

Kilgore Junior College District

Kilgore, Texas

Annual Financial Report

For the Fiscal Year Ended August 31, 2020 and 2019



Kilgore Junior College District

1100 Broadway Boulevard

Kilgore, Texas 75662-3204

www.kilgore.edu

ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED AUGUST 31, 2020 and 2019

PREPARED BY BUSINESS OFFICE

Dawn Jones, Interim Chief Financial Officer

Jessica Bickham, Interim Assistant Controller

Kilgore Junior College District
 Annual Financial Report
 For the Fiscal Year Ended August 31, 2020 and 2019
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Introductory Section



Kilgore Junior College District
 Organizational Data
 For the Fiscal Year Ended August 31, 2020

Board of Trustees

| <u>Officers</u> | <u>Term Expires</u> <u>May</u> |
|--|-----------------------------------|
| Joe Carrington, President | 2025 |
| Larry A. Woodfin, Vice President | 2023 |
| Lon Ford, Secretary | 2023 |
| <u>Members</u> | |
| Travis Martin | 2023 |
| David Castles | 2025 |
| Josh Edmonson | 2021 |
| Janice Bagley | 2025 |
| Jon Rowe | 2021 |
| Cecilia Sanders (resigned August 2020) | 2021 |

Principal Administrative Officers

| <u>Name</u> | <u>Department</u> |
|------------------------|--|
| Dr. Brenda Kays | President |
| Dr. Michael Turpin | Vice-President of Instruction |
| Dawn Jones | Interim Chief Financial Officer |
| Jessica Bickham | Interim Assistant Controller |
| Dr. Michael W. Jenkins | Vice-President of Student Development |
| Dr. Staci Martin | Vice-President of Institutional Planning |
| Michael Hageloh | Chief Development Officer |
| Tony Johnson | Director of Human Resources |
| Nancy Law | Assistant to the President |



Financial Section



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kilgore Junior College District (the District) as of and for the years ended August 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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, 2020 and 2019. 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 reports 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 31, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Supplemental Schedules A through D, the Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 by us and the other auditors. In our opinion, the Supplemental Schedules A through D, the Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of State Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

The Board of Trustees of
Kilgore Junior College District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 5, 2021



Management's Discussion and Analysis



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, 2020, with fiscal years 2019 and 2018 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, bondholders, and others at the end of the year. The Statement of Net Position presents to the readers of the financial statements a fiscal snapshot of the District.

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

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

Financial Highlights for 2020

- Total assets and deferred outflows for 2020 were \$98.8 million, decreasing by \$1.7 million from 2019 due primarily to the net effect of an \$8.1 million increase in cash and cash equivalents and a \$9.6 million decrease in endowment investments, the result of a contribution of endowment investments to the Kilgore College Foundation (the Foundation). Total liabilities and deferred outflows for 2020 were \$73.6 million, increasing by \$3.0 million from 2019, primarily the result of a \$2.8 million increase in deferred inflows of resources for pension and OPEB.
- Net position at August 31, 2020 was \$25.2 million, a decrease of \$4.7 million from the prior year, primarily due to the \$9.6 million contribution to the Foundation. Without this contribution, net position would have increased by \$4.9 million
- Total operating revenues in 2020 were \$19.5 million, an increase of \$2.7 million primarily attributable to a \$3.1 million increase federal grants and contracts revenue. Operating expenses were \$45.1 million, down \$3.4 million from 2019 primarily due to decreases in instruction and auxiliary enterprise expenses due to the COVID-19 global pandemic and its ripple effects. Net nonoperating revenues (expense) were \$20.9 million, down \$10.1 million from 2019 primarily due to the \$9.6 million contribution to the Foundation.

Statement of Net Position

The District's combined net position decreased \$4.7 million compared to a \$0.7 million decrease in the prior year, decreasing from \$29.9 million to \$25.2 million.

Condensed Statement of Net Position

| | 2020 | 2019 | 2018 | 2019 to 2020 Change |
|--------------------------------------|----------------------|----------------------|----------------------|------------------------|
| Current assets | \$ 24,028,682 | \$ 15,897,928 | \$ 21,969,487 | \$ 8,130,754 |
| Noncurrent assets | 1,657,448 | 14,054,452 | 12,567,506 | (12,397,004) |
| Noncurrent capital assets | 65,668,689 | 64,471,027 | 47,449,347 | 1,197,662 |
| Total assets | 91,354,819 | 94,423,407 | 81,986,340 | (3,068,588) |
| Total deferred outflows of resources | 7,477,289 | 6,093,432 | 1,722,832 | 1,383,857 |
| Current liabilities | 8,535,094 | 8,817,608 | 6,176,800 | (282,514) |
| Noncurrent liabilities | 49,105,223 | 48,643,254 | 37,974,281 | 461,969 |
| Total liabilities | 57,640,317 | 57,460,862 | 44,151,081 | 179,455 |
| Total deferred inflows of resources | 15,949,970 | 13,125,211 | 8,913,111 | 2,824,759 |
| Net position: | | | | |
| Net investment in capital assets | 54,266,347 | 54,340,648 | 47,016,928 | (74,301) |
| Restricted | 847,217 | 10,801,488 | 11,460,002 | (9,954,271) |
| Unrestricted (deficit) | (29,871,743) | (35,211,370) | (27,831,950) | 5,339,627 |
| Total net position | \$ 25,241,821 | \$ 29,930,766 | \$ 30,644,980 | \$ (4,688,945) |

The Statement of Net Position helps identify the entity's ability to meet future obligations. One of the analytical tools used to determine this is comparing the current assets to current liabilities, or the current ratio. Current assets are those assets which can be converted quickly to pay current obligations, while current liabilities are those obligations which are expected to be satisfied within one business cycle. The District's current assets of \$24.0 million were sufficient to cover current liabilities of \$8.5 million, giving a current ratio of 2.8 compared to 1.8 in fiscal year 2019.

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 \$(29.0) million at August 31, 2020 compared to a deficit expendable net position of (\$34.0) million at August 31, 2019. Operating expenses for the same periods were \$45.1 million and \$48.5 million. The District continued to report a deficit in expendable net position at August 31, 2020 as a result of the implementation of GASB 75 in fiscal year 2018. The ratio of expendable net position for fiscal years 2020 and 2019 was (64.4%) and (70.1%), respectively, of operating expenses.

