

# Kilgore Junior College District Kilgore, Texas

Annual Financial Report

For the Fiscal Year Ended August 31, 2021 and 2020



**Kilgore Junior College District**  
Annual Financial Report  
August 31, 2021 and 2020

## **Introductory Section**

# Kilgore Junior College District

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**Kilgore Junior College District**

***Board of Trustees***

	<u>Term Expires</u>
Officers:	
Joe Carrington - President White Oak, Texas	2025
Lon Ford – Vice President Kilgore, Texas	2023
Jon Rowe – Secretary Gladewater, Texas	2027
Members:	
Janice Bagley, Overton, Texas	2025
David Castles, Kilgore, Texas	2025
Kelvin Darden, Overton, Texas	2027
Josh Edmonson, Kilgore, Texas	2027
Gina DeHoyos, Gladewater, Texas	2023
Travis Martin, Kilgore, Texas	2023

***Principal Administrative Officers***

Dr. Brenda Kays	President
Terry Hanson	Vice President of Administrative Services and Chief Financial Officer
Dr. Tracy Skopek	Vice President of Instruction and Chief Academic Officer
Dr. Mike Jenkins	Executive Vice President of Internal Collaboration and Strategic Initiatives
Dr. Staci Martin	Vice President of Student Services
Dr. Mickey Best	Vice President of Organizational Effectiveness and Excellence
Tony Johnson	Director of Human Resources
John Colville	Director of Information Technology

## **Financial Section**



## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Kilgore Junior College District:

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Kilgore Junior College District (the District) as of and for the year ended August 31, 2021, 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 opinions 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 (the Foundation), as of and for the years ended August 31, 2021 and 2020. 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 opinions.

### ***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Kilgore Junior College District as of August 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The financial statements of the District for the year ended August 31, 2020 were audited by another auditor who expressed an unmodified opinion on those statements on February 5, 2021.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the schedule of the District's proportionate share of the net pension liability on page 50, the schedule of the District's contributions to the Teacher Retirement System of Texas on page 51, the schedule of the District's proportionate share of the net OPEB liability on page 52, and the schedule of the District's contributions to the Employee Retirement System of Texas on page 53 (collectively, the required supplementary information) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Uniform Grant Management Standards* and are also not a required part of the basic financial statements.

The supplemental information and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 supplemental information and schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Jaynes, Reitzmeier, Boyd & Herrell, P.C.*

July 15, 2022

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Kilgore Junior College District's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2021, with fiscal years 2020 and 2019 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 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 deferred outflow of resources and liabilities and deferred inflow of resources. 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, lenders, 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.

Financial statements for the District's component unit, The Kilgore College Foundation (the Foundation), are issued independently of the District. The Foundation's financial information is shown in separate columns on the District's basic financial statements. More details on the Foundation are in Note 1 in the Notes to Financial Statements.

## **Financial Highlights**

- Total assets and deferred outflows for 2021 were \$100.5 million, increasing by \$1.6 million from 2020 due primarily to the net effect of a \$6.5 million increase in cash and cash equivalents and a \$3.2 million decrease in capital assets. Total liabilities and deferred inflows for 2021 were \$71.3 million, decreasing by \$2.3 million from 2020, primarily the result of a \$1.9 million decrease in deferred inflows of resources for pension and OPEB.
- Net position at August 31, 2021 was \$29.1 million, an increase of \$3.9 million from the prior year, primarily due to the \$9.6 million contribution to the Foundation during 2020.
- Total operating revenues in 2021 were \$20.2 million, an increase of \$1.1 million primarily attributable to a \$1.0 million increase in state grants and contracts and \$1.0 million increase in auxiliary services offset by a decrease in federal grants and contracts revenue of \$1.0 million. Operating expenses were \$49.0 million, up \$3.9 million from 2020 primarily due to increases in instruction and institutional support from federal grant funding and increases in depreciation due to significant additions to equipment in 2021. Net nonoperating revenues (expense) were \$32.7 million, up \$11.7 million from 2020 primarily due insurance recoveries on capital assets in 2021 and the \$9.6 million contribution to the Foundation in 2020.
- Capital assets (net) decreased by approximately \$3.2 million in 2021, and increased by \$1.2 million in 2020.
- Notes payable decreased by approximately \$1.0 million in 2021 and increased by approximately \$4.5 million in 2020.

## **Statement of Net Position**

The District's net position increased \$3.9 million compared to a \$4.7 million decrease in the prior year, increasing from \$25.2 million to \$29.1 million.

### **Condensed Statement of Net Position**

	2021	2020	2019	Increase (Decrease)	
				2020 to 2021	2019 to 2020
<b>Assets</b>					
Current assets	\$ 30,254,960	23,943,922	15,897,928	6,311,038	8,045,994
Noncurrent assets:					
Capital assets, net of depreciation	62,488,381	65,668,689	64,471,027	(3,180,308)	1,197,662
Other	1,123,709	1,742,208	14,054,452	(618,499)	(12,312,244)
Total assets	93,867,050	91,354,819	94,423,407	2,512,231	(3,068,588)
<b>Deferred outflows of resources</b>	<b>6,587,476</b>	<b>7,477,289</b>	<b>6,093,432</b>	<b>(889,813)</b>	<b>1,383,857</b>
<b>Liabilities</b>					
Current liabilities	8,831,151	8,535,094	8,817,608	296,057	(282,514)
Noncurrent liabilities	48,392,966	49,105,223	48,643,254	(712,257)	461,969
Total liabilities	57,224,117	57,640,317	57,460,862	(416,200)	179,455
<b>Deferred inflows of resources</b>	<b>14,084,347</b>	<b>15,949,970</b>	<b>13,125,211</b>	<b>(1,865,623)</b>	<b>2,824,759</b>

**Statement of Net Position** (continued)

	<b>Condensed Statement of Net Position</b>				
	(continued)				
				Increase (Decrease)	
<b>Net Position</b>	2021	2020	2019	2020 to 2021	2019 to 2020
Net investment in capital assets	52,119,818	54,266,347	54,340,648	(2,146,529)	(74,301)
Restricted	617,934	847,217	10,801,488	(229,283)	(9,954,271)
Unrestricted	<u>(23,591,690)</u>	<u>(29,871,743)</u>	<u>(35,211,370)</u>	<u>6,280,053</u>	<u>5,339,627</u>
Total net position	<u>\$ 29,146,062</u>	<u>25,241,821</u>	<u>29,930,766</u>	<u>3,904,241</u>	<u>(4,688,945)</u>

The Statement of Net Position helps identify the District'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 liabilities are those obligations which are expected to be satisfied within one business cycle. The District's current assets of \$30.2 million were sufficient to cover current liabilities of \$8.8 million, giving a current ratio of 3.4 compared to 2.8 for fiscal year 2020.

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 \$(23.6) million at August 31, 2021 compared to a deficit expendable net position of \$(29.9) million at August 31, 2020. Operating expenses for the same periods were \$49.0 million and \$45.1 million. The District continued to report a deficit in expendable net position at August 31, 2021 as a result of the implementation of GASB 75 in fiscal year 2018. The ratio of expendable net position to operating expenses for fiscal years 2021 and 2020 was (48.1%) and (66.3%), respectively, of operating expenses.

The District's accumulated cash and cash equivalent balances increased from \$21.5 million in 2020 to \$28.1 million in the current year. This increase is due to a number of factors including the receipt of insurance proceeds and general district operations for the year.

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

The Statement of Revenues, Expenses, and Changes in Net Position presents the operating results, as well as non-operating revenues and expenses. Of the four main sources of revenue — ad valorem taxes, state appropriations, federal revenue, and tuition and fees — only tuition and fees represents an exchange for services. Taxes, federal revenues, and state appropriations represent non-exchange transactions and thus are considered non-operating revenues. This approach to presenting revenues and expenses is intended to summarize and simplify the user's analysis of the various services offered to students and the public. Depending on whether revenues or expenses are greater for the year, a net increase or net decrease in net position is created.

**Statement of Revenues, Expenses and Changes in Net Position** (continued)

The following table reflects the Statement of Revenues, Expenses and Changes in Net Position for the years ended August 31, 2021, 2020 and 2019.

	2021	2020	2019
<b>Statements of Revenues, Expenses, and Changes in Net Position</b>			
Operating revenues:			
Tuition and fees, net	\$ 9,674,018	9,582,499	8,576,482
Federal grants and contracts	4,824,261	5,851,256	2,799,491
State grants and contracts	1,327,215	300,326	832,179
Auxiliary enterprises, net	3,580,062	2,631,534	3,875,269
Other	807,957	790,919	697,733
	<u>20,213,513</u>	<u>19,156,534</u>	<u>16,781,154</u>
Operating expenses:			
Instruction	16,011,664	15,864,157	18,505,057
Public service	548,762	365,538	345,244
Academic support	2,683,784	2,761,662	3,200,569
Student services	2,642,572	2,504,084	2,793,007
Institutional support	8,821,697	7,078,295	7,123,799
Operation and maintenance of plant	4,705,824	4,934,406	4,552,456
Scholarships and fellowships	5,489,139	5,227,354	3,657,289
Auxiliary enterprises	4,190,445	4,336,034	6,538,406
Depreciation	3,919,684	2,006,822	1,767,630
	<u>49,013,571</u>	<u>45,078,352</u>	<u>48,483,457</u>
Operating loss	<u>(28,800,058)</u>	<u>(25,921,818)</u>	<u>(31,702,303)</u>
Non-operating revenues (expenses):			
State appropriations	12,465,072	11,444,187	11,838,836
Ad valorem taxes	7,123,710	7,263,613	6,602,588
Federal grants and contracts	9,608,714	10,785,587	10,592,036
Interest on debt	(139,410)	(201,815)	-
Insurance proceeds	3,200,000	-	-
Contributions to Kilgore College Foundation	(8,053)	(9,591,814)	-
Other	454,266	1,233,115	1,954,629
	<u>32,704,299</u>	<u>20,932,873</u>	<u>30,988,089</u>
Increase (decrease) in net position	<u>\$ 3,904,241</u>	<u>(4,988,945)</u>	<u>(714,214)</u>

### **Operating and Non-operating Revenues**

Tuition and fees revenue is reported net of scholarships and discounts. In Fall 2020 the District increased the base tuition per credit hour for in-district, out-of-district, and non-resident students, as well as increased the general education fees. As a result, the associated tuition and fee revenue in 2021 increased approximately \$0.1 million. The total enrollment decreased from the fall of 2019 attributed to the COVID 19 pandemic.

Federal grants and contracts revenue decreased \$2.2 million, primarily due to continued decreases in the Pell Grant program and student distributions and recognition of allowable institutional uses under Higher Education Emergency Relief Fund assistance for COVID-19 related items.

State grants and contracts revenue increased \$0.5 million primarily due to greater participation in the Texas Educational Opportunity Grant program and one-time grant from Texas Workforce Commission for a skills development grant.

Auxiliary enterprises revenue increased \$0.9 million in 2021 rebounding from the closures of housing for the COVID-19 pandemic. As the State of Texas reopened, the District resumed operations of other auxiliary enterprises and resumed summer camps at the District.

State appropriations change is the result of a reduction in biennium state funding from the 86th Legislative session.

Ad valorem tax revenue, net of collection fees and bad debt, decreased in 2021 by \$0.1 million as the taxable assessed value was slightly lower for 2020 and the rate for maintenance and operations (M&O) was maintained at \$0.175 per \$100 valuation. The maintaining of the tax rate was intentionally kept the same to minimize impact on taxpayers during the COVID-19 pandemic.

The District received insurance proceeds to replace the pedestrian bridge that was damaged in 2019. The bridge had to be removed and the insurance proceeds will be used to construct a new pedestrian bridge on the campus.

