is party to a lease agreement with monthly lease payments of \$1,500 for a portion of an office and warehouse space to be utilized for Kilgore Economic Development Corporation advanced technology programs through February 2019.

Obligations under operating leases at August 31, 2018, were as follows:

Year Ending August 31,	Total
2019	\$ 138,448
2020	41,816
<b>Total minimum lease payments</b>	<b>\$ 180,264</b>

### Note 9. Bonds Payable

General information related to bonds payable is summarized below:

Combined Fee Revenue Refunding Bonds, Series 2007 Issued May 29, 2007

Purpose of bond: to advance refund Bond Series 1997

Original Principal \$3,815,000

Source of revenue for debt service -- general fees and tuition

Bonds at 3.83% are due in annual installments varying from \$400,000 to \$415,000, with the final installment paid in February 2018.

All authorized bonds have been issued.

### Note 10. Defined Benefit Pension Plan

#### Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the TRS. TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code.

The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Pension Plan Fiduciary Net Position

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

### Benefits Provided

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

### Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 84<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for plan fiscal years 2016 and 2017 and the 85<sup>th</sup> Texas Legislature, GAA established the employer contribution rates for plan fiscal years 2018 and 2019. Rates for such plan fiscal years are as follows:

	2018	2017	2016
Member	7.7%	7.7%	7.2%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%
Employers/district	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2018 are as follows:

	2018
District contributions	\$ 449,262
Member contributions	913,145
NECE on-behalf contributions (state)	249,656

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) 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 valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected rate	8.00%
Municipal bond rate	N/A*
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Ad hoc post-employment benefit changes	None

\*If a municipal bond rate was to be used, the rate would be 3.42% as of August 2017 (i.e. the rate closest to but not later than the Measurement Date). The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index".

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.0%. 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 System’s target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global equity:			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value:			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	(0.2%)	0.0%
Real return:			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity:			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation			2.2%
Alpha			1.0%
<b>Totals</b>	100.0%		8.7%

\*The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

#### Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 8.0%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1% lower (7%) or 1% higher (9%) than the current rate:

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 7,698,300	\$ 4,566,550	\$ 1,958,859

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

At August 31, 2018, the District reported a liability of \$4,566,550 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 4,566,550
State's proportionate share of the net pension liability associated with the District	<u>3,273,061</u>
<b>Total</b>	<u><u>\$ 7,839,611</u></u>

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

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0142818%, which was a decrease of 0.0004512% from its proportion measured as of August 31, 2016.

#### Changes Since the Prior Actuarial Valuation

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

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

For the year ended August 31, 2018, the District recognized pension expense of \$249,656 and revenue of \$249,656 for support provided by the State.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

At August 31, 2018, the District reported deferred outflows of resources for contribution made after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 66,811	\$ 246,268
Changes of assumptions	208,014	119,083
Net difference between projected and actual earnings on pension plan investments	-	332,800
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	-	864,524
Differences between expected and actual experience	-	-
Changes in assumptions	-	-
	<hr/>	<hr/>
Total as of August 31, 2017 measurement date	274,825	1,562,675
District contribution after measurement date	449,262	-
	<hr/>	<hr/>
<b>Totals</b>	<b>\$ 724,087</b>	<b>\$ 1,562,675</b>

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

Year Ending August 31,	
2019	\$ (339,443)
2020	(47,948)
2021	(361,835)
2022	(423,567)
2023	(93,001)
Thereafter	(22,056)
	<hr/>
<b>Total</b>	<b>\$ (1,287,850)</b>

#### Note 11. Compensable Absences

Full time employees are granted one day of paid sick leave time per scheduled work month. Paid sick leave time that has not been taken accumulates up to a maximum of 90 days, but it is not paid should the employment relationship cease for reasons other than retirement. Full time employees are also granted ten days per year vacation time; a total of five days' vacation time may be accumulated and carried forward to the following fiscal year. Unused vacation time is paid at the time employment ceases, regardless of the reason for termination.

Upon official retirement, an eligible employee is paid the greater of one month's salary or one-half of his or her accumulated sick leave time, whichever is greater. Accordingly, the District has included a liability for accrued sick leave time in the amount of \$300,226 and \$412,922 at August 31, 2018 and 2017, respectively, based on employees currently eligible for retirement. 10% of the total liability for accrued sick leave is considered a current liability based on historical experience. The District accrued vacation liability in the amount of \$212,743 and \$185,877 at August 31, 2018 and 2017 respectively, all of which has been classified as a current liability.

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Note 12. Health Care and Life Insurance Benefits

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums.

The state's contribution per full-time employee varies based upon coverage category. Monthly contributions were \$621.90 and \$617.30 for "Employee Only" coverage, \$978.22 and \$970.98 for "Employee and Spouse" coverage, \$860.48 and \$854.10 for "Employee and Children" coverage, and \$1,216.80 and \$1,207.78 for "Employee and Family" coverage for both years ended August 31, 2018 and 2017.

Certain categories of employees such as physical plant and auxiliary staff are not eligible for state funding of health care benefits. The District uses local funds to pay the premiums for those employees.

The state's contribution totaled \$1,744,946 and \$2,226,407 for the years ended August 31, 2018 and 2017, respectively. S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The cost of providing those benefits for retirees and active employees as of August 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Cost of state's contribution	\$ 947,379	\$ 914,440
Cost of local contribution	<u>988,903</u>	<u>920,867</u>
<b>Total cost of benefits for retirees</b>	<b><u>\$ 1,936,282</u></b>	<b><u>\$ 1,835,307</u></b>
Cost of state's contribution	\$ 797,567	\$ 1,311,967
Cost of local contribution	<u>2,055,719</u>	<u>2,093,406</u>
<b>Total cost of benefits for active employees</b>	<b><u>\$ 2,853,286</u></b>	<b><u>\$ 3,405,373</u></b>

### Note 13. Defined Other Post-Employment Benefit Plan

#### Plan Description

The District 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 postemployment 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.

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### 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. The fiduciary net position of the plan has been determined using the same basis used by the OPEB plan.

### 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	\$ 621.90
Retiree and spouse	1,334.54
Retiree and children	1,099.06
Retiree and family	1,811.70

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

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

Premium Contributions by Source  
Group Benefits Program Plan  
For the Fiscal Year Ended August 31, 2018

Employer contributions	\$	988,903
Member contributions		-
2017 measurement year NECE on-behalf contributions		914,440

### Actuarial Assumptions

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

Actuarial Assumptions	
ERS Group Benefits Program Plan	
Valuation date	August 31, 2017
Actuarial cost method	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 increases (includes inflation)	2.50% to 9.50%
Inflation assumption rate	2.50%
Annual healthcare trend rates	8.50% for FY 2019, decreasing 0.5% per year to 4.50% for FY 2027 and later years

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS 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%.