The District's accumulated cash and cash equivalent balances increased from \$10.2 million in 2019 to \$15.4 million in the current year. This increase is due a number of factors including a reduction of capital expenses from the prior year and additional loan proceeds for improvement of District facilities.

Statement of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position present 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. The ending balances of net position on these statements agree with those shown on the Statements of Net Position in Exhibit 1.

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | 2020 | 2019 | 2018 |
|---|----------------------|----------------------|----------------------|
| Operating revenues | \$ 19,456,534 | \$ 16,781,154 | \$ 15,421,333 |
| Operating expenses | 45,078,352 | 48,483,457 | 49,276,077 |
| Operating loss | (25,621,818) | (31,702,303) | (33,854,744) |
| Nonoperating revenues (expenses) | 20,932,873 | 30,988,089 | 33,446,400 |
| Change in net position | (4,688,945) | (714,214) | (408,344) |
| Net position - beginning | 29,930,766 | 30,644,980 | 69,858,544 |
| Cumulative effect of change in accounting principal | - | - | (38,805,220) |
| Net position - ending | \$ 25,241,821 | \$ 29,930,766 | \$ 30,644,980 |

All revenues, both operating and non-operating, are presented below:

Operating Revenues

| | 2020 | | 2019 | | 2018 | |
|------------------------------|----------------------|------------|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % | Amount | % |
| Tuition and fees, net | \$ 9,582,499 | 49 | \$ 8,576,482 | 51 | \$ 7,997,725 | 51 |
| Federal grants and contracts | 5,851,256 | 30 | 2,799,491 | 17 | 2,573,778 | 17 |
| State grant and contracts | 600,326 | 3 | 832,179 | 5 | 713,559 | 5 |
| Auxiliary enterprises | 2,631,534 | 14 | 3,875,269 | 23 | 3,934,293 | 26 |
| Other | 790,919 | 4 | 697,733 | 4 | 201,978 | 1 |
| Total | \$ 19,456,534 | 100 | \$ 16,781,154 | 100 | \$ 15,421,333 | 100 |

Tuition and fees revenue is reported net of scholarships and discounts. In Fall 2019 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 2020 increased approximately \$2.6 million with an offset of \$1.6 million increase in scholarships and discounts. Compared to 2018, tuition and fees revenue net of scholarships and discounts in 2019 increased \$0.6 million. At \$51 per credit hour, the District's tuition rate remains below the Texas average for community colleges.

Federal grants and contracts revenue increased \$3.1 million, primarily due to the receipt of Higher Education Emergency Relief Fund assistance for COVID-19 related costs.

Auxiliary enterprises revenue decreased \$1.2 million in 2020 when compared to 2019. The revenue decrease was due to the COVID-19 global pandemic and its ripple effects. In March 2020, the College closed its student housing facilities and refunded all occupants room and board. Student housing remained closed during the majority of the summer and when it did reopen in preparation for Fall 2020 it did so at reduced occupancy in accordance with required health and safety protocols. Shelter in place orders effectively closed the museums and the fitness center operations through the spring. Major events, including the cancellation for Rangerette Revels and Rangerette Summer Camps, heavily impacted sales at the Rangerette Showcase. When the East Texas Oil Museum and Fitness Center did reopen it was to a reduced capacity and limited hours of operation. Printshop revenues were impacted with the conversion to remote learning and cancellation of College events throughout the spring and summer.

Nonoperating Revenues

| | 2020 | | 2019 | | 2018 | |
|----------------------------------|----------------------|------------|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % | Amount | % |
| State appropriations | \$ 11,444,187 | 37 | \$ 11,838,836 | 37 | \$ 13,290,932 | 40 |
| Ad valorem taxes (net) | 7,263,613 | 24 | 6,602,588 | 20 | 6,765,580 | 20 |
| Federal revenue, nonoperating | 10,785,587 | 35 | 10,592,036 | 32 | 11,438,385 | 34 |
| Gifts | 904,669 | 3 | 1,948,142 | 6 | 1,352,763 | 4 |
| Investment, endowment, and other | 328,446 | 1 | 1,739,013 | 5 | 701,773 | 2 |
| Total | \$ 30,726,502 | 100 | \$ 32,720,615 | 100 | \$ 33,549,433 | 100 |

State appropriations decreased \$0.4 million in 2020 when compared to 2019. This was 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, increased in 2020 by \$0.6 million as the taxable assessed value was comparable to 2019 and the rate for maintenance and operations (M&O) was maintained at \$0.175 per \$100 valuation.

Federal revenue, nonoperating, increased \$0.2 million in 2020 when compared to 2019. An increase in the 2019-20 academic year enrollment, particularly of economically disadvantaged students, is the primary cause of the increase in revenue.

Total operating expenses totaled \$45.1 million, which is a \$3.4 million decrease from fiscal year 2019. The decrease is primarily due to a \$2.6 million dollar decrease in instruction costs and a \$1.6 million decrease in auxiliary enterprises expense.

Total non-operating expenses totaled \$9.8 million, which is an \$8.1 million increase from fiscal year 2019. The increase is primarily due to the \$9.6 million contribution to the Foundation for student scholarships.

Operating and Nonoperating Expenses

| | 2020 | | 2019 | | 2018 | |
|------------------------------------|----------------------|------------|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % | Amount | % |
| Instruction | \$ 15,864,157 | 35 | \$ 18,505,057 | 37 | \$ 16,883,721 | 34 |
| Public service | 365,538 | 1 | 345,244 | 1 | 916,419 | 2 |
| Academic support | 2,761,662 | 6 | 3,200,569 | 7 | 3,132,827 | 6 |
| Student services | 2,504,084 | 6 | 2,793,007 | 6 | 2,816,213 | 6 |
| Institutional support | 7,078,295 | 16 | 7,123,799 | 15 | 8,799,565 | 18 |
| Operation and maintenance of plant | 4,934,406 | 11 | 4,552,456 | 9 | 4,705,159 | 10 |
| Scholarships and fellowships | 4,651,048 | 10 | 3,657,289 | 8 | 4,172,096 | 8 |
| Auxiliary enterprises | 4,912,340 | 11 | 6,538,406 | 13 | 6,258,923 | 13 |
| Depreciation | 2,006,822 | 4 | 1,767,630 | 4 | 1,641,154 | 3 |
| Total operating expenses | \$ 45,078,352 | 100 | \$ 48,483,457 | 100 | \$ 49,326,077 | 100 |
| Total nonoperating expenses | \$ 9,793,629 | 100 | \$ 1,732,526 | 100 | \$ 103,033 | 100 |

There was an operating loss for fiscal year 2020 of \$25.6 million, with a decrease in net position of \$4.7 million, compared to a fiscal year 2019 operating loss of \$31.7 million and a decrease in net position of \$0.7 million.