### **Operating and Non-operating Expenses**

Operating expenses totaled \$49.0 million, which is a \$3.9 million increase from fiscal year 2020. The increase is primarily due to a \$1.9 million dollar increase in instruction and institutional costs and a \$1.9 million increase in depreciation expense, associated with a significant amount of new equipment coming online.

Non-operating expenses totaled \$0.7 million, which is a \$9.0 million decrease from fiscal year 2020. The decrease is primarily due to the one-time \$9.6 million contribution to The Kilgore College Foundation for student scholarships in 2020.

### **Statement of Cash Flows**

The Statement of Cash Flows combines information from the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position to illustrate the effect of various actions of the District on the availability and ultimate change in the amount of cash from one year to the next. The cash provided or used by operations, capital and non-capital financing, and investing activities combine to show the net change in cash and cash equivalents. The final portion of the Statements of Cash Flows reconciles the net income or loss from operations to the cash provided or used by operations.

### **Capital Assets and Debt Administration**

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 2021, the District had \$62.5 million invested in a broad range of capital assets, as noted in the below table. Significant additions in fiscal year 2021 includes recognizing \$18.0 million of equipment related to utility improvements throughout the campus from construction in progress. There was also a reduction in equipment that was replaced and the recording of the loss for the bridge that lowered the total assets by \$3.0 million. More information on capital assets can be found in Note 6 to the financial statements.

#### **Schedule of Capital Assets** (net of accumulated depreciation)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Land	\$ 4,208,950	4,208,950	4,208,950
Construction in progress	154,986	18,551,544	17,191,366
Buildings	34,728,532	35,845,338	36,862,231
Land improvements and infrastructure	3,725,861	1,750,552	1,845,389
Leasehold improvements	1,262,784	1,349,864	1,437,183
Library books	220,450	263,268	289,528
Equipment	18,109,521	3,604,109	2,523,498
Exhibits	77,297	95,064	112,882
	<u>\$ 62,488,381</u>	<u>65,668,689</u>	<u>64,471,027</u>

At year-end, the District had \$13.7 million in notes and loans outstanding. More information on debt can be found in Notes 7 to the financial statements.

#### **Schedule of Outstanding Debt**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
SECO loans	\$ 13,470,884	14,381,372	9,760,235
Kilgore ISD	202,620	292,413	370,144
	<u>\$ 13,673,504</u>	<u>14,673,785</u>	<u>10,130,379</u>



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

The District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the forthcoming fiscal year beyond those unknown variations having a global effect on virtually all types of businesses.

The District's elected and appointed officials considered many factors when setting the fiscal year 2022 budget, tax rates, and fees that are charged for its business-type activities. One of those factors continues to be the economy. The District's employment levels have mirrored its population levels over the past ten years averaging minimal gains.

Enrollment was negatively impacted due to the COVID-19 global pandemic and rebounded slightly with the 2021-2022 academic year. The District has distributed most of the Higher Education Emergency Relief Fund (HEERF) awards to students in need during the pandemic crisis. The HEERF award to the institution has assisted in implementing remote learning, updating technology, and improving safety of the students.

The District saw a slight decrease in property values based on 2021 values for fiscal year 2022. This decrease is attributed to the closing of Haliburton and the impacts of COVID-19 in the region. Subsequently, the East Texas region has seen significant activity in the real estate market during the calendar year 2021 and preliminary property values for future years looks to increase significantly.

Community colleges are known as the great equalizers. This persona is based on the demographics of the students who typically enroll. General characteristics of community college enrollees encompass: minorities, economically and academically disadvantaged individuals, single parent households, and workers in the service industry. While the District is proud of the population that it serves and the fact that it offers them an opportunity to break the cycle of poverty, it can't escape the reader that these very same populations were hardest hit by the pandemic. In planning the fiscal year 2022 budget, the District did not overlook this fact and budgeted its tuition and fee revenue accordingly.

Tuition and fee rates were increased for academic year 2020-2021 by 4.5% for in-district and 2.4% for out- of-district students. The District did not adopt any increases in tuition and fees for academic year 2021-2022. State and federal grants will continue to fluctuate from year to year. As a significant boost to the District's financial outlook, the District continues to see significant fundraising successes from its Institutional Advancement and joint efforts with the Foundation. There is every indication this success will continue to benefit the District's students through increased scholarships and the assistance with funding the District's infrastructure needs. In addition, the District continues to look for partnership opportunities with area governments, school districts, and industries to enhance higher education in the region.

The District has initiatives to change organizational culture to an entrepreneurial mindset, improve community outreach, and enhanced remote learning opportunities. The District has continued to improve its ability to deliver quality face to face, and remote learning to its service area. 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.

**Kilgore Junior College District**  
**Statements of Net Position**  
**(Exhibit 1)**  
**August 31, 2021 and 2020**

	Primary Government	
	2021	2020
<b><u>Assets</u></b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 28,056,126	21,509,854
Accounts receivable, net	1,536,512	1,440,394
Prepaid expenses	2,142	1,030
Inventories	660,180	992,644
Total current assets	30,254,960	23,943,922
<b>Noncurrent assets:</b>		
Restricted cash, cash equivalents, and investments	1,038,949	1,657,448
Capital assets, net	62,488,381	65,668,689
Other assets	84,760	84,760
Total noncurrent assets	63,612,090	67,410,897
Total assets	93,867,050	91,354,819
<b><u>Deferred Outflows of Resources</u></b>		
Deferred outflows of resources	6,587,476	7,477,289
<b><u>Liabilities</u></b>		
<b>Current liabilities:</b>		
Accounts payable	2,549,616	2,280,768
Accrued liabilities	527,173	173,377
Funds held for others	786,364	1,404,646
Unearned revenue	3,703,515	2,759,774
Compensated absences - current portion	304,995	299,188
Notes payable - current portion	959,488	959,488
Total current liabilities	8,831,151	7,877,241
<b>Noncurrent liabilities:</b>		
Compensated absences	300,719	426,303
Notes payable	12,714,016	13,714,298
Net pension liability	7,554,050	7,513,872
Net OPEB liability	27,824,181	28,108,603
Total noncurrent liabilities	48,392,966	49,763,076
Total liabilities	57,224,117	57,640,317
<b><u>Deferred Inflows of Resources</u></b>		
Deferred inflows of resources	14,084,347	15,949,970
<b><u>Net Position</u></b>		
<b>Net position:</b>		
Net investment in capital assets	52,119,818	54,266,347
Restricted for:		
Expendable:		
Education grants and debt service	617,934	847,217
Unrestricted	(23,591,690)	(29,871,743)
Total net position	\$ 29,146,062	25,241,821

See accompanying notes to the financial statements.

**Kilgore Junior College District**  
**Statements of Financial Position**  
 (Exhibit 1A)  
 August 31, 2021 and 2020

	Component Unit	
	2021	2020
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 1,210,888	652,327
Investments	26,402,468	21,394,081
	27,613,356	22,046,408
<b><u>Liabilities and Net Assets</u></b>		
Accounts payable	-	1,000
Total liabilities	-	1,000
Net assets:		
Without donor restrictions	303,202	221,314
With donor restrictions	27,310,154	21,824,094
Total net assets	27,613,356	22,045,408
	\$ 27,613,356	22,046,408

See accompanying notes to the financial statements.

**Kilgore Junior College District**

Statements of Revenues, Expenses, and Changes in Net Position  
(Exhibit 2)  
Years Ended August 31, 2021 and 2020

	Primary Government	
	2021	2020
<b>Operating revenues:</b>		
Tuition and fees (net of scholarship allowances and discounts of \$8,682,020 and \$9,245,620, respectively)	\$ 9,674,018	9,582,499
Federal grants and contracts	4,824,261	5,851,256
State grants and contracts	1,327,215	600,326
Local grants and contracts	401,302	379,264
Sales and services of educational activities	3,725	6,707
Auxiliary enterprises (net of scholarship allowances and discounts of \$1,487,782 and \$1,308,844, respectively)	3,580,062	2,631,534
Other operating revenues	402,930	404,948
Total operating revenues	20,213,513	19,456,534
<b>Operating expenses:</b>		
Instruction	16,011,664	15,864,157
Public service	548,762	365,538
Academic support	2,683,784	2,761,662
Student services	2,642,572	2,504,084
Institutional support	8,821,697	7,078,295
Operation and maintenance of plant	4,705,824	4,934,406
Scholarships and fellowships	5,489,139	5,227,354
Auxiliary enterprises	4,190,445	4,336,034
Depreciation	3,919,684	2,006,822
Total operating expenses	49,013,571	45,078,352
Operating loss	(28,800,058)	(25,621,818)
<b>Nonoperating revenues (expenses):</b>		
State appropriations	12,465,072	11,444,187
Ad valorem taxes for maintenance and operations	7,123,710	7,263,613
Federal grants and contracts	9,608,714	10,785,587
Investment income	96,734	328,446
Gifts	896,949	904,669
Insurance proceeds	3,200,000	-
Interest on capital asset-related debt	(139,410)	(201,815)
Contributions to The Kilgore College Foundation	(8,053)	(9,591,814)
Other nonoperating revenues (expenses), net	(539,417)	-
Net nonoperating revenues	32,704,299	20,932,873
Increase (decrease) in net position	3,904,241	(4,688,945)
Net position - beginning of year	25,241,821	29,930,766
Net position - end of year	\$ 29,146,062	25,241,821

See accompanying notes to the financial statements.

**Kilgore Junior College District**  
**Statements of Activities**  
**(Exhibit 2A)**  
**Years Ended August 31, 2021 and 2020**

	Component Unit	
	2021	2020
<b>Net assets without donor restrictions:</b>		
Revenue and other support:		
Contributions	\$ 102,039	8,227
Net investment income	40,632	30,374
Net assets released from restrictions	<u>672,070</u>	<u>1,773,608</u>
Total revenue and other support	<u>814,741</u>	<u>1,812,209</u>
Expenses:		
Program expenses:		
Scholarships and other distributions	636,082	1,895,761
Management and general	<u>96,771</u>	<u>214,873</u>
Total expenses	<u>732,853</u>	<u>2,110,634</u>
Net increase (decrease) in net assets without donor restrictions	<u>81,888</u>	<u>(298,425)</u>
<b>Net assets with donor restrictions:</b>		
Revenue and other support:		
Contributions	1,844,204	11,695,670
Fundraising	28,400	-
Net investment income	<u>4,285,526</u>	<u>2,345,534</u>
Total revenue and other support	<u>6,158,130</u>	<u>14,041,204</u>
Net assets released from restrictions	<u>(672,070)</u>	<u>(1,773,608)</u>
Net increase in net assets with donor restrictions	<u>5,486,060</u>	<u>12,267,596</u>
Increase in net assets	5,567,948	11,969,171
Net assets - beginning of year	<u>22,045,408</u>	<u>10,076,237</u>
Net assets- end of year	<u>\$ 27,613,356</u>	<u>22,045,408</u>

See accompanying notes to the financial statements.