### 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.

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Sensitivity of the Net OPEB Liability

#### Discount Rate

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the Net OPEB Liability.

Sensitivity of the Net OPEB Liability to the Single Discount Rate Assumptions		
1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
\$ 39,683,771	\$ 33,244,124	\$ 28,256,044

#### Healthcare Cost Trend Rates

The following schedule shows the impact on the District 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 in measuring the net OPEB Liability.

Sensitivity of the Net OPEB Liability to the Healthcare Cost Trend Rate Assumptions		
1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 27,947,339	\$ 33,244,124	\$ 40,117,009

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

At August 31, 2018, the District reported a liability of \$ 33,244,124 for its proportionate share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to the District for OPEB. The amount recognized by the District 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 District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 33,244,124
State's proportionate share of the net OPEB liability associated with the District	<u>33,244,123</u>
<b>Total</b>	<b><u>\$ 66,488,247</u></b>

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.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

At August 31, 2017 the employer’s proportion of the collective net OPEB liability was .0975673%. Since this is the first year of implementation, the District does not have the proportion measure as of August 31, 2016.

**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.

For the year ended August 31, 2018, the District recognized OPEB expense of \$1,779,095 and on-behalf revenue of \$1,779,095 from the State.

At August 31, 2018, the District 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
	<hr/>	<hr/>
Differences between expected and actual economic experiences	\$ -	\$ 399,488
Changes in actuarial assumptions	-	6,950,948
Differenced between projected and actual investment earnings	9,842	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	-	-
	<hr/>	<hr/>
Total as of August 31, 2017 measurement date	9,842	7,350,436
Contributions paid to the ERS subsequent to the measurement date	988,903	-
	<hr/>	<hr/>
<b>Total as of fiscal year end</b>	<b>\$ 998,745</b>	<b>\$ 7,350,436</b>

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

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 Ending August 31,	
	2019	\$ (1,653,043)
	2020	(1,653,043)
	2021	(1,653,043)
	2022	(1,653,043)
	2023	(728,422)
	<b>Total</b>	<b>\$ (7,340,594)</b>

#### Note 14. Pending Lawsuits and Claims

On August 31, 2018, various lawsuits and claims involving the District were pending. While the ultimate liability with respect to litigation and other claims asserted against the District cannot be reasonably estimated at this time, this liability is not likely to have a material effect on the District.

#### Note 15. Disaggregation of Receivable and Payable Balances

##### Receivables

Primary institution receivables at August 31, 2018 and 2017 were as follows:

	2018	2017
Student receivables	\$ 2,322,713	\$ 3,549,636
Taxes receivable	1,055,068	718,015
Federal receivable	621,440	419,835
Accounts receivable	843,940	127,167
Interest receivable	5,460	5,755
	<hr/>	<hr/>
Subtotal	4,848,621	4,820,408
Allowance for doubtful accounts	(1,490,331)	(1,698,598)
	<hr/>	<hr/>
<b>Total receivables</b>	<b>\$ 3,358,290</b>	<b>\$ 3,121,810</b>

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Payables and Accrued Liabilities

Primary institution payables and accrued liabilities at August 31, 2018 and 2017 were as follows:

	2018	2017
Vendors payable	\$ 269,806	\$ 272,895
Salaries and benefits payable	512,896	501,214
Student payables	-	200,735
Sales tax payable	94,312	105,764
<b>Total</b>	<b>\$ 877,014</b>	<b>\$ 1,080,608</b>

### Note 16. Funds Held in Trust by Others

The balances, or transactions, of funds held in trust by others on behalf of the District are not reflected in the financial statements. There were no such funds for the benefit of the District at August 31, 2018 and 2017.

### Note 17. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*. 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 award 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 \$1,312,921 and \$436,759, respectively. Of these amounts, \$1,312,921 and \$436,759 were from Federal Contract and Grant Awards and none were from State Contract and Grant Awards for fiscal years ended 2018 and 2017, respectively.

### Note 18. Self-Insured Plans

The District did not participate in any self-insured plans during fiscal years 2018 and 2017.

# Kilgore Junior College District – Kilgore, Texas

## Notes to the Financial Statements

### Note 19. Property Tax

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

	2018	2017
Assessed Valuation of the District	\$ 4,404,239,692	\$ 4,246,725,567
Less: Exemptions and Abatements	(612,499,291)	(605,252,882)
<b>Net Assessed Valuation of the District</b>	<b>\$ 3,791,740,401</b>	<b>\$ 3,641,472,685</b>
	2018 Current Operations	2017 Current Operations
Authorized tax rate per \$100 valuation (Maximum per enabling legislation)	0.2000	0.2000
Assessed tax rate per \$100 valuation	0.1750	0.1750

There were no taxes authorized or assessed for debt service at August 31, 2018 and 2017. Taxes levied for the years ended August 31, 2018 and 2017, were \$6,417,807 and \$6,372,577, respectively (which includes penalty and interest if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year imposed.

	2018	2017
Current taxes collected	\$ 6,204,918	\$ 6,162,894
Delinquent taxes collected	173,897	153,532
Penalties and interest collected	108,521	174,929
<b>Total collections</b>	<b>\$ 6,487,336</b>	<b>\$ 6,491,355</b>

Tax collections were 99% and 97% of the current tax levy for the years ended August 31, 2018 and 2017, respectively. There were no tax collections for debt service. 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.

The District participates in a tax increment financing district (TIF). The following table summarizes the obligation of the District's involvement in the TIF:

TIF Title	Percentage of Incremental Tax Committed	Taxes Forgone in Fiscal Year 2018	Taxes Forgone in Fiscal Year 2017
City of Kilgore Reinvestment Zone #1	100%	\$ -	\$ -

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

#### Note 20. Income Taxes

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

#### Note 21. Discrete Component Unit - Kilgore College Foundation

##### Organization

Complete financial statements of the Kilgore College Foundation can be obtained from the District's business office. Certain footnotes are excerpted from the Foundation's audited financial statements for the year ended August 31, 2018:

The Kilgore College Foundation (Foundation) was established as a not-for-profit corporation operated exclusively for education, scientific and charitable purposes in order to promote and support Kilgore Junior College District of Kilgore, Texas. The Foundation is incorporated and chartered entirely separate from the College, with separate management and control, and a separate Board of Directors.

##### Basis of Accounting

The Financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America 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.

##### Financial Statement Presentation

The Foundation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 952-210-50-3, Financial Statements of Not-for-Profit Organizations in preparing the financial statements. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

##### Estimates

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

##### Investments

Investments are stated at fair market value based upon quoted market prices.