Statements of Cash Flows

The Statements of Cash Flows combine 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 Asset and Debt Administration

Capital Assets

The District has a capital asset policy that requires assets whose original purchase price was over \$5,000 to be recorded as a capital asset. At the end of fiscal year 2020, the District had \$65.7 million invested in a broad range of capital assets, as noted in the below table. Significant additions in fiscal year 2020 include \$1.4 million of construction in progress and \$1.8 million of equipment. More information on capital assets can be found in Note 6 to the financial statements.

Capital Assets at Year-end (net of depreciation)

| | 2020 | 2019 | 2018 |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Land | \$ 4,208,950 | \$ 4,208,950 | \$ 4,208,950 |
| Land improvements and infrastructure | 1,750,552 | 1,845,389 | 1,572,910 |
| Buildings | 35,845,338 | 36,862,231 | 37,698,525 |
| Leasehold improvements | 1,349,864 | 1,437,183 | 1,524,264 |
| Equipment | 3,604,109 | 2,523,498 | 2,080,647 |
| Capital Lease | - | - | 28 |
| Books and exhibits | 358,332 | 402,410 | 364,023 |
| Construction in progress | 18,551,544 | 17,191,366 | - |
| Totals | <u>\$ 65,668,689</u> | <u>\$ 64,471,027</u> | <u>\$ 47,449,347</u> |

Debt

At year-end, the District had \$14.7 million in notes and loans outstanding. More information on debt can be found in Notes 7 and 8 to the financial statements.

Outstanding Debt, at Year-end

| | 2020 | 2019 | 2018 |
|----------------------------------|-----------------------------|-----------------------------|--------------------------|
| Kilgore ISD tuition note payable | \$ 292,413 | \$ 370,144 | \$ 432,419 |
| Loans | 14,381,373 | 9,760,235 | - |
| Totals | <u>\$ 14,673,786</u> | <u>\$ 10,130,379</u> | <u>\$ 432,419</u> |

Component Unit

The Kilgore College Foundation (the Foundation) is presented as a discretely presented component unit. The following is a summary of the Foundations' Statements of Financial Position and Statements of Activities for the fiscal year ended August 31, 2020, with fiscal years 2019 and 2018 data presented for comparative purposes.

Statement of Financial Position

| | 2020 | 2019 | 2018 | 2019 to 2020 Change |
|----------------------------|-----------------------------|-----------------------------|----------------------------|-----------------------------|
| Cash | \$ 652,327 | \$ 533,420 | \$ 8,537 | \$ 118,907 |
| Investments | 21,394,081 | 9,538,938 | 7,991,610 | 11,855,143 |
| Accounts receivable | - | 3,879 | - | (3,879) |
| | <u>22,046,408</u> | <u>10,076,237</u> | <u>8,000,147</u> | <u>11,970,171</u> |
| Liabilities: | | | | |
| Accounts payable | 1,000 | - | - | 1,000 |
| Net assets: | | | | |
| Without Donor Restrictions | (124,885) | 172,541 | 321,925 | (297,426) |
| With Donor Restrictions | 22,170,293 | 9,903,696 | 7,678,222 | 12,266,597 |
| Total net assets | <u><u>\$ 22,045,408</u></u> | <u><u>\$ 10,076,237</u></u> | <u><u>\$ 8,000,147</u></u> | <u><u>\$ 11,969,171</u></u> |

Condensed Statement of Activities

| | 2020 | 2019 | 2018 | 2019 to 2020 Change |
|-----------------------------|-----------------------------|----------------------------|--------------------------|----------------------------|
| Total support | \$ 15,853,413 | \$ 6,875,832 | \$ 1,897,269 | \$ 8,977,581 |
| Total expenditures | 3,884,242 | 4,799,742 | 1,376,919 | (915,500) |
| Change in net assets | <u><u>\$ 11,969,171</u></u> | <u><u>\$ 2,076,090</u></u> | <u><u>\$ 520,350</u></u> | <u><u>\$ 9,893,081</u></u> |

Related Parties

The Texas Shakespeare Festival Foundation (the Festival) is presented as a related party. Due to the interpretation of Governmental Standards Board Statement No. 39, the District does not feel the Festival meets the requirement of discretely presented component unit. During fiscal year 2020 and 2019, the District recognized net earnings of \$1,524 and \$152,566, respectively.

Economic Factors and Next Year's Budgets and Rates

The District's elected and appointed officials considered many factors when setting the fiscal year 2021 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.

The District has faced various economic issues centered on its traditional funding sources, which is a mix of state appropriations, local property taxes, tuition and fees, state and federal grants, and philanthropic avenues. In 2013, during the 83rd Legislature, community college funding patterns were changed and based on three strategies: core operations, student success, and contact hour funding. Additionally, the legislature set the rate which the state would pay versus what the institution would pay for employee insurance and retirement. It is unclear at this time how community colleges may be impacted during the 87th legislature scheduled to begin January 2021. Due to the COVID-19 global pandemic, the Texas Comptroller has advised that the legislature will have less revenue to work with than it did during the last session.

The COVID-19 global pandemic has taken its toll on the East Texas economy. Evidence of this was apparent as the College prepared its FY21 budget projecting to receive over \$100,000.00 less in revenue than it had to work with for FY20. Many businesses and industries in the institution's property tax district have been negatively impacted by the pandemic. For example, Halliburton, once a thriving industry and the top industrial tax payer in Kilgore, closed its facility, placed its property on the market, and relocated its operations to Louisiana. Unfortunately, this scenario has played out throughout the College's taxing district. While planning for the FY21 budget was challenging, FY22 is expected to be even more challenging as a continuing loss of property tax revenue is expected to plague the organization for the foreseeable future.