## Kilgore Junior College District

### Statements of Cash Flows (Exhibit 3)

Years Ended August 31, 2021 and 2020

	Primary Government	
	2021	2020
<b>Cash flows from operating activities</b>		
Receipts from students and other customers	\$ 12,500,935	13,675,024
Receipts of grants and contracts	7,256,575	6,863,691
Other receipts	565,561	-
Payments to employees	(23,136,041)	(25,292,821)
Payments to suppliers and students	(19,123,528)	(20,522,357)
Net cash used in operating activities	(21,936,498)	(25,276,463)
<b>Cash flows from noncapital financing activities</b>		
Receipts of state appropriations	9,244,919	10,430,104
Receipts from ad valorem taxes for maintenance and operation	7,169,631	7,197,052
Receipts of grants and contracts	9,682,579	10,693,071
Receipts from gifts for other than capital purposes	888,892	904,669
Net cash provided by noncapital financing activities	26,986,021	29,224,896
<b>Cash flows from capital and related financing activities</b>		
Proceeds from insurance	3,200,000	-
Purchases of capital assets	(1,278,792)	(3,204,484)
Proceeds from issuance of notes payable	-	4,847,094
Payments on capital debt principal	(1,000,282)	(303,687)
Payments on capital debt interest	(139,410)	(201,815)
Net cash provided by capital and related financing activities	781,516	1,137,108
<b>Cash flows from investing activities</b>		
Receipts from interest on investments	96,734	378,694
Sale of endowment	-	2,347
Net cash provided by investing activities	96,734	381,041
Net increase (decrease) in cash and cash equivalents	5,927,773	5,466,582
Cash and cash equivalents - beginning of year	23,167,302	17,700,720
Cash and cash equivalents - end of year	\$ 29,095,075	23,167,302
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (28,800,058)	(25,621,818)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	3,919,684	2,006,822
On-behalf payments	3,220,153	1,015,646
Change in assets and liabilities:		
Receivables, net	(215,901)	344,249
Inventories	332,464	(98,312)
Prepaid expenses	(1,112)	-
Accounts payable and accrued liabilities	622,644	(1,693,525)
Funds held for others	(618,282)	(148,760)
Unearned revenue	943,741	426,021
Compensated absences	(119,777)	3,919
Net pension/OPEB liability	(244,244)	(2,951,607)
Change in deferred inflows and outflows:		
Deferred outflows	889,813	(1,383,857)
Deferred outflows	(1,865,623)	2,824,759
Net cash used in operating activities	\$ (21,936,498)	(25,276,463)
<b>Noncash capital, financing and investing activities:</b>		
State appropriations on-behalf payments	\$ 3,220,153	1,015,646

See accompanying notes to the financial statements.

## Kilgore Junior College District

### Notes to Financial Statements

August 31, 2021 and 2020

(1) Nature of Operations and Reporting Entity

Kilgore Junior College District (the District) was established in 1935, in accordance with the laws of the State of Texas, to serve the education needs of the District and the surrounding communities. 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. The District is considered to be a primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity Omnibus: An Amendment of GASB Statements No. 14 and No. 34*. 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 accompanying financial statements present the District and its component unit described below.

The Kilgore College Foundation (the Foundation) is a legally separate, tax-exempt entity organized to solicit and receive support for education, scientific, and charitable purposes of the District. The Foundation receives a significant portion of its revenue from individuals and businesses in the areas served by the District. The District does not control the timing or amount of receipts from the Foundation. However, the majority of resources or income thereon that the Foundation holds and invests is for the benefit of the District or its constituents. Because the net position of the Foundation compared to the District is significant, because substantially all resources held by the Foundation can only be used by, or for the benefit of, the District, and because the Foundation has historically provided resources to the District or its constituents, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. Complete financial statements for the Foundation can be obtained from the District's business office.

The District is reported as a special-purpose government engaged in business-type activities. 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 and Junior Colleges*. These accounting policies basically conform to generally accepted accounting principles applicable to government units.

**Kilgore Junior College District**Notes to Financial Statements  
(Continued)(2) Summary of Significant Accounting Policies(a) Basis of Accounting

The financial statements of the District have been prepared using the economic resource measurement focus and the accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when a liability has been incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The District distinguishes operating revenues and expenses from nonoperating items. The primary consideration in classifying revenues and expenses is how individual transactions are categorized for purposes of preparing the statement of cash flows. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are reported as components of nonoperating income. The principal operating revenue of the District results from providing education services to students and consists of tuition and fees, non-Title IV federal grants as well as sales and services of educational activities and auxiliary goods and services. Operating expenses include the cost of providing educational services, auxiliary goods and services, and administrative expenses. All revenues and expenses not meeting this definition – including gifts, contributions, and grants from nonexchange and exchange-like transactions – are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the District consist of state appropriations, property taxes, and Title IV federal grants. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the District's financial reporting entity for these differences.



**Kilgore Junior College District**Notes to Financial Statements  
(Continued)(2) Summary of Significant Accounting Policies (continued)(b) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. Encumbrances outstanding at year-end that were provided for in the subsequent year's budget are reported as designations of net position since they do not constitute expenditures or liabilities.

(c) Scholarship Allowances and Discounts

Student tuition and fee revenues are reported net of scholarship allowances and discounts in the statements of revenues, expenses, and changes in net position. Scholarship allowances and discounts are the difference between the stated charge for goods and services provided by the District and the amount that is paid by students. Certain governmental grants, such as Pell grants and other federal, state or nongovernmental programs, are recorded as nonoperating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, the District has recorded a scholarship allowance and discount.

*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 as a separate set aside in accordance with the Texas Education Code. When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount.

*Title IV Program Funds and Other Tuition Discounts:* Certain Title IV Program funds are received by the District to pass through to the students. In addition, the District awards tuition and fee scholarships from institutional funds to students who qualify. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and corresponding amounts are recorded as tuition discounts.

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(d) Cash and Cash Equivalents

Cash equivalents of \$176,828 and \$176,723 at August 31, 2021 and 2020, respectively, consist of public funds investment pools. Cash equivalents are considered to be highly liquid debt instruments with original maturities of three months or less from the date of acquisition.

Restricted cash and cash equivalents at August 31, 2021 and 2020 are mainly comprised of resources accumulated for debt service payments.

(e) Investments

Investments are reported at fair value. Fair values are based on published market prices. The governmental investment pool operates in accordance with appropriate state laws and regulations. The value of the pool is reported at amortized cost which, in most cases, approximates the fair values of the pool shares.

(f) Inventories

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

(g) Capital Assets

Capital assets, which include land, buildings, land improvements and infrastructure, leasehold improvements, equipment, exhibits, and library books, are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of one or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Renovations to buildings and other improvements that significantly increase the value or extend the useful life of such assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend asset lives are charged to operating expense in the year in which the expense is incurred. The District reports depreciation under a single line item as a business-type unit.

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(g) Capital Assets (continued)

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	50 years
Improvements	20 years
Library books	15 years
Equipment	5 - 10 years

(h) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows and inflows as of August 31, 2021 and 2020 consist of the following:

	2021	2020
<b>Deferred Outflows</b>		
Pension related:		
Contributions subsequent to measurement date	\$ 568,579	568,212
Changes in assumptions	1,752,808	2,331,172
Change in proportionate contributions	115,347	141,789
Differences between projected and actual investment earnings, net	152,926	75,448
Differences between expected and actual economic experience	13,793	31,565

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(h) Deferred Outflows and Inflows of Resources (continued)

	2021	2020
OPEB related:		
Contributions subsequent to measurement date	\$ 992,208	991,903
Changes in assumptions	1,610,827	2,000,340
Changes in proportion and differences between District contributions and proportionate share of contributions	1,372,684	1,325,304
Differences between projected and actual investment earnings	8,304	11,556
	\$ 6,587,476	7,477,289
<b>Deferred Inflows</b>		
Pension related:		
Changes in assumptions	\$ 745,282	963,351
Changes in proportion and differences between District contributions and proportionate share of contributions	475,455	552,174
Differences between expected and actual economic experience	210,813	260,894
OPEB related:		
Changes in assumptions	5,994,964	6,281,207
Changes in proportion and differences between District contributions and proportionate share of contributions	5,569,615	7,160,933
Differences between expected and actual economic experience	1,088,218	731,411
	\$ 14,084,347	15,949,970

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(i) Unearned Revenue

Unearned revenue of the District at August 31, 2021 and 2020 consists of the following:

	2021	2020
Tuition and fees	\$ 2,390,507	2,291,179
Grants	1,135,515	453,733
Other	177,493	14,862
	\$ 3,703,515	2,759,774

(j) Pensions

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

(k) Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Employee Retirement System of Texas (ERS) State Retiree Health Plan (SRHP) has been determined using the flow of economic resources measurement focus and the full accrual basis of accounting. This includes for purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities, and additions to/deductions from SRHP's fiduciary net position. Benefit payments are recognized when due and payable in accordance with benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(2) Summary of Significant Accounting Policies (continued)

(1) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for receivables, certain accrued liabilities, and net pension liability and net OPEB liability and related deferred outflows and inflows of resources. Actual results could differ from those estimates.

(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. The District is also required to follow specific investment practices prescribed by the Public Funds Investment Act (the Act) related to establishment of appropriate investment policies and management reports.

(4) Deposits and Investments

Deposits and investments of the District at August 31, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
<u>Deposits</u>		
Cash - demand deposits	\$ 21,291,312	15,418,711
Cash - certificates of deposit	7,596,560	7,541,494
Cash - petty cash on hand	30,375	30,374
Total deposits	<u>28,918,247</u>	<u>22,990,579</u>
<u>Investments - cash equivalents</u>		
Texas Local Government Investment Pool	\$ 176,828	176,723
Total investments-cash equivalents	<u>176,828</u>	<u>176,723</u>
Total deposits and investments	<u>\$ 29,095,075</u>	<u>23,167,302</u>

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(4) Deposits and Investments (continued)

Deposits and investments of the Foundation at August 31, 2021 and 2020 consist of the following:

	2021	2020
<u>Deposits</u>		
Cash - demand deposits	\$ 1,210,888	652,327
Total deposits	1,210,888	652,327
<u>Investments</u>		
Funds of a management investment company	\$ 26,402,468	21,394,081
Total investments	26,402,468	21,394,081
Total deposits and investments	\$ 27,613,356	22,046,408

The weighted average maturity of investments (in days) of the District at August 31, 2021 and 2020 consists of the following:

	2021	2020
Texas Local Government Investment Pool	31	27

*Interest Rate Risk.* Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio. Money market mutual funds must have a dollar weighted average stated maturity of 90 days or less. The maximum allowable stated maturity of any other individual investment owned by the District cannot exceed the limits established by the Act. If no maximum allowable stated maturity is provided for a particular investment, the maximum allowable stated maturity for such investment cannot exceed ten years.

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(4) Deposits and Investments (continued)

*Credit Risk.* Credit risk is the risk that an investment issuer or other counterparty to an investment will not fulfill obligations related to the investment. It is the District's policy to limit its investments in a manner that ensures the preservation of capital in the overall portfolio. Specifically, public funds investment pools must be rated not less than AAA or an equivalent rating by at least one nationally recognized rating service. At August 31, 2021 and 2020, the public funds investment pool held by the District was rated AAAM by Standard & Poor's.

As indicated above, investments of the District at August 31, 2021 and 2020 include deposits in the Texas Local Government Investment Pool (TexPool). TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. The District has delegated the authority to hold legal title to TexPool as custodian and to make investment purchases with the District's funds. The District does not own specific, identifiable investment securities within TexPool.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. There are no maximum transaction amounts and withdrawals may be made daily. TexPool uses amortized cost rather than fair value to report net assets to compute share prices.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in the securities of a single issuer. The District's investment policy includes an investment objective of seeking diversification to avoid unreasonable risk.

*Interest Rate and Credit Risks of The Kilgore College Foundation.* The Foundation has adopted investment and spending policies to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The policies contain provisions that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates and to limit the risk that an issuer or other counterparty to its funds will not fulfill its obligations.