##### Recognition of Donor Restricted Contributions

Pursuant to FASB ASC 958-605-15-2 and FASB ASC 958-605-15-4, *Revenue Recognition – Contributions Received*, support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

#### Income Tax Status

The Foundation is a not-for-profit organization exempt from Federal income tax under Section 501 (c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). The related IRS determination letter is dated May 29, 1997.

The Foundation's Form 990, Return of Organization Exempt from Income Tax is subject to examination by the IRS generally for three years after it is filed. The investments of the Foundation include cash, equities and mutual funds.

#### Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, Not for Profit Entities. Among other provisions, this update (1) reduces the net asset classification from three categories to two; net assets with donor restrictions and net assets without donor restrictions, (2) requires additional disclosures of governance and self-imposed limits on the resources without donor-imposed restrictions and net assets with donor restrictions, (3) provides qualitative and quantitative information on liquidity and availability of financial assets, (4) requires disclosure of expenditures by both their natural classification and their functional classification, (5) adds disclosure of methods to allocate costs among program and support functions, (6) provides for enhanced disclosures on underwater endowment funds, and (7) requires disclosure of investment return and related investment expenses. This update is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early adoption permitted. The Foundation is evaluating the impact of this standard and currently plans to implement this standard beginning on September 1, 2018, the first day of the 2019 fiscal year.

#### Investments

The investments of the Foundation include cash, equities and mutual funds.

Investment accounts as of August 31, 2018 were as follows:

	<u>2018</u>
Merrill Lynch:	
Money market	\$ 220,816
Equity securities	136,330
Mutual funds	38,920
Texas Presbyterian Foundation:	
Managed fund	<u>7,595,544</u>
<b>Total</b>	<b><u>\$ 7,991,610</u></b>

Texas Presbyterian Foundation (TPF) privately manages the investment fund which holds a mix of equity, fixed income and money market funds in proportions allocated as determined by TPF. The objective of the fund is to produce a total rate of return from a blend of equity and fixed income securities, which provides a stable, predictable and growing source of income to participating institutions to support current programs while preserving the inflation-adjusted purchasing power of the principal over time.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amounted to approximately \$46,000 as of August 31, 2018, and have been netted against investment revenues in the accompanying statement of activities. The Foundation is not charged directly for custodial fees and investment advisory fees. These fees are charged at the pooled fund level before income is distributed. These fees are approximately 0.6% annually and this includes all fees from outside managers.

#### **Fair Value Measurements**

FASB ASC 820-10, *Fair Value Measurements* provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation method include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based in the lowest level of any input that is significant to the fair value measurement. Valuation techniques need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methodologies used by the Foundation for assets measured at fair value may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

The following table sets forth by the level, within the fair value hierarchy, the Foundation's assets at fair value as of August 31, 2018:

	2018			
	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	\$ 220,816	\$ 220,816	\$ -	\$ -
Equity securities	136,330	136,330	-	-
Mutual funds	38,920	38,920	-	-
Managed fund	7,595,544	-	7,595,544	-
<b>Total</b>	<b>\$ 7,991,610</b>	<b>\$ 396,066</b>	<b>\$ 7,595,544</b>	<b>\$ -</b>

#### Donor-Designated Endowment Funds

The Foundation's endowment consists of approximately 124 individual funds established for a variety of purposes. Its endowment includes only donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence of donor-imposed restrictions.

#### Interpretation of Relevant Law

Effective September 1, 2007, the State of Texas adopted H.B. No. 860, known as the Uniform Prudent Management of Institutional Funds Act ("TX UPMIFA"). The Board of Trustees of the Foundation has interpreted the TX UPMIFA as requiring the preservation of the fair value of the original gift as the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TX UPMIFA.

In accordance with TX UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

#### Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions, while growing the funds if possible. Actual returns in any given year may vary from the amount expected. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

#### Spending Policy

The Foundation has a policy of appropriating for distribution (targeted at 4%) each year those funding requests which in total shall not exceed the accrued interest and other realized returns on investments of the Foundation. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor- restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal rate annually, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return. The Foundation has a policy of appropriating for distribution each year those funding requests which in total shall not exceed the accrued interest and other realized returns on investments of the Foundation.

Endowment net asset composition by type of fund as of August 31, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 2,955,235	\$ 4,722,987	\$ 7,678,222

Changes in endowment net assets as of August 31, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -	\$ 2,369,805	\$ 4,687,987	\$ 7,057,792
Contributions	-	499,333	35,000	534,333
Investment income	-	240,808	-	240,808
Net appreciation	-	449,998	-	449,998
Distributions	-	(604,709)	-	(604,709)
<b>Endowment net assets, end of year</b>	<b>\$ -</b>	<b>\$ 2,955,235</b>	<b>\$ 4,722,987</b>	<b>\$ 7,678,222</b>

#### Restrictions of Net Assets

Temporarily restricted net assets represent resources currently available for use for those operating purposes specified by the donor or restricted by the donor for a specified future period. As of August 31, 2018, the Foundation had \$2,955,235 of net assets temporarily restricted for the Foundation operations, scholarships, student and faculty support, and the general support of Kilgore Junior College District.

## **Kilgore Junior College District – Kilgore, Texas**

### Notes to the Financial Statements

Permanently restricted net assets represent resources that are permanently restricted for the funding of an endowment under which the principal must remain intact. Unless otherwise designated in the donor agreement, investment earnings from the endowment principal are considered temporarily restricted for the purposes specified by the donor. As of August 31, 2018, the Foundation had permanently restricted net assets of \$4,722,987.

#### **Related Party**

During the fiscal year ended August 31, 2018, Kilgore Junior College District provided certain services, such as office space, utilities, and staff assistance to the Foundation. These facilities and services are not required to be repaid.

#### **Date of Management's Review**

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through December 18, 2018, the date that the financial statements were available to be issued.

#### **Note 22. Related Parties**

The Texas Shakespeare Festival Foundation is a nonprofit organization that supports the Texas Shakespeare Festival (Festival) that is presented by the District on an annual basis. The Festival is a joint venture between the Foundation and the District. The District accounts for the Festival which includes ticket sales and Festival expenses. In addition, the District receives donations from the Foundation and others, as well as sponsorships. Such events did not include an allocation of the Founder and Artistic Director and the Managing Director salaries and benefits. During the years ended August 31, 2018 and 2017, the District recognized a net earnings of \$164,628 and \$103,162, respectively.

#### **Note 23. Subsequent Events**

The District has evaluated subsequent events through March 18, 2019, the date on which the financial statements were available to be issued.