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 we are proud of the population that we serve and the fact that we are offering 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 FY21 budget, the College did not overlook this fact and budgeted its tuition and fee revenue accordingly.

Tuition and fee rates were increased for academic year 2019-2020 by 8.8% for in-district and 4.4% for out-of-district students. The District instituted course fees for high-cost workforce courses aimed at offsetting the financial impact to the District for offering these courses. State and federal grants will continue to fluctuate from year to year. As a significant boost to the District's financial outlook, the District has seen 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.

The District has made significant strides in addressing the condition of its facilities. In the summer of 2018, an energy-savings project was initiated to address the environmental systems and controls, all interior and exterior lighting, and plumbing fixtures. Substantial energy savings have been recognized. The District continues to assess improvement opportunities in information technology, specifically the wireless infrastructure on both campuses, to provide an improved learning environment for its students and faculty.

Despite the disruption caused by the COVID-19 global pandemic, management believes that it can be nimble and take advantage of many developing opportunities. The College is moving toward a more entrepreneurial mindset and has shored up its ability to deliver quality remote learning and service outreach 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.

Contacting the District's Financial Management

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

Basic Financial Statements

Kilgore Junior College District – Kilgore, Texas

Statements of Net Position

August 31, 2020 and 2019

Exhibit 1

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,791,637 | \$ 5,696,748 |
| Short-term investments | 7,718,217 | 7,543,574 |
| Accounts receivable, net | 1,440,394 | 1,677,484 |
| Inventories | 992,644 | 894,332 |
| Prepaid expenses | 1,030 | 1,030 |
| Other assets | 84,760 | 84,760 |
| | <hr/> | <hr/> |
| Total current assets | 24,028,682 | 15,897,928 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 1,657,448 | 4,460,398 |
| Endowment investments | - | 9,594,054 |
| Capital assets, net | 65,668,689 | 64,471,027 |
| | <hr/> | <hr/> |
| Total noncurrent assets | 67,326,137 | 78,525,479 |
| | <hr/> | <hr/> |
| Total assets | 91,354,819 | 94,423,407 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows - pension | 3,148,186 | 3,407,642 |
| Deferred outflows - OPEB | 4,329,103 | 2,685,790 |
| | <hr/> | <hr/> |
| Total deferred outflows of resources | 7,477,289 | 6,093,432 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 2,274,665 | 3,862,374 |
| Accrued liabilities | 173,377 | 264,195 |
| Funds held for others | 1,404,646 | 1,553,406 |
| Unearned revenue | 2,759,774 | 2,333,753 |
| Deposits | 6,103 | 21,101 |
| Accrued compensable absences - current portion | 299,188 | 278,798 |
| Long-term liabilities - current portion | 1,617,341 | 503,981 |
| | <hr/> | <hr/> |
| Total current liabilities | 8,535,094 | 8,817,608 |
| Noncurrent liabilities: | | |
| Accrued compensable absences | 426,303 | 442,774 |
| Long-term liabilities | 48,678,920 | 48,200,480 |
| | <hr/> | <hr/> |
| Total noncurrent liabilities | 49,105,223 | 48,643,254 |
| | <hr/> | <hr/> |
| Total liabilities | 57,640,317 | 57,460,862 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows - pension | 1,776,419 | 1,179,471 |
| Deferred inflows - OPEB | 14,173,551 | 11,945,740 |
| | <hr/> | <hr/> |
| Total deferred inflows of resources | 15,949,970 | 13,125,211 |
| NET POSITION | | |
| Net investment in capital assets | 54,266,347 | 54,340,648 |
| Restricted for expendable education grants | 847,217 | 1,207,311 |
| Restricted for nonexpendable education endowment | - | 9,594,177 |
| Unrestricted (deficit) | (29,871,743) | (35,211,370) |
| | <hr/> | <hr/> |
| TOTAL NET POSITION | \$ 25,241,821 | \$ 29,930,766 |

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

The Kilgore College Foundation
 Statements of Financial Position
 August 31, 2020 and 2019

Exhibit 1A

| | <u>2020</u> | <u>2019</u> |
|----------------------------|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 652,327 | \$ 533,420 |
| Investments | 21,394,081 | 9,538,938 |
| Accounts receivable | <u>-</u> | <u>3,879</u> |
| Total assets | 22,046,408 | 10,076,237 |
| LIABILITIES | | |
| Accounts payable | <u>1,000</u> | <u>-</u> |
| Total liabilities | 1,000 | - |
| NET ASSETS | | |
| Without donor restrictions | (124,885) | 172,541 |
| With donor restrictions | <u>22,170,293</u> | <u>9,903,696</u> |
| TOTAL NET POSITION | <u>\$ 22,045,408</u> | <u>\$ 10,076,237</u> |

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

Kilgore Junior College District – Kilgore, Texas
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended August 31, 2020 and 2019

Exhibit 2

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Tuition and fees (net of discounts \$9,245,620 and \$7,947,253, respectively) | \$ 9,582,499 | \$ 8,576,482 |
| Federal grants and contracts | 5,851,256 | 2,799,491 |
| State grants and contracts | 600,326 | 832,179 |
| Nongovernmental grants and contracts | 379,264 | 103,150 |
| Sales and services of educational activities | 6,707 | 16,043 |
| Auxiliary enterprises (net of discounts of \$1,308,844 and \$1,963,233, respectively) | 2,631,534 | 3,875,269 |
| Other operating revenues | 404,948 | 578,540 |
| | <hr/> | <hr/> |
| Total operating revenue (Schedule A) | 19,456,534 | 16,781,154 |
| OPERATING EXPENSES | | |
| Instruction | 15,864,157 | 18,505,057 |
| Public service | 365,538 | 345,244 |
| Academic support | 2,761,662 | 3,200,569 |
| Student services | 2,504,084 | 2,793,007 |
| Institutional support | 7,078,295 | 7,123,799 |
| Operation and maintenance of plant | 4,934,406 | 4,552,456 |
| Scholarships and fellowships | 4,651,048 | 3,657,289 |
| Auxiliary enterprises | 4,912,340 | 6,538,406 |
| Depreciation | 2,006,822 | 1,767,630 |
| | <hr/> | <hr/> |
| Total operating expenses (Schedule B) | 45,078,352 | 48,483,457 |
| Operating loss | (25,621,818) | (31,702,303) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 11,444,187 | 11,838,836 |
| Ad valorem taxes (net) | 7,263,613 | 6,602,588 |
| Federal revenue, nonoperating | 10,785,587 | 10,592,036 |
| Gifts | 904,669 | 1,948,142 |
| Investment income | 328,339 | 404,705 |
| Endowment income | 107 | 1,206,794 |
| Disposal of capital assets - gain | - | 127,514 |
| Interest on capital related debt | (201,815) | - |
| Disposal of capital assets - loss | - | (90,136) |
| Other nonoperating expenses | - | (293,649) |
| Contributions to Foundation | (9,591,814) | (1,348,741) |
| | <hr/> | <hr/> |
| Total nonoperating revenues (expenses) (Schedule C) | 20,932,873 | 30,988,089 |
| Change in net position | (4,688,945) | (714,214) |
| NET POSITION | | |
| Net position - beginning | 29,930,766 | 30,644,980 |
| | <hr/> | <hr/> |
| NET POSITION - ENDING | <u>\$ 25,241,821</u> | <u>\$ 29,930,766</u> |