**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(5) Disaggregation of Accounts Receivable and Accrued Liabilities

Accounts receivable at August 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Student	\$ 2,803,041	2,566,070
Taxes	857,594	899,619
Grants	415,303	511,183
	<u>4,075,938</u>	<u>3,976,872</u>
Less allowance for doubtful accounts	<u>(2,539,426)</u>	<u>(2,536,478)</u>
Accounts receivable, net	<u>\$ 1,536,512</u>	<u>1,440,394</u>

Accounts payable and accrued liabilities at August 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Vendors	\$ 2,543,514	2,274,665
Salaries and benefits	530,394	126,788
Other payables	<u>2,881</u>	<u>52,692</u>
Accrued liabilities	<u>\$ 3,076,789</u>	<u>2,454,145</u>

(6) Capital Assets

Capital asset activity for the year ended August 31, 2021 was as follows:

	<u>Balance September 1, 2020</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Balance August 31, 2021</u>
Capital assets not being depreciated:				
Land	\$ 4,208,950	-	-	4,208,950
Construction in progress	18,551,544	154,986	<u>(18,551,544)</u>	154,986
	<u>22,760,494</u>	<u>154,986</u>	<u>(18,551,544)</u>	<u>4,363,936</u>
Capital assets, being depreciated:				
Buildings	\$ 62,508,755	273,387	(547,943)	62,234,199
Land improvements and infrastructure	5,064,628	369,662	598,275	6,032,565
Leasehold improvements	1,872,823	-	-	1,872,823
Library books	1,022,478	-	(8,670)	1,013,808
Equipment	10,737,887	480,757	16,612,636	27,831,280
Exhibits	2,028,436	-	-	2,028,436
Total buildings and other capital assets	<u>83,235,007</u>	<u>1,123,806</u>	<u>16,654,298</u>	<u>101,013,111</u>

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(6) Capital Assets (continued)

	Balance September 1, 2020	Additions	Transfers and Retirements	Balance August 31, 2021
Less accumulated depreciation:				
Buildings	\$ 26,663,417	992,154	(149,904)	27,505,667
Land improvements and infrastructure	3,314,076	190,422	(1,197,794)	2,306,704
Leasehold improvements	522,959	87,080	-	610,039
Library books	759,210	42,818	(8,670)	793,358
Equipment	7,133,778	2,589,443	(1,462)	9,721,759
Exhibits	1,933,372	17,767	-	1,951,139
Total accumulated depreciation	<u>40,326,812</u>	<u>3,919,684</u>	<u>(1,357,830)</u>	<u>42,888,666</u>
	<u>42,908,195</u>	<u>(2,795,878)</u>	<u>18,012,128</u>	<u>58,124,445</u>
Net capital assets	<u>\$ 65,668,689</u>	<u>(2,640,892)</u>	<u>(539,416)</u>	<u>62,488,381</u>

Capital asset activity for the year ended August 31, 2020 was as follows:

	Balance September 1, 2019	Additions	Transfers and Retirements	Balance August 31, 2020
Capital assets not being depreciated:				
Land	\$ 4,208,950	-	-	4,208,950
Construction in progress	17,191,366	1,360,178	-	18,551,544
	<u>21,400,316</u>	<u>1,360,178</u>	<u>-</u>	<u>22,760,494</u>
Capital assets, being depreciated:				
Buildings	62,508,755	-	-	62,508,755
Land improvements and infrastructure	5,064,628	-	-	5,064,628
Leasehold improvements	1,872,823	-	-	1,872,823
Library books	1,027,786	19,516	(24,824)	1,022,478
Equipment	8,925,797	1,824,790	(12,700)	10,737,887
Exhibits	2,028,436	-	-	2,028,436
Total buildings and other capital assets	<u>81,428,225</u>	<u>1,844,306</u>	<u>(37,524)</u>	<u>83,235,007</u>
Less accumulated depreciation:				
Buildings	\$ 25,646,524	1,016,893	-	26,663,417
Land improvements and infrastructure	3,219,239	94,837	-	3,314,076
Leasehold improvements	435,640	87,319	-	522,959
Library books	738,258	45,776	(24,824)	759,210
Equipment	6,402,299	744,179	(12,700)	7,133,778
Exhibits	1,915,554	17,818	-	1,933,372
Total accumulated depreciation	<u>38,357,514</u>	<u>2,006,822</u>	<u>(37,524)</u>	<u>40,326,812</u>
	<u>43,070,711</u>	<u>(162,516)</u>	<u>-</u>	<u>42,908,195</u>
Net capital assets	<u>\$ 64,471,027</u>	<u>1,197,662</u>	<u>-</u>	<u>65,668,689</u>

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

#### (7) Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2021 was as follows:

	Balance September 1, 2020	Additions	Reductions	Balance August 31, 2021	Current Portion
Notes payable:					
SECO Loan #1	\$ 6,996,874	-	442,987	6,553,887	442,364
SECO Loan #2	7,384,499	-	467,502	6,916,997	467,124
Kilgore ISD	292,413	-	89,793	202,620	50,000
Compensated absences	725,491	144,001	263,778	605,714	304,995
Net pension liability	7,513,872	40,178	-	7,554,050	-
Net OPEB liability	28,108,603	-	284,422	27,824,181	-
	<u>\$ 51,021,752</u>	<u>184,179</u>	<u>1,548,482</u>	<u>49,657,449</u>	<u>1,264,483</u>

Long-term liability activity for the year ended August 31, 2020 was as follows:

	Balance September 1, 2019	Additions	Reductions	Balance August 31, 2020	Current Portion
Notes payable:					
SECO Loan #1	\$ 4,210,503	2,896,304	109,933	6,996,874	442,487
SECO Loan #2	5,549,732	1,950,790	116,023	7,384,499	467,001
Kilgore ISD	370,144	-	77,731	292,413	50,000
Compensated absences	721,572	145,055	141,136	725,491	299,188
Net pension liability	7,711,649	-	197,777	7,513,872	-
Net OPEB liability	30,862,433	-	2,753,830	28,108,603	-
	<u>\$ 49,426,033</u>	<u>4,992,149</u>	<u>3,396,430</u>	<u>51,021,752</u>	<u>1,258,676</u>

Notes payable are comprised of the following:

#### SECO Loans #1 and #2

The District entered into two note agreements in September 2018 with the State Energy Conservation Office (SECO) to provide upgrades to multiple buildings for HVAC, exterior lighting, solar thermal window film, building weatherization, water conservation, and utility assessment report. The notes are not to exceed \$14,442,032. As of August 31, 2021 and 2020, the District has borrowings outstanding of \$13,470,884 and \$14,381,373, respectively. Debt service requirements for these notes as of August 31, 2021, are as follows:

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(7) Long-Term Liabilities (continued)

For the Year Ended August 31,	Principal	Interest	Total
2022	\$ 909,488	131,281	1,040,769
2023	927,838	122,060	1,049,898
2024	937,151	112,747	1,049,898
2025	946,557	103,341	1,049,898
2026	956,059	93,839	1,049,898
2027-2031	4,926,184	322,853	5,249,037
2032-2035	3,867,607	77,640	3,945,247
	\$ 13,470,884	963,761	14,434,645

Kilgore ISD

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

(8) Employees' Retirement Plan

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

All employees of public, state-supported education 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**Notes to Financial Statements  
(Continued)(8) Employees' Retirement Plan (continued)

*Pension Plan Fiduciary Net Position.* Detailed information about 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 <https://www.trs.texas.gov/Pages/aboutpublications.aspx>, by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698, or by calling (512) 542-6592.

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

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. Actuarial implications of the funding provided in this manner are determined by TRS' actuary.

In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the State, participating employers and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the Legislature to approve funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

(8) Employees' Retirement Plan (continued)

*Contributions.* Contribution requirements are established or amended pursuant to Article XVI, Sec. 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation paid to members of the system during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86<sup>th</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025. Contribution rates were as follows:

<u>Year</u>	<u>Member</u>		<u>State</u>		<u>District</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2021	7.7%	\$ 1,028,184	7.5%	\$ 452,282	7.5%	\$ 568,578
2020	7.7%	1,041,835	7.5%	373,910	7.5%	586,212

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 members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public schools, junior colleges, 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.

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

(8) Employees' Retirement Plan (continued)

- 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 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, 2020 and 2019 actuarial valuations was determined using the following actuarial assumptions:

	Valuation Date	
	August 31, 2019 rolled forward to August 31, 2020	August 31, 2018 rolled forward to August 31, 2019
Actuarial cost method	Individual entry age, normal	Individual entry age, normal
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Discount rate	7.250%	7.250%
Long-term expected investment rate of return	7.25%	7.25%
Municipal bond rate	2.33%	2.63%
Salary increases	3.05% to 9.05% (includes inflation of 2.3%)	3.05% to 9.05% (includes inflation of 2.3%)
Benefit changes during the year	None	None
Ad hoc post-employment benefit changes	None	None

The actuarial methods and assumptions used in the determination of the total pension liability as of August 31, 2020 and 2019 are the same, except for the municipal bond rate. For a full description of these assumptions please see the actuarial valuation report dated November 14, 2019.

*Discount Rate.* A single discount rate of 7.25% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projection of cash flows used to determine the single discount rate assumed that contributions from active members, employers, and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

#### (8) Employees' Retirement Plan (continued)

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 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2020 are summarized below:

Asset Class	Target Allocation *	Long-Term Expected Geometric Real Rate of Return **	Expected Contribution to Long-Term Portfolio Returns
Global Equity:			
USA	18.0%	3.9%	0.99%
Non-U.S. Developed	13.0%	5.1%	0.92%
Emerging Markets	9.0%	5.6%	0.83%
Private Equity	14.0%	6.7%	1.41%
Stable Value:			
Government Bonds	16.0%	-0.07%	-0.05%
Absolute Return (including credit sensitive investments)	0.0%	1.8%	0.00%
Stable Value Hedge Funds	5.0%	1.9%	0.11%
Real Return:			
Real Estate	15.0%	4.6%	1.02%
Energy, Natural Resources and Infrastructure	6.0%	6.0%	0.42%
Commodities	0.0%	0.8%	0.00%
Risk Parity:			
Risk Parity	8.0%	3.0%	0.30%
Asset Allocation Leverage:			
Cash	2.0%	-1.5%	-0.03%
Asset Allocation Leverage	-6.0%	-1.30%	0.08%
Inflation Expectation			2.00%
Volatility Drag***	0.0%		-0.67%
Expected Return	<u>100.00%</u>		<u>7.33%</u>

\* Target allocations are based on the FY2020 policy model.

\*\* Capital Market Assumptions come from Aon Hewitt (as of August 31, 2020).

\*\*\* The volatility drag results from the conversion between arithmetic and geometric mean returns.



## Kilgore Junior College District

### Notes to Financial Statements (Continued)

(8) Employees' Retirement Plan (continued)

*Discount Rate Sensitivity Analysis.* The following schedule shows the impact to the District's net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the 2020 net pension liability:

	1% Decrease (6.25%)	Current Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	\$ 11,648,209	7,554,050	4,227,635

The following schedule shows the impact to the District's net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the 2019 net pension liability:

	1% Decrease (6.25%)	Current Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	\$ 11,549,913	7,513,872	4,243,900

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At August 31, 2021 and 2020, the District reported a liability of \$7,554,050 and \$7,513,872, respectively, for its proportionate share of the TRS net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District at August 31, 2021 and 2020 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 is as follows:

	2021	2020
District's proportionate share of the net pension liability	\$ 7,554,050	7,513,872
State's proportionate share of the net pension liability associated with the District	5,870,861	5,553,473
Total	\$ 13,424,911	13,067,345

The 2021 net pension liability was measured as of August 31, 2019 and rolled forward to August 31, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

(8) Employees' Retirement Plan (continued)

net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2019 through August 31, 2020. The District's proportion of the collective net pension liability was 0.014% which was consistent with its proportion measured as of August 31, 2019.

The 2020 net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all participating employers to the plan for the period September 1, 2018 to August 31, 2019. The District's proportion of the collective net pension liability was 0.014% which was a decrease of 0.0004% from its proportion measured as of August 31, 2018.

There were no changes in assumptions since the prior measurement date.

For the years ended August 31, 2020 and 2019, the District recognized total pension expense of \$946,176 and \$1,530,999, respectively. Of the total pension expense, for the measurement periods ended August 30, 2020 and 2019, the District recognized pension expense of \$706,134 and \$872,372, respectively, and revenue of \$452,282 and \$373,910, respectively, for support provided by the State.