The District entered into two loan agreements totaling \$14,442,032 in September 2018 with the State Energy Conservation Office to provide upgrades to multiple buildings for HVAC, exterior lighting, solar thermal window film, building weatherization, water conservation, and utility assessment report. Such loans will be paid in annual installments of principal over 15 years along with 1% interest.

#### **Note 24. Commitments and Contingent Liabilities**

In the ordinary course of business, the District has various outstanding commitments and contingent liabilities that are not reflected in the accompanying financial statements. Several of the District's buildings contain asbestos, which will need to be removed at the time these buildings are renovated or destroyed. The District has no current plans regarding these buildings and the cost of abatement cannot be reasonably determined at this time.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Financial Statements

#### Note 25. Prior Period Adjustment

Net position at September 1, 2017 was restated per the following table for the implementation of GASB 75, as previously described in Note 2. Change in Accounting Principle:

	<u>Governmental Activities</u>
Beginning net position, as originally reported	\$ 69,858,544
Implementation of GASB 75 for OPEB	<u>(38,805,220)</u>
<b>Beginning net position, restated</b>	<b><u>\$ 31,053,324</u></b>

## **Required Supplementary Schedules - Unaudited**

**Kilgore Junior College District – Kilgore, Texas**

**RSS-1**

Required Supplementary Schedules - Unaudited  
 Schedule of the District's Proportionate Share of the Net Pension  
 Liability of a Cost-Sharing Multiple-Employer Pension Plan  
 Teacher Retirement System of Texas  
 For the Last Four Fiscal Years\*

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>
District's proportionate share of the net pension liability	0.0142818%	0.0147330%	0.0163080%	0.0182730%
District's proportionate share of collective net pension liability	\$ 4,566,550	\$ 5,567,397	\$ 5,764,767	\$ 4,880,972
Portion of non-employer contributing entity's total proportionate share of net pension liability associated with the District	<u>3,273,061</u>	<u>4,025,645</u>	<u>4,305,508</u>	<u>3,624,257</u>
<b>TOTAL</b>	<u>\$ 7,839,611</u>	<u>\$ 9,593,042</u>	<u>\$ 10,070,275</u>	<u>\$ 8,505,229</u>
District's covered payroll amount	\$ 11,692,838	\$ 11,801,949	\$ 11,773,932	\$ 12,888,197
Ratio of the District's proportionate share of the collective net pension liability to its covered payroll amount	39.05%	47.17%	48.96%	37.87%
TRS net position as percentage of total pension liability	82.17%	78.00%	78.00%	83.25%

\*The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.  
 Note: The amounts presented above are as of the measurement date of the collective net pension liability.

**Kilgore Junior College District – Kilgore, Texas**  
 Required Supplementary Schedules - Unaudited  
 Schedule of the District's Contributions to the  
 Teacher Retirement System of Texas Pension Plan  
 For the Last Four Fiscal Years\*

RSS-2

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>
Legally required contributions	\$ 449,262	\$ 468,074	\$ 468,106	\$ 478,467
Actual contributions	<u>(449,262)</u>	<u>(468,074)</u>	<u>(468,106)</u>	<u>(478,467)</u>
<b>CONTRIBUTIONS DEFICIENCY (EXCESS)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District covered payroll amount	\$ 11,863,073	\$ 11,692,838	\$ 11,801,949	\$ 11,773,932
Ratio of actual contributions to covered payroll amount	3.79%	4.00%	3.97%	4.06%

\*The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.  
 Note: The amounts presented above are as of the District's most recent fiscal year-end.

**Kilgore Junior College District – Kilgore, Texas**

**RSS-3**

Required Supplementary Schedules - Unaudited  
Schedule of the District's Proportionate Share of the Net OPEB Liability  
of a Cost-Sharing Multiple-Employer OPEB Plan  
Employees Retirement System of Texas  
For the Fiscal Year Ended August 31, 2018

	<u>2018*</u>
District's proportionate share of the net OPEB liability	0.0975673%
District's proportionate share of collective net OPEB liability	\$ 33,244,124
State's proportionate share of collective net OPEB liability	<u>33,244,123</u>
<b>TOTALS</b>	<b><u>\$ 66,488,247</u></b>
District's covered payroll amount	\$ 11,692,838
Ratio of the District's proportionate share of the collective net OPEB liability to its covered payroll amount	284.31%
ERS net position as percentage of total OPEB liability	2.04%

\*The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.  
Note: The amounts presented above are as of the measurement date of the collective net pension liability.

**Kilgore Junior College District – Kilgore, Texas**  
 Required Supplementary Schedules - Unaudited  
 Schedule of the District's Contributions to the  
 Teacher Retirement System of Texas OPEB Plan  
 For the Fiscal Year Ended August 31, 2018

**RSS-4**

	<u>2018*</u>
Legally required contributions	\$ 988,903
Actual contributions	<u>988,903</u>
<b>CONTRIBUTIONS DEFICIENCY (EXCESS)</b>	<u>\$ -</u>
District covered payroll amount	\$ 11,863,073
Ratio of actual contributions to covered payroll amount	8.34%

\*The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.  
 Note: The amounts presented above are as of the District's most recent fiscal year-end.



**Kilgore Junior College District – Kilgore, Texas**  
Notes to the Required Supplementary Information

**Note 1. Defined Benefit Pension Plan**

**Changes of Assumptions**

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

**Changes of Benefit Terms**

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

**Changes in Reporting Method**

There were no changes in reporting method that affected measurement of the total pension liability during the measurement period.

**Note 2. Defined Other Post-Employment Benefit Plan**

**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.

## Kilgore Junior College District – Kilgore, Texas

### Notes to the Required Supplementary Information

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.