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

The Kilgore College Foundation
 Statements of Activities
 For the Years Ended August 31, 2020 and 2019

Exhibit 2A

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Support: | | |
| Contributions | \$ 8,227 | \$ 15,211 |
| Realized gains on securities | 19,696 | 18,029 |
| Net unrealized gains on securities | 930 | (23,638) |
| Interest and dividends earned | 9,748 | 11,752 |
| Net assets released from restrictions | <u>1,773,608</u> | <u>2,314,502</u> |
| Total support | 1,812,209 | 2,335,856 |
| Expenditures: | | |
| Administrative costs | 214,873 | 59,446 |
| Scholarships and other distributions | <u>1,895,761</u> | <u>2,425,794</u> |
| Total expenditures | <u>2,110,634</u> | <u>2,485,240</u> |
| Net decrease in net assets without donor restrictions | (298,425) | (149,384) |
| NET ASSETS WITH DONOR RESTRICTIONS | | |
| Support: | | |
| Contributions | 2,103,856 | 4,206,772 |
| Contributions required to be held in perpetuity | 9,591,814 | 185,762 |
| Realized gains on securities | 239,725 | (15,099) |
| Net unrealized gains on securities | 1,438,416 | (102,955) |
| Interest and dividends earned | <u>667,393</u> | <u>265,496</u> |
| Total support | 14,041,204 | 4,539,976 |
| Net assets released from restrictions | <u>1,773,608</u> | <u>2,314,502</u> |
| Total net assets released from restrictions | <u>1,773,608</u> | <u>2,314,502</u> |
| Net increase in net assets with donor restrictions | 12,267,596 | 2,225,474 |
| Increase in net assets | 11,969,171 | 2,076,090 |
| Net assets at beginning of year | <u>10,076,237</u> | <u>8,000,147</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 22,045,408</u> | <u>\$ 10,076,237</u> |

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

Kilgore Junior College District – Kilgore, Texas
Statements of Cash Flows
For the Fiscal Years Ended August 31, 2020 and 2019

Exhibit 3

| | <u>2020</u> | <u>2019</u> |
|---|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from students and other customers | \$ 13,675,024 | \$ 13,988,438 |
| Receipts from grants and contracts | 6,863,691 | 4,397,973 |
| Payments to suppliers for goods and services | (15,396,974) | (11,732,795) |
| Payments to or on behalf of employees | (25,292,821) | (27,212,042) |
| Payments to students under federal grants | (5,125,383) | (4,570,491) |
| Other cash payments | <u>-</u> | <u>(293,649)</u> |
| Net cash used for operating activities | (25,276,463) | (25,422,566) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Receipts from state appropriations | 10,430,104 | 11,832,369 |
| Ad valorem tax revenues | 7,197,052 | 6,772,220 |
| Receipts for Title IV transactions | 10,693,071 | 10,658,637 |
| Gifts and grants (other than capital) | <u>904,669</u> | <u>2,148,142</u> |
| Net cash provided by noncapital financing activities | 29,224,896 | 31,411,368 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of capital assets | (3,204,484) | (18,902,235) |
| Proceeds from sale of assets | - | 150,303 |
| Issuance of Loan proceeds | 4,847,094 | 9,760,235 |
| Payments on capital debt and leases - principal | (303,687) | (62,275) |
| Payments on capital debt and leases - interest | <u>(201,815)</u> | <u>-</u> |
| Net cash used for capital and related financing activities | 1,137,108 | (9,053,972) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment earnings (losses) | 204,051 | 262,758 |
| Sale of endowment | <u>2,347</u> | <u>1,612,764</u> |
| Net cash provided by investing activities | <u>206,398</u> | <u>1,875,522</u> |
| Net increase (decrease) in cash and cash equivalents | 5,291,939 | (1,189,648) |
| Cash and cash equivalents, beginning of year | <u>10,157,146</u> | <u>11,346,794</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 15,449,085</u> | <u>\$ 10,157,146</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating loss | \$ (25,621,818) | \$ (31,702,303) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation expense | 2,006,822 | 1,767,630 |
| On-behalf state benefits | 1,015,646 | 586,652 |
| Miscellaneous nonoperating expense | - | (293,649) |
| Change in operating assets and liabilities: | | |
| Receivables, net | 344,249 | 664,388 |
| Inventories | (98,312) | (45,537) |
| Prepaid expenses | - | 146,932 |
| Deposits | (14,998) | (205,831) |
| Funds held for others | (148,760) | 123,100 |
| Accounts payable and accrued liabilities | (1,678,527) | 3,249,555 |
| Unearned revenue | 426,021 | (527,014) |
| Compensated absences | 3,919 | 208,603 |
| Net pension/OPEB liability | (2,951,607) | 763,408 |
| Change in deferred inflows and outflows: | | |
| Deferred outflows | (1,383,857) | (4,370,600) |
| Deferred inflows | <u>2,824,759</u> | <u>4,212,100</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ (25,276,463)</u> | <u>\$ (25,422,566)</u> |

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Note 1. Reporting Entity

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

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

Discrete Component Unit

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

The Foundation is a Texas nonprofit corporation chartered in 1997 to support educational, scientific and charitable purposes in order to promote and support the District. The District does not appoint a voting majority nor does it fund or is obligated to pay debt related to this Foundation. However, the District does have the ability to significantly influence the policies of this Foundation. The Foundation is incorporated and chartered entirely separate from the District, with separate management and control, and a separate Board of Directors. It is accounted for separately in the Basic Financial Statements of the District. The Foundation's Notes to financial statements are disclosed in Note 20. Complete financial statements of the Kilgore College Foundation can be obtained from the business office of the District.