At August 31, 2021 and 2020, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 13,793	210,813
Changes in actuarial assumptions	1,752,808	745,282
Differences between projected and actual investment earnings, net	152,926	-
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	115,347	475,455
Contributions paid to TRS subsequent to the measurement date	568,579	-
Total	\$ 2,603,453	1,431,550

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

(8) Employees' Retirement Plan (continued)

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 31,565	260,894
Changes in actuarial assumptions	2,331,172	963,351
Differences between projected and actual investment earnings, net	75,448	-
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	141,789	552,174
Contributions paid to TRS subsequent to the measurement date	568,212	-
Total	\$ 3,148,186	1,776,419

The \$568,579 reported as deferred outflows of resources at August 31, 2021 related to contributions paid to TRS subsequent to the measurement date at August 31, 2020 will be recognized as a reduction of the net pension liability in fiscal year 2022.

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

For the Year Ended August 31,	Pension Expense
2022	\$ (43,250)
2023	284,319
2024	344,470
2025	114,654
2026	(87,945)
Thereafter	(8,924)

*Optional Retirement Program.* The state has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program (ORP) is in lieu of participation in TRS. ORP provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 3.3% and 6.6%, respectively.

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

(8) Employees' Retirement Plan (continued)

The District supplements an additional 1.3% for participants that are grandfathered in under the supplement. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. SB 1812, 83rd Texas Legislature, Regular Session, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

Contribution rates as a percentage of compensation and contributions made for ORP for 2020 and 2021 are shown in the table below.

<u>Year</u>	<u>Member</u>		<u>State</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2021	6.6%	\$ 235,979	3.3%	\$ 122,678
2020	6.6%	273,300	3.3%	134,241

The total payroll for all College employees was \$20,383,880 and \$20,545,524 for the years ended August 31, 2021 and 2020, respectively. The total payroll of employees covered by ORP was \$3,780,634 and \$4,147,124 for the years ended August 31, 2021 and 2020, respectively.

(9) Compensated Absences

Full-time employees are granted 8 hours of paid sick leave time per scheduled work month. Paid sick leave time that has not been taken accumulates up to a maximum of 720 hours, but it is not paid should the employment relationship cease for reasons other than retirement. Full-time employees are also granted 80 hours per year of vacation time: a total of 40 hours' vacation time may be accumulated and carried forward to the following fiscal year. Unused vacation time that 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 \$334,132 and \$473,671 at August 31, 2021 and 2020, 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 \$271,582 and \$251,820 at August 31, 2021 and 2020, respectively, all of which has been classified as a current liability.

**Kilgore Junior College District**Notes to Financial Statements  
(Continued)(10) Operating Lease Commitments

The District leases space under an operating lease through 2025. Included in operating expenses for each of the years ended August 31, 2021 and 2020 is \$125,448 of rent paid or due under this operating lease. Minimum future rental payments under this noncancelable operating lease having remaining terms in excess of one year as of August 31, 2021 are as follows: \$125,448 for each of the fiscal years 2022 through 2025; and \$41,816 for fiscal year 2026.

In addition, the District leases space annually with independent school districts. The District's rental payments each year are the tuition provided by the District for dual or concurrent credit to the students at the school districts. Included in operating expenses for the years ended August 31, 2021 and 2020 is \$252,790 and \$147,675, respectively, of rent bartered under these leases.

(11) Other Post-Employment Benefits (OPEB)

*Plan Description.* The District participates in a cost-sharing, multiple-employer defined-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.

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

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

(11) Other Post-Employment Benefits (OPEB) (continued)

*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 10 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. There are no long-term contracts for contributions to the plan.

The following table summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium, which is based on a blended rate as of the measurement period. 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.

	2021	2020
Retiree only	\$ 624.82	624.82
Retiree & Spouse	1,340.82	1,340.82
Retiree & Children	1,104.22	1,104.22
Retiree & Family	1,820.22	1,820.22

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

#### (11) Other Post-Employment Benefits (OPEB) (continued)

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

<u>Year</u>	<u>State Amount</u>	<u>District Amount</u>
2021	\$ 994,839	\$ 992,208
2020	31,526	1,210,216

*Actuarial Assumptions.* The total OPEB liability in the August 31, 2020 and 2019 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

	Valuation Date	
	August 31, 2020	August 31, 2019
Actuarial cost method:	Entry age normal	Entry age normal
Amortization method	Level percent of payroll, open	Level percent of payroll, open
Amortization period	30 years	30 years
Actuarial assumptions:		
Discount rate	2.20%	2.97%
Salary increases	2.3% to 9.05% (includes inflation of 2.3%)	2.5% to 9.5% (includes inflation of 2.5%)
Annual healthcare trend rates	8.8% for fiscal year 2022, 5.25% for fiscal year 2023, 5.00% for fiscal year 2024, 4.75% for fiscal year 2025, 4.60% for fiscal year 2026, decreasing 10 basis points per year to an ultimate rate of 4.30% for fiscal year 2029 and later years	7.3% for fiscal year 2021, 7.4% for fiscal year 2022, 7.00% for fiscal year 2023, decreasing 0.5% per year to an ultimate rate of 4.5% for fiscal year 2028 and later years
Mortality Assumptions:		
Service Retirees, Survivors, and Other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
Disability Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 1, 2010 to August 31, 2017 for higher education members.

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

#### (11) Other Post-Employment Benefits (OPEB) (continued)

*Investment Policy.* The SRHP is a pay-as-you-go plan and does not accumulate funds in advance of retirement. The ERS'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 2.97%. The discount rate used to determine the total OPEB liability as of the end of the measurement year was 2.20%, which amounted to a decrease of 0.77%. 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 basis and is not intended to accumulate assets, there is no long-term expected rate of return on plan assets and, therefore, the years of projected benefit payments to which the long-term expected rate of return is applicable is zero years.

*Discount Rate Sensitivity Analysis.* The following schedule shows the impact to the District's proportionate share of the collective net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.20%) in measuring the 2020 net OPEB liability:

	1% Decrease (1.20%)	Current Rate (2.20%)	1% Increase (3.20%)
District's proportionate share of the 2020 net OPEB liability	\$ 33,071,002	27,824,181	23,713,768

The following schedule shows the impact to the District's proportionate share of the collective net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.97%) in measuring the 2019 net OPEB liability:

	1% Decrease (1.97%)	Current Rate (2.97%)	1% Increase (3.97%)
District's proportionate share of the 2019 net OPEB liability	\$ 33,542,306	28,108,603	23,927,566



## Kilgore Junior College District

### Notes to Financial Statements (Continued)

#### (11) Other Post-Employment Benefits (OPEB) (continued)

*Healthcare Trend Rate Sensitivity Analysis.* The initial healthcare trend rate is 8.8% and the ultimate rate is 4.3%. The following schedule shows the impact to the District's proportionate share of the collective net OPEB liability if the healthcare cost trend rate used was 1% less than and 1% greater than the healthcare cost trend rate that was used (8.8% decreasing to 4.3%) in measuring the 2020 net OPEB liability:

	Current Healthcare Cost Trend Rates (7.8% decreasing to 3.3%)	Current Healthcare Cost Trend Rates (8.8% decreasing to 4.3%)	Current Healthcare Cost Trend Rates (9.8% decreasing to 5.3%)
District's proportionate share of the 2020 net OPEB liability	\$ 23,287,009	27,824,181	33,771,940

The initial healthcare trend rate is 7.3% and the ultimate rate is 4.5%. The following schedule shows the impact to the District's proportionate share of the collective net OPEB liability if the healthcare cost trend rate used was 1% less than and 1% greater than the healthcare cost trend rate that was used (7.3% decreasing to 4.5%) in measuring the 2019 net OPEB liability:

	Current Healthcare Cost Trend Rates (6.3% decreasing to 3.5%)	Current Healthcare Cost Trend Rates (7.3% decreasing to 4.5%)	Current Healthcare Cost Trend Rates (8.3% decreasing to 5.5%)
District's proportionate share of the 2019 net OPEB liability	\$ 23,602,545	28,108,603	33,996,989

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.* At August 31, 2021 and 2020, the District reported a liability of \$27,824,181 and \$28,108,603, respectively, for its proportionate share of the ERS's net OPEB liability. This liability reflects a decrease in State support provided to the District for OPEB. The amount recognized by the District at August 31, 2021 and 2020 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:

	2021	2020
District's proportionate share of the net OPEB liability	\$ 27,824,181	28,108,603
State's proportionate share of the net OPEB liability associated with the District	25,795,331	27,827,761
Total	\$ 53,619,512	55,936,364

**Kilgore Junior College District**Notes to Financial Statements  
(Continued)(11) Other Post-Employment Benefits (OPEB) (continued)

The 2021 net OPEB liability was measured as of August 31, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2019 to August 31, 2020. At the measurement date of August 31, 2020, the District's proportion of the collective net OPEB liability was 0.0842%, which was an increase of 0.0029% from its proportion measured as of August 31, 2019.

The 2020 net OPEB liability was measured as of August 31, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018 to August 31, 2019. At the measurement date of August 31, 2019, the District's proportion of the collective net OPEB liability was 0.0813%, which was a decrease of 0.0228% from its proportion measured as of August 31, 2018.

For the years ended August 31, 2021 and 2020, the District recognized total OPEB expense (benefit) of (\$1,763,059) and \$990,144, respectively. Of the total expense, for the measurement period ended August 31, 2020 and 2019, the District recognized OPEB expense (benefit) of (\$304,352) and \$31,526, respectively, and revenue of \$994,839 and \$31,526, respectively, for support provided by the State.

*Changes Since the 2019 Actuarial Valuation:* The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period.

*Demographic Assumptions:* Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the ERS Trustees. In addition, the following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.

**Kilgore Junior College District**  
Notes to Financial Statements  
(Continued)

(11) Other Post-Employment Benefits (OPEB) (continued)

- The percentage of future male retirees assumed to be married and electing coverage for their spouse.
- The proportion of future retirees assumed to cover dependent children have been updated to reflect recent plan experience and expected trends.

*Economic Assumptions:* Assumptions for expenses, assumed per capita health benefit costs and health benefit cost and 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.

The discount rate assumption was changed from 2.97% as of August 31, 2019 to 2.20% as of August 31, 2020 as a result of requirements to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

*Benefit Terms:* There are no significant changes to benefit terms.

At August 31, 2021 and 2020, 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:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	1,088,218
Changes in actuarial assumptions	1,610,827	5,994,964
Differences between projected and actual investment earnings	8,304	-
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	1,372,684	5,569,615
Contributions paid to ERS subsequent to the measurement date	992,208	-
Total	<u>\$ 3,984,023</u>	<u>12,652,797</u>

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

#### (11) Other Post-Employment Benefits (OPEB) (continued)

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	731,411
Changes in actuarial assumptions	2,000,340	6,281,207
Differences between projected and actual investment earnings	11,556	-
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	1,325,304	7,160,933
Contributions paid to ERS subsequent to the measurement date	991,903	-
Total	\$ 4,329,103	14,173,551

The \$992,208 reported as deferred outflows of resources related to contributions paid to ERS subsequent to the measurement date at August 31, 2020 will be recognized as a reduction of the net OPEB liability beginning in fiscal year 2022.

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

For the Year Ended August 31,	OPEB Expense
2022	\$ (3,653,869)
2023	(2,855,909)
2024	(1,963,314)
2025	(993,897)
2026	(193,993)

#### (12) Related Parties

During the years ended August 31, 2021 and 2020, the District provided certain services, such as office space, utilities, and staff assistance to the Foundation at no cost to the Foundation. In September 2019, the District transferred all of its investments of approximately \$9.6m to the Foundation.