## Supplemental Schedules



Kilgore Junior College District – Kilgore, Texas

Schedule A

Schedule of Operating Revenues

For the Year Ended August 31, 2018

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

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2018 Total	2017 Total
<b>TUITION</b>						
State funded courses						
In-district resident tuition	1,165,913	\$ -	\$ 1,165,913	\$ -	\$ 1,165,913	\$ 1,101,406
Out-of-district resident tuition	3,432,820	-	3,432,820	-	3,432,820	3,504,159
TPEG (set aside)*	279,175	-	279,175	-	279,175	261,674
Non-resident tuition	417,232	-	417,232	-	417,232	312,100
State funded continuing education	1,065,204	-	1,065,204	-	1,065,204	1,131,558
Non-state funded continuing education	21,704	-	21,704	-	21,704	61,982
<b>Total tuition</b>	<b>6,382,048</b>	<b>-</b>	<b>6,382,048</b>	<b>-</b>	<b>6,382,048</b>	<b>6,372,879</b>
<b>FEES</b>						
General education fees	2,970,739	-	2,970,739	-	2,970,739	2,582,710
Out-of-district fees	5,069,248	-	5,069,248	-	5,069,248	5,191,680
Laboratory fees	1,067,914	-	1,067,914	-	1,067,914	1,060,725
Testing fees	90,729	-	90,729	-	90,729	95,924
Administrative fees	39,920	-	39,920	-	39,920	60,323
Special services fees	305,769	-	305,769	-	305,769	273,814
Orientation fees	55,260	-	55,260	-	55,260	57,380
Distance learning fees	198,909	-	198,909	-	198,909	159,350
<b>Total fees</b>	<b>9,798,488</b>	<b>-</b>	<b>9,798,488</b>	<b>-</b>	<b>9,798,488</b>	<b>9,481,906</b>
<b>SCHOLARSHIP ALLOWANCES AND DISCOUNTS</b>						
Remissions and exemptions - state	(471,917)	-	(471,917)	-	(471,917)	(605,178)
Remissions and exemptions - federal	(26,858)	-	(26,858)	-	(26,858)	(21,716)
Federal grants to students	(6,370,621)	-	(6,370,621)	-	(6,370,621)	(5,921,490)
TPEG awards	(85,454)	-	(85,454)	-	(85,454)	(84,568)
Texas grants	-	-	-	-	-	(364)
Miscellaneous state grants	(418,772)	-	(418,772)	-	(418,772)	(416,333)
Local scholarships	(809,189)	-	(809,189)	-	(809,189)	(797,266)
<b>Total scholarship allowances and discounts</b>	<b>(8,182,811)</b>	<b>-</b>	<b>(8,182,811)</b>	<b>-</b>	<b>(8,182,811)</b>	<b>(7,846,915)</b>
<b>Total net tuition and fees</b>	<b>\$ 7,997,725</b>	<b>-</b>	<b>\$ 7,997,725</b>	<b>\$ -</b>	<b>\$ 7,997,725</b>	<b>\$ 8,007,870</b>
<b>OTHER OPERATING REVENUES</b>						
Federal grants and contracts	-	2,573,778	2,573,778	-	2,573,778	2,234,474
State grants and contracts	18,470	695,089	713,559	-	713,559	748,778
Nongovernmental grants and contracts	11,417	100,027	111,444	-	111,444	137,643
Sales and services of educational activities	21,485	-	21,485	-	21,485	20,257
Other operating revenues	69,049	-	69,049	-	69,049	854,147
<b>Total other operating revenues</b>	<b>120,421</b>	<b>3,368,894</b>	<b>3,489,315</b>	<b>-</b>	<b>3,489,315</b>	<b>3,995,299</b>
<b>AUXILIARY ENTERPRISES</b>						
Bookstore	-	-	-	2,835,534	2,835,534	3,206,482
Bookstore scholarship allowance and discounts	-	-	-	(1,299,589)	(1,299,589)	(1,448,234)
Dormitories	-	-	-	1,045,077	1,045,077	964,828
Dormitories scholarship allowance and discounts	-	-	-	(420,713)	(420,713)	(442,124)
Cafeteria	-	-	-	1,365,262	1,365,262	1,192,020
Cafeteria scholarship allowance and discounts	-	-	-	(288,324)	(288,324)	(280,729)
Athletics	-	-	-	23,068	23,068	32,517
East Texas Oil Museum	-	-	-	225,100	225,100	202,754
Texas Shakespeare Festival	-	-	-	274,868	274,868	365,352
Child Development Center	-	-	-	-	-	-
Fitness Center	-	-	-	136,460	136,460	134,764
Student activities	-	-	-	37,550	37,550	435,723
<b>Total net auxiliary enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,934,293</b>	<b>3,934,293</b>	<b>4,363,353</b>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 8,118,146</b>	<b>\$ 3,368,894</b>	<b>\$ 11,487,040</b>	<b>\$ 3,934,293</b>	<b>\$ 15,421,333</b>	<b>\$ 16,366,522</b>
					(Exhibit 2)	(Exhibit 2)

\* In accordance with Education Code 56.033, \$279,175 and \$261,674 of tuition for the years ended August 31, 2018 and 2017, respectively, was set aside for Texas Public Education Grants (TPEG)

**Kilgore Junior College District – Kilgore, Texas**

Schedule of Operating Expenses by Object

For the Year Ended August 31, 2018

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

	Operating Expenses			
	Salaries and Wages	Staff Benefits		Other Expenses
		State	Local	
<b>UNRESTRICTED - EDUCATIONAL ACTIVITIES</b>				
Instruction	\$ 11,570,517	\$ -	\$ 550,901	\$ 1,124,154
Public service	-	-	-	10,032
Academic support	2,112,864	-	199,389	404,988
Student services	1,221,228	-	114,479	494,251
Institutional support	2,667,840	-	2,349,870	2,197,289
Operation and maintenance of plant	90,775	-	21,147	4,593,237
Scholarships and fellowships	-	-	-	523,672
	<hr/>	<hr/>	<hr/>	<hr/>
Total unrestricted educational activities	17,663,224	-	3,235,786	9,347,623
<b>RESTRICTED - EDUCATIONAL ACTIVITIES</b>				
Instruction	630,334	1,938,225	105,055	914,535
Public service	172,590	-	30,725	703,072
Academic support	51,200	354,083	4	10,299
Student services	387,335	204,556	73,866	320,498
Institutional support	6,900	1,494,084	-	83,582
Operational and maintenance of plant	-	-	-	-
Scholarships and fellowships	-	-	-	3,648,424
	<hr/>	<hr/>	<hr/>	<hr/>
Total restricted educational activities	1,248,359	3,990,948	209,650	5,680,410
Total educational activities	18,911,583	3,990,948	3,445,436	15,028,033
Auxiliary enterprises	1,207,282	-	216,902	4,834,739
<b>DEPRECIATION EXPENSE</b>				
Buildings and other real estate improvements	-	-	-	1,173,681
Equipment and furniture	-	-	-	467,473
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 20,118,865</u>	<u>\$ 3,990,948</u>	<u>\$ 3,662,338</u>	<u>\$ 21,503,926</u>

## Schedule B

<u>2018</u> <u>Total</u>	<u>2017</u> <u>Total</u>
\$ 13,245,572	\$ 13,472,468
10,032	9,418
2,717,241	2,573,999
1,829,958	1,842,330
7,214,999	6,721,966
4,705,159	4,438,088
523,672	660,245
<u>30,246,633</u>	<u>29,718,514</u>
3,588,149	3,230,374
906,387	510,559
415,586	434,789
986,255	873,662
1,584,566	506,915
-	-
<u>3,648,424</u>	<u>3,703,057</u>
<u>11,129,367</u>	<u>9,259,356</u>
41,376,000	38,977,870
6,258,923	6,577,743
1,173,681	1,026,573
<u>467,473</u>	<u>605,600</u>
<u>\$ 49,276,077</u>	<u>\$ 47,187,786</u>
(Exhibit 2)	(Exhibit 2)