Note 2. Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Title IV, HEA Program Funds

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

Other Tuition Discounts

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

Basis of Accounting

The financial statements of the District have been prepared using the economic resources measurement focus and the accrual basis of accounting. All revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Budgetary Data

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

Cash and Cash Equivalents

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

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months, but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of \$176,723 and \$9,768,891 at August 31, 2020 and August 31, 2019, respectively, to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories

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

Capital Assets

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

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Pensions

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

Other Post-Employment Benefits

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

Unearned Revenue

A portion of tuition and fee revenue and federal, state, and local grants received as of August 31, 2020 and 2019, are related to the period after August, and therefore, have been reported as unearned revenues at August 31, 2020 and 2019, respectively.

Deferred Outflows/Deferred Inflows

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

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

Deferred outflows/inflows of resources are amortized as follows:

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the District is aware that actual results could differ from those estimates. The significant estimates are the useful lives of capital assets, net pension liability, net OPEB liability, associated deferred outflows and deferred inflows, and the allowance for uncollectible property taxes and student billings.

Operating and Nonoperating Revenue and Expense Policy

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

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.

New GASB Pronouncements

In May 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This is accomplished by postponing the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for reporting periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year: Statement Nos. 83, 84, 88, 89, 90, 91, 92, 93, and Implementation Guide Nos. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting), 2018-1, Implementation Guide Update – 2018, 2019-1, Implementation Guidance Update – 2019, and 2019-2, Fiduciary Activities. The effective dates of the following pronouncements are postponed by 18 months: Statement No. 87 and Implementation Guide No. 2019-3, Leases. The requirements of this Statement were effective immediately, and the District implemented it in fiscal year 2020.

Note 3. Authorized Investments

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Note 4. Deposits and Investments

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

| | <u>August 31, 2020</u> | <u>August 31, 2019</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Bank deposits | | |
| Demand deposits | \$ 15,418,711 | \$ 10,126,771 |
| Time deposits | <u>7,541,494</u> | <u>7,368,737</u> |
| | 22,960,205 | 17,495,508 |
| Petty cash on hand | <u>30,374</u> | <u>30,375</u> |
| Total cash and deposits | <u><u>\$ 22,990,579</u></u> | <u><u>\$ 17,525,883</u></u> |

Reconciliation of Deposits and Investments to Exhibit 1:

| <u>Type of Security</u> | <u>Fair Value August 31, 2020</u> | <u>Fair Value August 31, 2019</u> |
|---|---------------------------------------|---------------------------------------|
| Investment pools | \$ 176,723 | \$ 9,768,891 |
| Cash and deposits | <u>22,990,579</u> | <u>17,525,883</u> |
| Total deposits and investments | <u><u>\$ 23,167,302</u></u> | <u><u>\$ 27,294,774</u></u> |
| Cash and short-term investments (Exhibit 1) | \$ 23,167,302 | \$ 17,700,720 |
| Investments (Exhibit 1) | <u>-</u> | <u>9,594,054</u> |
| Total deposits and investments | <u><u>\$ 23,167,302</u></u> | <u><u>\$ 27,294,774</u></u> |

As of August 31, 2020, the District had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities Less than 1 year</u> |
|-------------------------|----------------------------|---|
| Certificates of deposit | \$ 7,541,494 | \$ 7,541,494 |
| Investment pools | <u>176,723</u> | <u>176,723</u> |
| Total | <u><u>\$ 7,718,217</u></u> | <u><u>\$ 7,718,217</u></u> |

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

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

The District invested in two external investment pools with Texas Presbyterian Foundation funds in fiscal year 2019: TPF Balanced Pooled Fund and TPF Fixed Income Pooled Fund, which are both measured at net asset value of the underlying investment. TPF Balanced Pooled Fund's investment strategy is to produce a total rate of return from a blend of equity and fixed income securities, which provides a stable, predictable and growing source of income to participating institutions to support current programs while preserving the inflation-adjusted purchasing power of the principal over time. Dividends can be reinvested for those institutions not requiring the distribution for current operations. TPF Fixed Income Pooled Fund's investment strategy is, over a full market cycle, to produce a total rate of return, net of expenses, which exceeds the Barclays Aggregate Index and is ranked above the median performance level when compared to a universe of other comparable funds. The Texas Presbyterian Foundation funds were transferred to the Kilgore College Foundation at the beginning of fiscal year 2020.

Interest Rate Risk

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

Credit Risk

In accordance with State law and the District's investment policy, investments in external investment pools, if rated, must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, counties, etc. must be rated at least AA as well. Investments with TexPool have a credit rating of AAAM as of August 31, 2020 and 2019, respectively.

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

Concentration of Credit Risk

The District's investment policy does not place a limit on the amount the District may invest in any one issuer. The District did not have more than 5% of its investments with one issuer as of August 31, 2020. More than 5% of the District's investments as of August 31, 2019 were in external investment pools with Texas Presbyterian Foundation funds (56%).

Custodial Credit Risk – Deposits and Investments

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Note 5. Fair Value of Financial Instruments

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

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

The District's investments are not subject to level reporting.