## Kilgore Junior College District

### Notes to Financial Statements (Continued)

#### (13) Ad Valorem Property Taxes

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

	2021	2020
Assessed valuation of the District	\$ 4,392,715,354	4,567,673,015
Less: Exemptions	578,407,660	639,125,799
Net assessed valuation of the District	\$ 3,814,307,694	3,928,547,216

Tax rates authorized and assessed (all current operations) during fiscal years 2021 and 2020 are as follows:

	2021	2020
Tax rate per \$100 valuation authorized	\$ 0.200	0.200
Tax rate per \$100 valuation for assessed	0.175	0.175

Taxes levied for the years ended August 31, 2021 and 2020 were \$6,890,932 and \$7,084,760, respectively. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Tax collections for the years ended August 31, 2021 and 2020 are as follows:

	2021	2020
Current taxes collected	\$ 6,793,750	6,817,372
Delinquent taxes collected	208,647	133,675
Penalties and interest collected	137,758	114,945
Total collections	\$ 7,140,155	7,065,992

Current tax collections for each of the years ended August 31, 2021 and 2020 were approximately 99% of the current tax levy. An allowance for uncollectible taxes is based upon the historical experience in collecting property taxes.

For the fiscal years ended August 31, 2021 and 2020, the District, did not enter into any tax abatement agreements.

**Kilgore Junior College District**Notes to Financial Statements  
(Continued)(14) Budgets

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 budget, which is prepared on the accrual basis of accounting, is adopted by the District's Board of Trustees. 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.

(15) Income Taxes

The District is exempt from income taxes under Internal Revenue Code Section 115, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B). The District had no unrelated business income tax liability for 2021 or 2020.

The Foundation is an organization generally exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

(16) Commitments and Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

(17) Contracts and Grants

Contract and grant revenues are recognized as earned in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. For contract and grant awards, funds expended but not collected are reported as accounts receivable in the accompanying Statements of Net Position. Contract and grant awards that are not yet funded, and for which the District has not yet performed services, are not included in the financial statements. Such contract and grant awards already committed total \$20,431,490 and \$3,109,175 at August 31, 2021 and 2020, respectively, for federal contract and grant awards; and \$548,902 and \$950,569 at August 31, 2021 and 2020, respectively, for state contract and grant awards.

**Kilgore Junior College District**Notes to Financial Statements  
(Continued)(18) Business Concentrations and Uncertainties

The COVID-19 pandemic has continued to impact the District in 2021. Measures taken by various governments to contain the virus have affected economic activity. The District has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for personnel and students (including social distancing and virtual learning and meetings). The impact on the District's operations remains uncertain and cannot be estimated at this time. The District will continue to follow the various government policies and advice and will exert continued efforts to carry out the mission of the District in the best and safest manner possible without jeopardizing the health of personnel or students.

The District generally serves the East Texas region; consequently, it is impacted by the general economy of that area. Also, the District receives a substantial portion of its funding from federal and state sources; consequently, the District is dependent upon continued funding from these sources.

(19) Authoritative Pronouncements Not Yet Effective

The following pronouncements were issued by the Governmental Accounting Standards Board (GASB) which may impact the District but are not yet effective. The District has not yet determined the effects of the adoption on its financial statements.

GASB Statement No. 87, *Leases* (issued June 2017) – the objective of this statement is to increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The statement will also require notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this statement are effective for financial statements for fiscal years beginning after December 15, 2019; however, in May 2020, GASB issued GASB 95 and delayed implementation to fiscal years beginning after June 15, 2021.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (issued June 2018) – the objective of this statement is to simplify accounting for interest cost incurred before the end of a construction period. It will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for financial statements for fiscal years beginning after December 15, 2019; however, in May 2020, GASB issued GASB 95 and delayed implementation to fiscal years beginning after December 15, 2020.

**Kilgore Junior College District**Notes to Financial Statements  
(Continued)(19) Authoritative Pronouncements Not Yet Effective (continued)

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (issued May 2020) – the objective of this statement is to provide guidance for subscription-based information technology arrangements (SBITA). It will define SBITA contracts, provide guidance on the accounting for the SBITAs, and require disclosures regarding the SBITAs. The requirements of this statement are effective for financial statements for fiscal years beginning after June 15, 2022.

(20) Subsequent Events

The District has evaluated subsequent events from the date of the statements of net position through July 15, 2022, the date on which the financial statements were available to be issued, and has determined that there are no items to disclose.



## **Required Supplementary Information**

**Kilgore Junior College District**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**Last Ten Measurement Years**

	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability	0.014104439	0.014454500	0.014010400	0.014281800	0.014733000	0.016308000	0.018273000
District's proportionate share of the net pension liability	\$ 7,554,050	7,513,872	7,711,649	4,566,550	5,567,397	5,764,767	4,880,972
State's proportionate share of the net pension liability associated with the District	5,870,861	5,553,473	5,515,265	3,273,061	4,025,645	4,305,508	3,624,257
Total	\$ 13,424,911	13,067,345	13,226,914	7,839,611	9,593,042	10,070,275	8,505,229
District's covered payroll	\$ 13,685,419	12,985,938	11,863,073	11,692,838	11,801,949	11,773,932	12,888,197
District's proportionate share of the net pension liability as a percentage of its covered payroll	55.2%	57.9%	65.0%	39.1%	47.2%	49.0%	37.9%
Plan's fiduciary net position as a percentage of the total pension liability	75.5%	75.2%	73.7%	82.2%	78.0%	78.0%	83.3%

**Note:**

Information for measurement years prior to 2014 is not available.

See accompanying independent auditor's report.

**Kilgore Junior College District**  
 Schedule of the District's Contributions to the  
 Teacher Retirement System of Texas  
 Last Ten Fiscal Years

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 568,579	568,212	579,153	449,262	468,074	468,106	478,467
Contributions in relation to the contractually required contribution	568,579	568,212	579,153	449,262	468,074	468,106	478,467
Contribution deficiency (excess)	-	-	-	-	-	-	-
Covered payroll	\$ 13,333,325	13,685,419	12,985,938	11,863,073	11,692,838	11,801,949	11,773,932
Contributions as a percentage of covered payroll	\$ 4.26%	4.15%	4.46%	3.79%	4.00%	3.97%	4.06%

**Note:**

Information for fiscal years prior to 2015 is not available.

See accompanying independent auditor's report.

**Kilgore Junior College District**  
**Schedule of the District's Proportionate Share of the Net OPEB Liability**  
**Last Ten Measurement Years**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.084201820	0.081326500	0.104132200	0.097567300
District's proportionate share of the net OPEB liability	\$ 27,824,181	28,108,603	30,862,433	33,244,124
State's proportionate share of the net OPEB liability associated with the District	<u>25,795,331</u>	<u>27,827,761</u>	<u>17,802,444</u>	<u>33,244,123</u>
Total	<u>\$ 53,619,512</u>	<u>55,936,364</u>	<u>48,664,877</u>	<u>66,488,247</u>
District's covered payroll	<u>\$ 13,685,419</u>	<u>12,985,938</u>	<u>11,863,073</u>	<u>11,692,838</u>
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	<u>203.3%</u>	<u>216.5%</u>	<u>260.2%</u>	<u>284.3%</u>
Plan's fiduciary net position as a percentage of the total OPEB liability	<u>0.3%</u>	<u>0.2%</u>	<u>1.3%</u>	<u>2.0%</u>

**Note:**

Information for measurement years prior to 2017 is not available.

**Kilgore Junior College District**

Schedule of the District's Contributions to the  
Employee Retirement System of Texas

Last Ten Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 992,208	991,903	977,733	988,903
Contributions in relation to the contractually required contribution	<u>992,208</u>	<u>991,903</u>	<u>977,733</u>	<u>988,903</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	<u>\$ 13,333,325</u>	<u>13,685,419</u>	<u>12,985,938</u>	<u>11,863,073</u>
Contributions as a percentage of covered payroll	<u>\$ 7.44%</u>	<u>7.25%</u>	<u>7.53%</u>	<u>8.34%</u>

**Note:**

Information for fiscal years prior to 2018 is not available.

**Kilgore Junior College District**Notes to Required Supplementary Information – Employee Retirement System of Texas  
Year Ended August 31, 2021(1) Changes in Benefit Terms

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, this valuation reflects the benefit changes that will become effective January 1, 2021, since these changes were communicated to plan members in advance of the preparation of the latest valuation report.

There are no significant changes in benefit terms.

(2) Changes in Assumptions

*Demographic Assumptions.* Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the ERS Trustees. In addition, the following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The percentage of future female retirees assumed to be married and electing coverage for their spouse.
- The proportion of future retirees assumed to cover dependent children have been updated to reflect recent plan experience and expected trends.

*Economic Assumptions:* Assumptions for expenses, assumed per capita health benefit costs and health benefit cost and 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.

The discount rate was changed from 2.97% as of August 31, 2010 to 2.20% as of August 31, 2020 as a result of requirements to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

## **Supplemental Information**

**Kilgore Junior College District**  
**Schedule of Operating Revenues**  
**(Schedule A)**  
**Year Ended August 31, 2021**  
**(With Memorandum Totals for the Year Ended August 31, 2019)**

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	Total	
					2021	2020
<b>Tuition and fees:</b>						
State funded credit courses:						
In-district resident tuition	\$ 1,339,061	-	1,339,061	-	1,339,061	1,413,899
Out-of-district resident tuition	4,149,738	-	4,149,738	-	4,149,738	4,458,199
Non-resident tuition	318,439	-	318,439	-	318,439	421,252
TPEG - credit (set aside)	323,006	-	323,006	-	323,006	310,928
State funded continuing education	1,716,210	-	1,716,210	-	1,716,210	1,051,820
Non-state funded educational programs	29,219	-	29,219	-	29,219	37,058
<b>Total tuition</b>	<b>7,875,673</b>	<b>-</b>	<b>7,875,673</b>	<b>-</b>	<b>7,875,673</b>	<b>7,693,156</b>
<b>Fees:</b>						
General education fees	3,126,955	-	3,126,955	-	3,126,955	3,323,811
Out-of-district fees	4,847,088	-	4,847,088	-	4,847,088	5,410,634
Laboratory fees	1,140,872	-	1,140,872	-	1,140,872	1,578,834
Testing fees	131,451	-	131,451	-	131,451	196,808
Administrative fees	499,201	-	499,201	-	499,201	38,653
Special services fees	8,625	-	8,625	-	8,625	7,889
Distance learning fees	726,173	-	726,173	-	726,173	578,334
<b>Total fees</b>	<b>10,480,365</b>	<b>-</b>	<b>10,480,365</b>	<b>-</b>	<b>10,480,365</b>	<b>11,134,963</b>
<b>Scholarship allowances and discounts:</b>						
Remissions and exemptions	(1,182,079)	-	(1,182,079)	-	(1,182,079)	(516,947)
Federal grants to students	(5,947,400)	-	(5,947,400)	-	(5,947,400)	(7,586,758)
TPEG awards	(201,989)	-	(201,989)	-	(201,989)	(184,769)
State grants	(634,167)	-	(634,167)	-	(634,167)	(423,636)
Local scholarships	(716,385)	-	(716,385)	-	(716,385)	(533,510)
<b>Total scholarship allowances</b>	<b>(8,682,020)</b>	<b>-</b>	<b>(8,682,020)</b>	<b>-</b>	<b>(8,682,020)</b>	<b>(9,245,620)</b>
<b>Total net tuition and fees</b>	<b>9,674,018</b>	<b>-</b>	<b>9,674,018</b>	<b>-</b>	<b>9,674,018</b>	<b>9,582,499</b>
<b>Additional operating revenues:</b>						
Federal grants and contracts	-	4,824,261	4,824,261	-	4,824,261	5,851,256
State grants and contracts	-	1,327,215	1,327,215	-	1,327,215	600,326
Local grants and contracts	-	401,302	401,302	-	401,302	379,264
Sales and services of educational activities	3,725	-	3,725	-	3,725	6,707
Other operating revenues	402,930	-	402,930	-	402,930	404,948
<b>Total additional operating revenues</b>	<b>406,655</b>	<b>6,552,778</b>	<b>6,959,433</b>	<b>-</b>	<b>6,959,433</b>	<b>7,242,501</b>
<b>Auxiliary enterprises:</b>						
Bookstore	-	-	-	1,949,029	1,949,029	1,604,053
less discounts	-	-	-	(968,159)	(968,159)	(857,944)
Dormitories	-	-	-	1,097,981	1,097,981	779,435
less discounts	-	-	-	(314,956)	(314,956)	(274,002)
Cafeteria	-	-	-	1,399,729	1,399,729	1,189,501
less discounts	-	-	-	(204,667)	(204,667)	(176,898)
Athletics	-	-	-	13,811	13,811	62,544
East Texas Oil Museum	-	-	-	97,378	97,378	91,497
Rangerette Showcase and Museum	-	-	-	75,024	75,024	58,068
Texas Shakespeare Festival	-	-	-	418,599	418,599	59,767
Fitness Center	-	-	-	11,549	11,549	67,641
Student activities	-	-	-	4,744	4,744	27,872
<b>Total net auxiliary enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,580,062</b>	<b>3,580,062</b>	<b>2,631,534</b>
<b>Total operating revenues</b>	<b>\$ 10,080,673</b>	<b>6,552,778</b>	<b>16,633,451</b>	<b>3,580,062</b>	<b>20,213,513</b>	<b>19,456,534</b>

In accordance with Education Code 56.033, \$323,006 and \$310,928 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended August 31, 2021 and 2020, respectively.