**Kilgore Junior College District – Kilgore, Texas**  
 Schedule of Nonoperating Revenues and Expenses  
 For the Year Ended August 31, 2018  
 (With Memorandum Totals for the Year Ended August 31, 2017)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>
<b>NONOPERATING REVENUES</b>			
State appropriations:			
Education and general state support	\$ 9,732,237	\$ -	\$ -
State group insurance	-	580,185	-
State on-behalf	-	2,978,510	-
	<hr/>	<hr/>	<hr/>
Total state appropriations	9,732,237	3,558,695	-
Ad valorem taxes (net)	6,765,580	-	-
Federal revenue, nonoperating	-	11,438,385	-
Gifts	239,670	822,018	291,075
Investment income	221,108	-	1,040
Endowment income	-	479,292	-
Disposal of capital assets	333	-	-
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues	16,958,928	16,298,390	292,115
<b>NONOPERATING EXPENSES</b>			
Interest on capital related debt	7,815	-	-
Other nonoperating expenses	95,218	-	-
	<hr/>	<hr/>	<hr/>
Total nonoperating expenses	103,033	-	-
	<hr/>	<hr/>	<hr/>
<b>NET NONOPERATING REVENUES</b>	<u>\$ 16,855,895</u>	<u>\$ 16,298,390</u>	<u>\$ 292,115</u>

Schedule C

<u>2018</u> <u>Total</u>	<u>2017</u> <u>Total</u>
\$ 9,732,237	\$ 10,046,393
580,185	2,226,407
<u>2,978,510</u>	<u>906,713</u>
13,290,932	13,179,513
6,765,580	6,560,191
11,438,385	11,054,470
1,352,763	937,126
222,148	111,738
479,292	821,629
<u>333</u>	<u>-</u>
33,549,433	32,664,667
7,815	23,555
<u>95,218</u>	<u>458,369</u>
103,033	481,924
<u>\$ 33,446,400</u>	<u>\$ 32,182,743</u>
(Exhibit 2)	(Exhibit 2)

**Kilgore Junior College District – Kilgore, Texas**  
Schedule of Net Position by Source and Availability  
For the Year Ended August 31, 2018

	Detail by Source		
	Unrestricted	Restricted	
		Expendable	Nonexpendable
Current:			
Unrestricted	\$ (27,505,338)	\$ -	\$ -
Restricted	-	884,624	-
Auxiliary enterprises	(1,846,723)	-	-
Endowment	-	-	10,571,472
Plant:			
Unexpended	1,520,112	-	-
Debt Service	-	3,905	-
Investment in plant	-	-	-
Total net position, August 31, 2018	(27,831,949)	888,529	10,571,472
Total net position, August 31, 2017, as originally reported	10,600,238	4,565,538	7,391,434
Implementation of GASB 75 OPEB	(38,805,220)	-	-
Total net position, August 31, 2017, restated	(28,204,982)	4,565,538	7,391,434
<b>NET INCREASE (DECREASE)</b>			
<b>IN NET POSITION</b>	<b>\$ 373,033</b>	<b>\$ (3,677,009)</b>	<b>\$ 3,180,038</b>

Net Investment in Capital Assets	Available for Current Operations		
	Total	Yes	No
\$ -	\$ (27,505,338)	\$ (27,505,338)	\$ -
-	884,624	-	884,624
-	(1,846,723)	(1,846,723)	-
-	10,571,472	-	10,571,472
-	1,520,112	1,520,112	-
-	3,905	-	3,905
47,016,928	47,016,928	-	47,016,928
47,016,928	30,644,980 (Exhibit 1)	(27,831,949)	58,476,929
47,301,334	69,858,544	10,322,261	59,536,283
-	(38,805,220)	(38,805,220)	-
47,301,334	31,053,324 (Exhibit 2)	(28,482,959)	59,536,283
\$ (284,406)	\$ (408,344) (Exhibit 2)	\$ 651,010	\$ (1,059,354)

**Kilgore Junior College District – Kilgore, Texas**

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2018

**Schedule E**

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Direct Programs			
Student Financial Assistance Cluster:			
Federal Supplemental Education Opportunity Grant	84.007	-	\$ 134,663
Federal Work-Study Program	84.033	-	131,003
Federal Pell Grant Program	84.063	-	11,172,719
Federal Direct Student Loans	84.268	-	<u>9,881,053</u>
Total Student Financial Assistance Cluster			21,319,438
TRIO Cluster:			
TRIO Student Support Services	84.042A	-	244,429
TRIO Upward Bound	84.047A	-	<u>255,934</u>
Total TRIO Cluster			500,363
Expanding and Strengthening Online Access and Success	84.031F	-	411,080
Passed Through Texas Workforce Commission:			
Adult Education and Literacy	84.002A	0816AEL002	590,961
Passed Through Texas Higher Education Coordinating Board:			
Carl Perkins Vocational Education	84.048	17665	<u>574,753</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>23,396,595</u>
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>			
Passed Through Dallas County Community College:			
Small Business Development Center	59.037	7-603001-EZ-0002	<u>5,755</u>
<b>TOTAL U.S. SMALL BUSINESS ADMINISTRATION</b>			5,755
<b>U.S. DEPARTMENT OF LABOR</b>			
Passed Through Texas Workforce Commission:			
Employment Service Cluster:			
Wagner Peyser	17.207	0818WPB001	<u>175,867</u>
Total Employment Service Cluster			<u>175,867</u>
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			175,867
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through Texas Workforce Commission:			
TANF Cluster:			
Temporary Assistance for Needy Families	93.558	0816AEL002	<u>10,815</u>
Total TANF Cluster			<u>10,815</u>
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>10,815</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 23,589,032</u></u>

The Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**Kilgore Junior College District – Kilgore, Texas**  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2018

**Note 1. Federal Assistance Reconciliation**

Federal Grants and Contracts Revenue - per Schedule A	\$ 2,573,778
Add: Nonoperating Federal Revenue - per Schedule C	<u>11,438,385</u>
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Assets	14,012,163
Reconciling Item:	
Add: Direct Student Loans	9,881,053
Less: Programs not Subject to Federal Single Audit	<u>(304,184)</u>
<b>Total Federal Revenues per Schedule of Expenditures of Federal Awards</b>	<b><u>\$ 23,589,032</u></b>

**Note 2. Significant Accounting Policies Used in Preparing the Schedule**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported represent funds that have been expended by the District for the purposes of the award. The expenditures reported may not have been reimbursed by the funding agencies as of the end of the fiscal year. 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 District has followed all applicable guidelines issued by various entities in the preparation of the schedule. Since the District has an agency approved Indirect Recovery Rate, it has elected not to use the 10% de minimis cost rate as permitted in the Uniform Guidance, section 200.414.