Note 6. Capital Assets

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

| | Balance September 1, 2019 | Additions | Reductions | Balance August 31, 2020 |
|--------------------------------------|------------------------------|---------------------|-------------|----------------------------|
| Not depreciated: | | | | |
| Land | \$ 4,208,950 | \$ - | \$ - | \$ 4,208,950 |
| Construction in progress | 17,191,366 | 1,360,178 | - | 18,551,544 |
| Subtotal | 21,400,316 | 1,360,178 | - | 22,760,494 |
| Other capital assets: | | | | |
| Land improvements and infrastructure | 5,064,628 | - | - | 5,064,628 |
| Buildings | 62,508,755 | - | - | 62,508,755 |
| Leasehold improvements | 1,872,823 | - | - | 1,872,823 |
| Equipment | 8,825,653 | 1,824,790 | 12,700 | 10,637,743 |
| Capital lease | 100,144 | - | - | 100,144 |
| Exhibits | 2,028,436 | - | - | 2,028,436 |
| Library books | 1,027,786 | 19,516 | 24,824 | 1,022,478 |
| Subtotal | 81,428,225 | 1,844,306 | 37,524 | 83,235,007 |
| Total cost of capital assets | 102,828,541 | 3,204,484 | 37,524 | 105,995,501 |
| Accumulated depreciation: | | | | |
| Land improvements and infrastructure | 3,219,239 | 94,837 | - | 3,314,076 |
| Buildings | 25,646,524 | 1,016,893 | - | 26,663,417 |
| Leasehold improvements | 435,640 | 87,319 | - | 522,959 |
| Equipment | 6,302,155 | 744,179 | 12,700 | 7,033,634 |
| Capital lease | 100,144 | - | - | 100,144 |
| Exhibits | 1,915,554 | 17,818 | - | 1,933,372 |
| Library books | 738,258 | 45,776 | 24,824 | 759,210 |
| Total accumulated depreciation | 38,357,514 | 2,006,822 | 37,524 | 40,326,812 |
| Capital assets - net | \$ 64,471,027 | \$ 1,197,662 | \$ - | \$ 65,668,689 |

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Capital assets activity for the year ended August 31, 2019 was as follows:

| | Balance September 1, 2018 | Additions | Reductions | Balance August 31, 2019 |
|--------------------------------------|------------------------------|----------------------|-------------------|----------------------------|
| Not depreciated: | | | | |
| Land | \$ 4,208,950 | \$ - | \$ - | \$ 4,208,950 |
| Construction in progress | - | 17,191,366 | - | 17,191,366 |
| Subtotal | 4,208,950 | 17,191,366 | - | 21,400,316 |
| Other capital assets: | | | | |
| Land improvements and infrastructure | 4,721,475 | 445,312 | 102,159 | 5,064,628 |
| Buildings | 62,400,616 | 195,880 | 87,741 | 62,508,755 |
| Leasehold improvements | 1,872,823 | - | - | 1,872,823 |
| Equipment | 7,875,386 | 963,805 | 13,538 | 8,825,653 |
| Capital lease | 100,144 | - | - | 100,144 |
| Exhibits | 1,949,967 | 78,469 | - | 2,028,436 |
| Library books | 1,033,071 | 27,403 | 32,688 | 1,027,786 |
| Subtotal | 79,953,482 | 1,710,869 | 236,126 | 81,428,225 |
| Total cost of capital assets | 84,162,432 | 18,902,235 | 236,126 | 102,828,541 |
| Accumulated depreciation: | | | | |
| Land improvements and infrastructure | 3,148,565 | 85,885 | 15,211 | 3,219,239 |
| Buildings | 24,702,091 | 1,014,196 | 69,763 | 25,646,524 |
| Leasehold improvements | 348,559 | 87,081 | - | 435,640 |
| Equipment | 5,794,739 | 512,954 | 5,538 | 6,302,155 |
| Capital lease | 100,116 | 28 | - | 100,144 |
| Exhibits | 1,898,206 | 17,348 | - | 1,915,554 |
| Library books | 720,809 | 50,138 | 32,689 | 738,258 |
| Total accumulated depreciation | 36,713,085 | 1,767,630 | 123,201 | 38,357,514 |
| Capital assets - net | \$ 47,449,347 | \$ 17,134,605 | \$ 112,925 | \$ 64,471,027 |

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Note 7. Noncurrent Liabilities

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

| | Balance September 1, 2019 | Additions | Reductions | Balance August 31, 2020 | Current Portion |
|--------------------------------------|------------------------------|---------------------|---------------------|----------------------------|---------------------|
| Loans: | | | | | |
| 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 |
| Total Loans | 9,760,235 | 4,847,094 | 225,956 | 14,381,373 | 909,488 |
| Other liabilities: | | | | | |
| Note payable - Kilgore ISD (Tuition) | 370,144 | - | 77,731 | 292,413 | 50,000 |
| Accrued compensable 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 | 657,853 |
| Total other liabilities | 39,665,798 | 145,055 | 3,170,474 | 36,640,379 | 1,007,041 |
| Total long-term liabilities | \$ 49,426,033 | \$ 4,992,149 | \$ 3,396,430 | \$ 51,021,752 | \$ 1,916,529 |

Long-term liability activity for the year ended August 31, 2019 was as follows:

| | Balance September 1, 2018 | Additions | Reductions | Balance August 31, 2019 | Current Portion |
|--------------------------------------|------------------------------|----------------------|---------------------|----------------------------|--------------------|
| Bonds: | | | | | |
| SECO Loan #1 | \$ - | \$ 4,210,503 | \$ - | \$ 4,210,503 | \$ - |
| SECO Loan #2 | - | 5,549,732 | - | 5,549,732 | - |
| Total Loans | - | 9,760,235 | - | 9,760,235 | - |
| Other liabilities: | | | | | |
| Note payable - Kilgore ISD (Tuition) | 432,419 | - | 62,275 | 370,144 | 50,000 |
| Accrued compensable absences | 512,969 | 313,970 | 105,367 | 721,572 | 278,798 |
| Net pension liability | 4,566,550 | 3,692,998 | 547,899 | 7,711,649 | - |
| Net OPEB liability | 33,244,124 | 5,402,314 | 7,784,005 | 30,862,433 | 453,981 |
| Total other liabilities | 38,756,062 | 9,409,282 | 8,499,546 | 39,665,798 | 782,779 |
| Total long-term liabilities | \$ 38,756,062 | \$ 19,169,517 | \$ 8,499,546 | \$ 49,426,033 | \$ 782,779 |

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Note 8. Debt and Lease Obligations