See accompanying independent auditor's report.



**Kilgore Junior College District**  
**Schedule of Operating Expenses by Object**  
**(Schedule B)**  
**Year Ended August 31, 2021**  
**(With Memorandum Totals for the Year Ended August 31, 2019)**

	Operating Expenses				Total	
	Salaries and Wages	Benefits		Other Expenses	2021	2020
		State	Local			
<b>Unrestricted - educational activities:</b>						
Instruction	\$ 11,002,034	-	103,585	1,285,859	12,391,478	12,508,342
Public service	-	-	-	3,648	3,648	7,049
Academic support	1,794,540	-	16,896	495,324	2,306,760	2,424,589
Student services	1,246,979	-	11,740	241,969	1,500,688	1,561,081
Institutional support	4,817,532	-	45,357	2,867,576	7,730,465	5,697,982
Operation and maintenance of plant	118,612	-	1,117	4,586,095	4,705,824	4,934,406
Scholarships and fellowships	-	-	-	1,431,652	1,431,652	666,704
Total unrestricted educational activities	<u>18,979,697</u>	<u>-</u>	<u>178,695</u>	<u>10,912,123</u>	<u>30,070,515</u>	<u>27,800,153</u>
<b>Restricted - educational activities:</b>						
Instruction	879,089	1,869,907	8,276	862,914	3,620,186	3,355,815
Public service	269,217	23,081	2,535	250,281	545,114	358,489
Academic support	675	328,302	6	48,041	377,024	337,073
Student services	520,452	326,189	4,900	290,343	1,141,884	943,003
Institutional support	366,510	672,674	3,451	48,597	1,091,232	1,380,313
Operation and maintenance of plant	-	-	-	-	-	-
Scholarships and fellowships	-	-	-	4,057,487	4,057,487	4,560,650
Total restricted educational activities	<u>2,035,943</u>	<u>3,220,153</u>	<u>19,168</u>	<u>5,557,663</u>	<u>10,832,927</u>	<u>10,935,343</u>
Total educational activities	<u>21,015,640</u>	<u>3,220,153</u>	<u>197,863</u>	<u>16,469,786</u>	<u>40,903,442</u>	<u>38,735,496</u>
<b>Auxiliary enterprises</b>	<u>1,186,507</u>	<u>-</u>	<u>183,776</u>	<u>2,820,162</u>	<u>4,190,445</u>	<u>4,336,034</u>
<b>Depreciation expense:</b>						
Buildings and other improvements	-	-	-	1,269,656	1,269,656	1,199,049
Equipment	-	-	-	2,589,443	2,589,443	744,179
Library books	-	-	-	42,818	42,818	45,776
Exhibits	-	-	-	17,767	17,767	17,818
Total depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,919,684</u>	<u>3,919,684</u>	<u>2,006,822</u>
Total operating expenses	<u>\$ 22,202,147</u>	<u>3,220,153</u>	<u>381,639</u>	<u>23,209,632</u>	<u>49,013,571</u>	<u>45,078,352</u>

See accompanying independent auditor's report.

**Kilgore Junior College District**  
**Schedule of Nonoperating Revenues and Expenses**  
**(Schedule C)**  
**Year Ended August 31, 2021**  
**(With Memorandum Totals for the Year Ended August 31, 2019)**

	Unrestricted	Restricted	Auxiliary Enterprises	Total	
				2021	2020
<b>Nonoperating revenues:</b>					
State appropriations:					
Education and general state support	\$ 9,244,919	-	-	9,244,919	9,245,583
State group insurance	-	2,346,677	-	2,346,677	1,182,958
State retirement matching	-	873,476	-	873,476	1,015,646
Total state appropriations	<u>9,244,919</u>	<u>3,220,153</u>	<u>-</u>	<u>12,465,072</u>	<u>11,444,187</u>
Maintenance ad valorem taxes	7,123,710	-	-	7,123,710	7,263,613
Federal grants and contracts	-	9,608,714	-	9,608,714	10,785,587
Investment income	96,734	-	-	96,734	328,446
Gifts	-	866,333	30,616	896,949	904,669
Insurance proceeds	<u>3,200,000</u>	<u>-</u>	<u>-</u>	<u>3,200,000</u>	<u>-</u>
Total nonoperating revenues	<u>19,665,363</u>	<u>13,695,200</u>	<u>30,616</u>	<u>33,391,179</u>	<u>30,726,502</u>
<b>Nonoperating expenses:</b>					
Interest on capital related debt	-	139,410	-	139,410	201,815
Loss on disposal of capital assets	539,417	-	-	539,417	-
Contributions to The Kilgore College Foundation	<u>8,053</u>	<u>-</u>	<u>-</u>	<u>8,053</u>	<u>9,591,814</u>
Total nonoperating expenses	<u>547,470</u>	<u>139,410</u>	<u>-</u>	<u>686,880</u>	<u>9,793,629</u>
Net nonoperating revenues	<u>\$ 19,117,893</u>	<u>13,555,790</u>	<u>30,616</u>	<u>32,704,299</u>	<u>20,932,873</u>

See accompanying independent auditor's report.

**Kilgore Junior College District**  
**Schedule of Net Position by Source and Availability**  
**(Schedule D)**  
**Year Ended August 31, 2021**

	Detail by Source				Available for Current Operation		
	Unrestricted	Restricted		Net Investment in Capital Assets	Total	Yes	No
		Expendable	Non- Expendable				
Current:							
Unrestricted	\$ (20,130,802)	-	-	-	(20,130,802)	(20,130,802)	-
Restricted	-	614,029	-	-	614,029	-	614,029
Auxiliary	(5,012,358)	-	-	-	(5,012,358)	(5,012,358)	-
Plant:							
Unexpended	1,551,470	-	-	-	1,551,470	1,551,470	-
Debt service	-	3,905	-	-	3,905	-	3,905
Investment in plant	-	-	-	52,119,818	52,119,818	-	52,119,818
Total net position, August 31, 2021	(23,591,690)	617,934	-	52,119,818	29,146,062	(23,591,690)	52,737,752
Total net position, August 31, 2020	(29,871,743)	847,217	-	54,266,347	25,241,821	(29,871,743)	55,113,564
Net increase (decrease) in net position	\$ 6,280,053	(229,283)	-	(2,146,529)	3,904,241	6,280,053	(2,375,812)

See accompanying independent auditor's report.

**Kilgore Junior College District**  
**Schedule of Expenditures of Federal Awards**  
**(Schedule E)**  
**Year Ended August 31, 2021**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Education:</u>				
Direct Programs:				
Student Financial Assistance Cluster:				
Federal Supplemental Education Opportunity Grant Program	84.007		\$ -	\$ 140,000
Federal Work Study Program	84.033		-	92,981
Federal Pell Grant Program	84.063		-	9,375,733
Federal Direct Student Loans	84.268		-	23,509,245
Total Student Financial Assistance Cluster			-	33,117,959
TRIO Cluster:				
TRIO - Student Support Services	84.042A		-	241,209
TRIO - Upward Bound	84.047A		-	336,937
Total TRIO Cluster			-	578,146
Expanding and Strengthening Online Access and Success - Title III	84.031F		-	458,128
Total Expanding and Strengthening Online Access and Success - Title III			-	458,128
Education Stabilization Fund				
COVID-19 Higher Education Emergency Relief Fund - Student Aid	84.425E		-	449,721
COVID-19 Higher Education Emergency Relief Fund - Student Aid	84.425E		-	1,313,745
COVID-19 Higher Education Emergency Relief Fund - Institutional Portion	84.425F		-	617,202
COVID-19 Higher Education Emergency Relief Fund - Strengthening Institutions	84.425M		-	2,220
Pass Through From:				
Texas Higher Education Coordinating Board:				
Texas Reskilling Support Fund Grant Program	84.425	2020-GE-84425C	-	25,855
Governor's Emergency Education Relief Fund	84.425	2020-GE-84425C	-	99,941
Total Education Stabilization Fund			-	2,508,684
Pass Through From:				
Humanities of Texas:				
COVID-19 Promotion of the Humanities	42.129	2021-6109	-	5,000
Outreach	42.129	2021-6109	-	2,530
Total Humanities of Texas Grants			-	7,530
Texas Workforce Commission:				
Adult Education & Family Literacy Act	84.002	0819AEL001	-	508,205
Total Adult Education & Family Literacy Act			-	508,205
Texas Higher Education Coordinating Board:				
Carl Perkins - Career and Technical Education - Basic Grants to States	84.048	22100	-	415,971
Total Vocational Education - State Basic Grant Program			-	415,971
Total U. S. Department of Education			-	37,594,623
<u>National Endowment for the Arts</u>				
Direct Program:				
Texas Shakespeare Festival	45.024		-	50,000
Total National Endowment for the Arts			-	50,000
<u>U. S. Department of Health and Human Services</u>				
Pass Through From:				
Texas Workforce Commission:				
Temporary Assistance for Needy Families	93.558	0818ALA008	-	10,752
Temporary Assistance for Needy Families	93.558	KC-T11-PY-01	-	174
Total Texas Workforce Commission			-	10,926
Total U.S. Department of Health and Human Services			-	10,926
Total Federal Awards			\$ -	\$ 37,655,549

**Kilgore Junior College District**  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended August 31, 2021

(1) Federal Revenue Reconciliation

Federal revenues for 2021 are reported in the basic financial statements as follows:

Federal grants and contracts per Exhibit 2	\$ 14,432,975
Add: Federal Direct Student Loans made	23,509,245
Less: Amounts not subject to single audit	<u>(286,671)</u>
Total per Schedule of Expenditures of Federal Awards	<u>\$ 37,655,549</u>

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Kilgore Junior College District (the District) under programs of the federal government for the year ended August 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

(3) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and “frequently asked questions” (FAQs) and other guidance issued by the U.S. Department of Education, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

(4) Indirect Cost Rate

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Kilgore Junior College District**  
**Schedule of Expenditures of State Awards**  
**(Schedule F)**  
**Year Ended August 31, 2021**

Grantor Agency/Program Title	Grant Contract Number	Passed Through to Subrecipients	Indirect Costs and Expenditures
Texas Higher Education Coordinating Board			
State Work Study		\$ -	\$ 22,359
Nursing Innovation Grant	23803	-	71,014
Texas Education Opportunity Grant		-	604,411
Emergency Assistance Program		-	7,242
College Readiness and Success Models		-	4,704
Total Texas Higher Education Coordinating Board		<u>-</u>	<u>709,730</u>
Texas Workforce Commission			
Luminart Generation Company, LLC	0820SDF002	-	251,416
COVID-19 Skills Development Special Initiative	0820COS003	-	167,290
Total Texas Workforce Commission		<u>-</u>	<u>418,706</u>
Literacy Council of Tyler			
Adult Education - Accl Tx		-	56,582
Adult Education and Literacy - State		-	46,672
Workforce Integration Initiative		-	10,000
Total Small Business Development Center		<u>-</u>	<u>113,254</u>
Texas Commission on the Arts			
Texas Shakespeare Festival		-	11,000
Texas Shakespeare Festival - Equipment		-	4,500
COVID-19 Texas Shakespeare Festival		-	2,406
		<u>-</u>	<u>17,906</u>
Texas Department of Agriculture			
East Texas Council of Governments	TDA-19-ARED-05	-	67,619
Total State Awards		<u>\$ -</u>	<u>\$ 1,327,215</u>

See accompanying independent auditor's report and notes to schedule of expenditures of state awards.