**Note 3. Expenditures Not Subject to Federal Single Audit**

The following federal funds were not subject to federal single audit - CFDA 64.027 Post 9/11 Veterans Educational Assistance \$304,184.

These funds were not subject to a federal single audit as indicated in the Catalog of Federal Domestic Assistance distributed by the Office of Management and Budget.

**Note 4. Amounts Passed Through by the District**

No federal awards were passed through from the District to sub-recipients.

**Kilgore Junior College District – Kilgore, Texas**

Schedule of Expenditures of State Awards

For the Year Ended August 31, 2018

**Schedule F**

(1)	(2)	(3)
<b>Pass-Through Grantor/ Program Title</b>	<b>Grant Contract Number</b>	<b>State Expenditures</b>
Passed Through Dallas County Community College District Small Business Development Center	7-603001-EZ-002	\$ 4,876
Passed Through Texas Workforce Commission Skills Development Funds - Red Zone Coil Program Adult Basic Education Temporary Assistance for Needy Families	116SDF000 0816AEL002 KC-TANF-PY16-01	5,751 73,139 28,864
Total Passed Through Texas Workforce Commission		107,754
Passed Through Texas Higher Education Coordinating Board Texas Educational Opportunity Grant Texas Workstudy Intensive Summer Program for General Education Comprehensive College Readiness and Success Models	N/A* N/A* N/A* N/A*	439,968 26,889 5,145 96,457
Total Passed Through Texas Higher Education Coordinating Board		568,459
Passed Through Texas Commission on the Arts Texas Shakespeare Festival Texas Shakespeare Festival Texas Shakespeare Festival	18-42170 18-42610 18-42854	6,000 4,500 3,500
Total Passed Through Texas Commission on the Arts		14,000
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>		<b>\$ 695,089</b>

\*Not Available

**Kilgore Junior College District – Kilgore, Texas**  
Notes to Schedule of Expenditures of State Awards  
For the Year Ended August 31, 2018

**Note 1. State Assistance Reconciliation**

State Grants and Contracts - per Schedule A	\$ 713,559
Less Program not subject to State Single Audit - Hazelwood Act: College for Veterans	<u>\$ (18,470)</u>
<b>Total State Revenues per Schedule of Expenditures of State Awards</b>	<u><u>\$ 695,089</u></u>

**Note 2. Significant Accounting Policies Used in Preparing the Schedule**

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



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

The Board of Trustees of  
Kilgore Junior College District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kilgore Junior College District (the District) as of and for the year ended August 31, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 18, 2019. Our report includes a reference to other auditors who audited the financial statements of The Kilgore College Foundation (the Foundation), as described in our report on the District's financial statements. The financial statements of the Foundation were not audited in accordance with *Governmental Auditing Standards*.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2018-001, 2018-002, 2018-003, and 2018-004.

***Compliance and Other Matters***

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

To the Board of Trustees of  
Kilgore Junior College District

### **District's Response to Findings**

The District's response to the findings identified in our audit are described in the accompanying corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

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

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
March 18, 2019

**Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance**

The Board of Trustees of  
Kilgore Junior College District

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

We have audited the Kilgore Junior College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

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

To the Board of Trustees of  
Kilgore Junior College District

### **Report on Internal Control over Compliance**

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

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

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

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

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
March 18, 2019

**Kilgore Junior College District – Kilgore, Texas**

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2018

**Section 1. Summary of Auditor's Results**

**Financial Statements**

- 1. Type of auditors' report issued Unmodified
  
- 2. Internal control over financial reporting:
  - a. Material weakness(es) identified? No
  
  - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? Findings 2018-001 through 2018-004
  
- 3. Noncompliance material to financial statements noted? No

**Federal Awards**

- 4. Internal control over major programs:
  - a. Material weakness(es) identified? No
  
  - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported
  
- 5. Type of auditors' report issued on compliance with major programs? Unmodified
  
- 6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? No
  
- 7. Identification of Major Programs Student Financial Aid Cluster  
84.007, 84.033, 84.063, 84.268
  
- 8. Dollar threshold used to distinguish between Type A and Type B federal programs \$750,000
  
- 9. Auditee qualified as a low-risk auditee? Yes

**State Awards**

- 10. The District does not meet the single audit threshold for a State single audit.

## Kilgore Junior College District – Kilgore, Texas

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2018

### Section 2. Financial Statement Findings

#### Finding 2018-001 – Financial Accounting and Reporting- Significant Deficiency in Controls

##### Criteria or specific requirement

The District is responsible for having financial and accounting processes to achieve the timely closing of the general ledger, timely preparation of account reconciliations and identification and proper analysis of transactions, and proper accounting and timely reporting of financial transactions.

##### Condition

The District's business office was not able to provide complete reconciliations for all balance sheet accounts during the initial year-end fieldwork. Such reconciliations were achieved throughout the audit process and numerous entries were required.

##### Context

The District incurred a turnover of key accounting positions. The lack of written procedures and cross-training in a large complex organization such as the District as well as new personnel learning the intricacies of the technology and the flow of transactions requires time to gain an understanding to properly reconcile accounts for financial reporting.

##### Effect

The District was unable to provide accurate financial reporting documentation in a timely manner.

##### Cause

An effective internal control environment is evidenced by documented procedures with strong ongoing communications between key departments where employees implement and maintain those internal control activities with the ultimate goal of producing accurate and timely financial statements.

Whereas management has changed and there has been turnover in employees, the lack of documented procedures for monthly and year-end processes creates a deficiency to prepare accurate and timely financial reports. Controls have not been formalized in a way that they can be communicated and sustained and individuals that perform these control activities have not been adequately trained.

Strengthening the internal control process should reduce corrections subsequent to year-end and make the year-end closing process more efficient and timely.

##### Recommendation

Develop and institute a sustainable internal controls management program to ensure controls are adequately designed, implemented, executed, and monitored on an ongoing basis to achieve the goal of timely closing of the general ledger, timely preparation of account reconciliations and identification and proper analysis of transactions, and proper accounting and timely reporting of financial transactions.

Review the current assignment and qualifications of individuals responsible for controls to ensure they have the appropriate skills to perform their assigned duties. Ensure that those individuals have been appropriately trained, and possess the proper understanding of both the controls they are performing and the transactions that they are responsible for recording. Consider the need for cross-training of employees in various accounting functions. Consider developing written procedures or "desk manuals" that can be easily disseminated to employees to aid in cross-functional training.

## Kilgore Junior College District – Kilgore, Texas

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2018

### Finding 2018-002 – Grant Accounting and Reporting- Significant Deficiency in Controls

#### Criteria or specific requirement

The District is responsible for preparing a Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards. These schedules should be reconciled between the District's financial records and those reports available from the Texas Comptroller's Report of payments to the District and U.S. Department of Education (USDE) G5 Report of Direct Payments to the District by award.

#### Condition

The District's Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards was not available prior to arriving for initial year-end fieldwork. The auditors provided assistance in obtaining the reports, and the reconciliations were achieved throughout the audit process.

#### Context

The District incurred a turnover of key accounting positions. The lack of written procedures and cross-training in a large complex organization such as the District as well as new personnel learning the intricacies of federal and state grant accounting, reconciling, and reporting contributed to the deficiency. The District was not aware of the reports available from the State and the USDE for reconciliation purposes.

#### Effect

The District is unable to provide accurate Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards in a timely manner.

#### Cause

Whereas management has changed and there has been turnover in employees, the lack of routine processes which included identifying responsibilities to prepare reconciliations for each grant and the responsibility for monitoring and approving such reconciliations are essential to prepare an accurate and timely Schedule of Expenditures of Federal and State Awards for grant accounting and reporting. An effective internal control environment for grant accounting is evidenced by documented procedures with strong ongoing communications between key departments managing grants and the business office.

#### Recommendation

Develop routine processes for reconciling federal and state grants to the reports available from the Texas Comptroller and U.S. Department of Education and the monitoring of such activity so that timely and accurate Schedule of Expenditures of Federal and State Awards can be prepared for financial reporting and budgeting. Review the current assignment and qualifications of individuals responsible for each grant reconciliation to ensure they have the appropriate skills to perform their assigned duties. Ensure that those individuals have been appropriately trained, and possess the proper understanding of both the controls they are performing and the transactions that they are responsible for recording. Consider the need for cross-training of employees in various grant accounting functions. Consider developing written procedures or desk manuals that can be easily disseminated to employees to aid in cross-functional training.

## Kilgore Junior College District – Kilgore, Texas

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2018

### Finding 2018-003 – User Access Journal Entries - Significant Deficiency in Controls

#### Criteria or specific requirement

The District is responsible for having accounting processes to record accurate and authorized transactions, specifically journal entries.

#### Condition

The District's journal entries are not required to be approved prior to entry into the system. In addition, the access for entry is not limited to a few individuals who understand that all entries should be authorized by the Chief Financial Officer or Controller.

#### Context

The deficiency was identified in our audit procedures as balances for the prior year were being changed with journal entries posted by individuals without the Controller's knowledge.

#### Effect

Journal entry duties are not appropriately segregated between the preparation, authorization, and data entry.

#### Cause

A lack of controls over the journal entry process can lead to unauthorized transactions being executed, compromising the intended segregation of duties and potentially causing lack of integrity and reliability of information produced by the systems.

#### Recommendation

District management should document and implement policies and procedures to segregate duties between preparation, authorization and data entry to the accounting system access and to ensure the integrity of the financial data and prevent management override. The District should also consider limiting access for data entry relative to these transactions.

### Finding 2018-004 – System Change Management- Significant Deficiency in Controls

#### Criteria or specific requirement

A formal IT system change management process related to Jenzabar EX is not defined and followed by IT.

#### Condition

The District does not have formal or consistent policies relating to changes in access or revocation of access between the human resources department and other departments to notify the information technology department. In addition, there is not a formal review of user permission appropriateness.

#### Context

The deficiency was identified in our audit procedures to gain an understanding of general controls for information technology.

#### Effect

Inaccurate or unauthorized changes that do not meet the business requirements may lead to unreliable information produced by the systems.

## **Kilgore Junior College District – Kilgore, Texas**

### Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2018

#### Cause

A lack of controls over information systems access administration can lead to unauthorized transactions being executed, compromising the intended segregation of duties and potentially causing lack of integrity and reliability of information produced by the systems.

#### Recommendation

District management should document and implement policies and procedures to adequately control system access to ensure appropriate configuration of security parameters. Appropriate monitoring of controls should be established to ensure the documented policy is being followed by the users of various software systems.

### **Section 3. Federal Award Findings and Questioned Costs**

None reported

**Kilgore Junior College District – Kilgore, Texas**  
Summary Schedule of Prior Audit Findings and Questioned Costs  
For the Year Ended August 31, 2018

None reported



1100 Broadway  
Kilgore, Texas  
75662-3204  
[www.kilgore.edu](http://www.kilgore.edu)

## Kilgore Junior College District Corrective Action Plan

### **Finding 2018-001 – Financial Accounting and Reporting- Significant Deficiency in Controls**

#### Corrective Action Plan

Kilgore College will implement internal controls to review and monitor timely account reconciliations. The account reconciliations will be reviewed and approved by the Controller or CFO. Existing desktop procedures will be reviewed and updated, as needed, to assist with the training of new employees due to turnover. Additional training and guidance will be given to those individuals who do not currently possess the appropriate skills and knowledge to perform their respective jobs.

#### Person(s) Responsible

Nancy Wylie  
Controller

#### Anticipated Completion Date

August 31, 2019

### **Finding 2018-002 – Grant Accounting and Reporting- Significant Deficiency in Controls**

#### Corrective Action Plan

Kilgore College will implement internal controls to review and monitor timely reconciliations of the federal and state grants. Existing desktop procedures will be reviewed and updated, as needed, to assist with the training of new employees due to turnover. Additional training and guidance will be given to those individuals who do not currently possess the appropriate skills and knowledge to perform their respective jobs.

#### Person(s) Responsible

Nancy Wylie  
Controller

#### Anticipated Completion Date

August 31, 2019

*Your Future Starts Here!*



1100 Broadway  
Kilgore, Texas  
75662-3204  
[www.kilgore.edu](http://www.kilgore.edu)

**Finding 2018-003 – User Access Journal Entries - Significant Deficiency in Controls**

Corrective Action Plan

Kilgore College will review security access and restrict posting of journal entries. All journal entries will include the appropriate documentation to support the entry and will be reviewed and approved by the Controller or CFO.

Person(s) Responsible

Nancy Wylie  
Controller

Anticipated Completion Date

August 31, 2019

**Finding 2018-004 – System Change Management- Significant Deficiency in Controls**

Corrective Action Plan

Kilgore College will implement a review of user permissions. HR or the appropriate personnel will enter an IT Incident related to changes in access or revocation of accesses for terminated/retired employees.

Person(s) Responsible

Nancy Wylie  
Controller

Anticipated Completion Date

August 31, 2019

*Your Future Starts Here!*