**Kilgore Junior College District**  
Notes to Schedule of Expenditures of State Awards  
Year Ended August 31, 2021

(1) State Revenue Reconciliation

State revenues for 2021 are reported in the basic financial statements as follows:

State grants and contracts per Exhibit 2	\$ <u>1,327,215</u>
Total per Schedule of Expenditures of State Awards	\$ <u><u>1,327,215</u></u>

(2) Basis of Presentation

The accompanying Schedule of Expenditures of State Awards (the Schedule) includes the state grant activity of Kilgore Junior College District (the District) under programs of the state government for the year ended August 31, 2021. The information in this Schedule is presented in accordance with the requirements of the *State of Texas Single Audit Circular* contained in the state's *Uniform Grant Management Standards*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

(3) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the state's *Uniform Grant Management Standards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Overall Compliance, Internal Control and  
Federal and State Awards Section**





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

The Board of Trustees  
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 business-type activities and the discretely presented component unit of Kilgore Junior College District (the District) as of and for the year ended August 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 15, 2022. The financial statements of The Kilgore College Foundation, a discretely presented component unit of the District, were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with The Kilgore College Foundation.

**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) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify a certain deficiency in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questions costs as item 2021-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **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, including the *Public Funds Investment Act* (Chapter 2256, Texas Government Code), noncompliance with which could have a direct and material effect on the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the *Public Funds Investment Act*.

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

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

---

*Jayme Kalkreuth, Boyd & Howell, P.C.*

July 15, 2022



JAYNES REITMEIER BOYD & THERRELL, P.C.  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL AND STATE PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH THE *UNIFORM GUIDANCE AND  
UNIFORM GRANT MANAGEMENT STANDARDS***

The Board of Trustees  
Kilgore Junior College District:

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

We have audited Kilgore Junior College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Uniform Grant Management Standards* that could have a direct and material effect on each of the District's major federal and state programs for the year ended August 31, 2021. The District's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2, U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Uniform Grant Management Standards*. 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 or state 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 and state program. However, our audit does not provide a legal determination on the District's compliance.

***Basis for Qualified Opinion on Texas Education Opportunity Grant (State Program)***

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding Texas Education Opportunity Grant as described as finding number 2021-002 for matching and eligibility. Compliance with such requirements is necessary, in our opinion, to comply with the requirements applicable to that program.

***Qualified Opinion on Texas Education Opportunity Grant (State Program)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on Texas Education Opportunity Grant for the year ended August 31, 2021.

***Unmodified 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, 2021.

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

The District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***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 and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with Uniform Guidance and *Uniform Grant Management Standards*, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-002 to be a material weakness.

*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 or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*Jaymes, Reifmeyer, Boyd & Kendall P.C.*

July 15, 2022

**Kilgore Junior College District**  
**Schedule of Findings and Questioned Costs**  
**Year Ended August 31, 2021**

(1) Summary of Auditor's Results**Financial Statements**

Type of auditor's report issued: unmodified

Internal control over financial reporting:

o Material weakness(es) identified?	<u>  x  </u>	yes	<u>      </u>	no
o Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>      </u>	yes	<u>  x  </u>	none reported
Noncompliance material to financial statements noted?	<u>      </u>	yes	<u>  x  </u>	no

**Federal and State Awards**

Internal control over major programs:

o Material weakness(es) identified?	<u>  x  </u>	yes	<u>      </u>	no
o Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>      </u>	yes	<u>  x  </u>	none reported

Type of auditor's report issued on compliance for major programs: unmodified (federal) and qualified (state)

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance and the Uniform Grant Management Standards?

<u>  x  </u>	yes	<u>      </u>	no
--------------	-----	---------------	----

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

Student Financial Assistance Cluster:	
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans Program
Education Stabilization Fund:	
84.425	Texas Reskilling Support Fund Grant Program
84.425	Governor's Emergency Education Relief Fund
84.425E	COVID-19 Higher Education Emergency Relief Fund - Student Aid
84.425F	COVID-19 Higher Education Emergency Relief Fund - Institutional Portion
84.425M	COVID-19 Higher Education Emergency Relief Fund - Strengthening Institutions

Identification of major state programs:

<u>Grant Number(s)</u>	<u>Name of State Program or Cluster</u>
------------------------	---

Texas Education Opportunity Grant	
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Dollar threshold used to distinguish between type A and type B federal programs:

<u>      </u>	\$750,000
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Dollar threshold used to distinguish between type A and type B state programs:

<u>      </u>	\$300,000
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Auditee qualified as low-risk auditee for federal programs?

<u>      </u>	yes	<u>  x  </u>	no
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Auditee qualified as low-risk auditee for state programs?

<u>      </u>	yes	<u>  x  </u>	no
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**Kilgore Junior College District**  
Schedule of Findings and Questioned Costs  
(Continued)

(2) Financial Statement Findings

*Finding 2021-001 – Controls over Annual Financial Reporting*

As noted in prior audits and consistent with the 2021 fiscal year-end audit, the financial statements and related note disclosures of the District have been completed by the independent accounting firm at the District's request. However, we cannot be considered a part of the District's internal controls. Consequently, the inability of the District to prepare its own financial statements and related note disclosures is considered a control deficiency. The fact that we prepare the financial statements may give users more confidence that the financial statements are correct; however, it does not eliminate the control deficiency. Management has made a conscious decision, due to costs or other considerations, to accept the degree of risk posed by this control deficiency over financial reporting.

*Views of Responsible Officials*

We agree with the comment on internal control. Due to key staff turnover of the CFO, the controller, and accountants, sufficient time was not available to remediate the existing deficiency noted in financial reporting in the prior year audit report. The business office is documenting existing processes and developing procedure manuals and checklists. The business office will continue to develop and implement 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, identification and proper analysis of transactions, and proper accounting and timely reporting of financial transactions. The business office is revising the chart of accounts after the fiscal year 2022 audit with the goal to start using the new chart of accounts at the start of fiscal year 2024 aiding in financial reporting and budget monitoring.

Responsible Individuals: Terry Hanson, Vice-President of Administrative Services/CFO;  
Brazy Sammons, Controller

Anticipated Completion Date: August 31, 2023

(3) Federal Award Findings and Questioned Costs

None noted

**Kilgore Junior College District**  
Schedule of Findings and Questioned Costs  
(Continued)

(4) State Award Findings and Questioned Costs

2021-002 – *Questioned Costs in the Texas Education Opportunity Grant*

State Program: Texas Education Opportunity Grant

State Agency: Texas Higher Education Coordinating Board

Criteria:

The Texas Administrative Code Title 19 Part 1, Chapter 22, Subchapter M, Rule 22.260 (b) (4) states that an institution may not charge a student receiving a Texas Education Opportunity Grant (TEOG) award an amount of tuition and required fees in excess of the amount of the TEOG award. For excess amounts, the institution must use other available sources of financial aid, other than a loan or Pell grant, to cover the difference, or the institution can waive the excess charges for the student.

The Texas Administrative Code Title 19 Part 1, Chapter 22, Subchapter M, Rule 22.256 contains the eligibility requirements for students to receive initial or continuation awards under the TEOG program.

Condition and Context:

During the audit of TEOG, we identified the District did not properly calculate matching amounts for tuition and fees in excess of TEOG funds disbursed to students. In addition, we identified instances in which the District awarded eligibility to students and these students incorrectly received either initial or continuation awards.

Cause and Effect:

The District was not aware of the matching requirement. The District identified all students with tuition and fees that exceeded amounts of TEOG funds awarded. The District reduced any excess by funds received from other sources (excluding Pell grants and loan funds) to determine if there was remaining excess that should have been waived or reduced by other funding sources.

The District was not fully aware of the eligibility requirements of the program. The District identified all students that incorrectly received an initial or continuation award to determine proper handling of funding of this aid at the District and student level.

As a result of these findings, it was also evident that there were control deficiencies which kept these costs from being identified before being submitted to the Texas Higher Education Coordinating Board. These control findings are determined to be a material weakness.



**Kilgore Junior College District**  
Schedule of Findings and Questioned Costs  
(Continued)

Questioned Costs:

The unmatched funds were calculated to be approximately \$156,000 of questioned costs. Additionally, approximately \$8,000 of TEOG funds had to be replaced due to ineligibility. A total of \$164,000 in questioned costs were identified by the District which related to matching and eligibility. These costs exceed the required reporting threshold and are considered material noncompliance.

Repeat Finding:

No.

Recommendation:

To remediate these deficiencies, we recommend that management implement training to ensure that all personnel involved with TEOG understand the terms of the grant, requirements for matching calculations and requirements for eligibility of initial and continuation awards. Future awards should be properly reviewed for compliance with the grant requirements.

Views of Responsible Officials and Planned Corrective Actions:

Due to an incorrect interpretation of TEOG requirements from the previous Financial Aid Director, the District did not properly determine eligibility and failed to make the required institutional match. The District has developed and implemented processes that include validating eligibility versus established criteria. This initial identification is reviewed again to verify eligibility and award amount. The District's financial aid office will calculate the required match for the awards and notify the business office for release of institutional funds. The District's financial aid office has trained staff on the new processes and has educated the team on the correct eligibility criteria and award calculation.

Responsible Individuals: Terry Hanson, Vice-President of Administrative Services/CFO; Brazy Sammons, Controller; and Jackie Kelly, Financial Aid Director

Anticipated Completion Date: July 31, 2022

**Kilgore Junior College District**  
Summary Schedule of Prior Audit Findings

August 31, 2021

*Repeat Finding 2020-001 – Financial Accounting and Reporting*

As noted in prior audits, the financial statements and related note disclosures of the District have been completed by the independent accounting firm at the District's request. However, we cannot be considered a part of the District's internal controls. Consequently, the inability of the District to prepare its own financial statements and related note disclosures is considered a control deficiency.

The fact that we prepare the financial statements may give users more confidence that the financial statements are correct; however, it does not eliminate the control deficiency. Management has made a conscious decision, due to costs or other considerations, to accept the degree of risk posed by this control deficiency over financial reporting.

*Views of Responsible Officials*

Due to key staff turnover (CFO) and the disruption caused by the COVID-19 global pandemic and resulting remote working environment, etc., sufficient time was not available to remediate the existing deficiency noted in financial reporting in the prior year audit report. The business office will continue to develop and implement 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, identification and proper analysis of transactions, and proper accounting and timely reporting of financial transactions. See current year finding 2021-001.

*2020-002 – Grant Accounting and Reporting*

The District was unable to provide accurate schedules of expenditures of federal and state awards prior to the onset of the audit and such schedules were required to be prepared and completed by the District's auditor.

Corrective action was taken.