Loans

The District entered into two loan agreements in September 2018 with the State Energy Conservation Office to provide upgrades to multiple buildings for HVAC, exterior lighting, solar thermal window film, building weatherization, water conservation, and utility assessment report. The loans are not to exceed \$14,442,032. As of August 31, 2020 and 2019 the District has borrowed \$14,381,373 and \$9,760,235, respectively. Such loans will be paid in annual installments of principal over 15 years along with 1% interest beginning once the project is complete. The District’s estimated principal maturity and interest payment schedule is as follows:

| For the year ended August 31, | SECO Loan #1 and #2 | | |
|-------------------------------------|----------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2021 | \$ 909,488 | \$ 140,410 | \$ 1,049,898 |
| 2022 | 918,617 | 131,281 | 1,049,898 |
| 2023 | 927,838 | 122,061 | 1,049,899 |
| 2024 | 937,151 | 112,747 | 1,049,898 |
| 2025 | 946,558 | 103,341 | 1,049,899 |
| 2026-2030 | 4,877,228 | 372,264 | 5,249,492 |
| 2031-2035 | 4,864,493 | 122,522 | 4,987,015 |
| Total | \$ 14,381,373 | \$ 1,104,626 | \$ 15,485,999 |

Note Payable – Kilgore ISD (Tuition)

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

Operating Lease Commitments and Rental Agreements

The District is party to lease agreement for a portion of a hospital to be utilized for the expansion of instructional health programs. The lease includes the option for two subsequent five year period renewals and monthly lease payments of \$10,454. Kilgore College has opted to extend this lease through December 2025.

The District is also party to two other leases with monthly payments ranging from \$236 to \$1,485 and mature beginning May 2021 and October 2021.

Obligations under operating leases at August 31, 2020, were as follows:

| Year Ending August 31, | Total |
|---|-------------------|
| 2021 | \$ 150,219 |
| 2022 | 127,676 |
| 2023 | 125,448 |
| 2024 | 125,448 |
| 2025 | 125,448 |
| Thereafter | 41,816 |
| Total minimum lease payments | \$ 696,055 |

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Note 9. Defined Benefit Pension Plan

Plan Description

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

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

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.

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 – Kilgore, Texas

Notes to the Financial Statements

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2020 through 2025. Rates for such fiscal years are as follows:

| | 2020 | 2019 |
|--|------|------|
| Member | 7.7% | 7.7% |
| Non-employer contributing entity (state) | 7.5% | 6.8% |
| Employers/district | 7.5% | 6.8% |

The contribution amounts for the District’s fiscal year 2020 are as follows:

| | 2020 |
|--------------------------------------|------------|
| District contributions | \$ 568,212 |
| Member contributions | 1,041,835 |
| NECE on-behalf contributions (state) | 872,372 |

The District’s contributions to the TRS pension plan in FY 2020 were \$568,212 as reported in the Schedule of the District’s Contributions for pensions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for FY 2020 were \$872,372.

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

Public junior colleges, or junior college districts are required to pay the employer contribution rate in the following instances:

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

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Actuarial Assumptions

The total pension liability in the August 31, 2018 actuarial valuation rolled forward to August 31, 2019 was determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation date | August 31, 2018 rolled forward to August 31, 2019 |
| Actuarial cost method | Individual entry age normal |
| Asset valuation method | Market value |
| Single discount rate | 7.25% |
| Long-term expected investment rate of return | 7.25% |
| Municipal bond rate | 2.63%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index." |
| Last year ending August 31 in projection period (100 years) | 2116 |
| Inflation | 2.30% |
| Salary increases | 3.05% to 9.05% including inflation |
| Ad hoc post-employment benefit changes | None |

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

Discount Rate

The single discount rate used to measure the total pension liability was 7.25%. 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 discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 and gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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.

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Best estimates of arithmetic real rates of return for each major asset class included in the System’s target asset allocation as of August 31, 2019 are summarized below:

| Asset Class | Target Allocation* | New Target Allocation** | Long-Term Expected Geometric Real Rate of Return*** |
|-----------------------------------|--------------------|-------------------------|---|
| Global equity: | | | |
| U.S. | 18.00% | 18.00% | 6.40% |
| Non-U.S. developed | 13.00% | 13.00% | 7.30% |
| Emerging markets | 9.00% | 9.00% | 7.30% |
| Directional hedge funds | 4.00% | 0.00% | 0.00% |
| Private equity | 13.00% | 14.00% | 8.40% |
| Stable value: | | | |
| U.S. treasuries**** | 11.00% | 16.00% | 3.10% |
| Stable value hedge funds | 4.00% | 5.00% | 4.50% |
| Real return: | | | |
| Global inflation linked bonds**** | 3.00% | 0.00% | 0.00% |
| Real assets | 14.00% | 15.00% | 8.50% |
| Energy and natural resources | 5.00% | 6.00% | 7.30% |
| Risk parity: | | | |
| Risk parity | 5.00% | 8.00% | 5.8%/6.5% |
| Leverage: | | | |
| Cash | 1.00% | 2.00% | 2.50% |
| Asset allocation leverage | 0.00% | -6.00% | 2.70% |
| Totals | 100.00% | 100.00% | 7.23% |

*Target allocations are based on the Strategic Asset Allocation dated October 1, 2018

**New allocations are based on the Strategic Asset Allocation dated October 1, 2019

***10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%

****New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds.

Note: Risk Parity rate of return of 5.8% (6.5%) due to a 10% (12%) target volatility

Discount Rate Sensitivity Analysis

The following table presents the District’s proportionate share of net pension liability for TRS calculated using the discount rate of 7.25%, as well as the District’s proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

| 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|------------------------|-------------------------------------|------------------------|
| \$ 11,549,913 | \$ 7,513,872 | \$ 4,243,900 |

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

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

At August 31, 2020, the District reported a liability of \$7,513,872 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|---|-----------------------------|
| District's proportionate share of the net pension liability | \$ 7,513,872 |
| State's proportionate share of the net pension liability associated with the District | <u>5,553,473</u> |
| Total | <u>\$ 13,067,345</u> |

The net pension liability was measured as of August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was 0.0144544%, which was a decrease of 0.0004440% from its proportion measured as of August 31, 2018.

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

For the year ended August 31, 2020, the District recognized pension expense of \$658,627 and revenue of \$872,372 for support provided by the State for the pension costs.

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

At August 31, 2020, the District reported deferred outflows of resources for contribution made after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 31,565 | \$ 260,894 |
| Changes of assumptions | 2,331,172 | 963,351 |
| Net difference between projected and actual earnings on pension plan investments | 75,448 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan) | <u>141,789</u> | <u>552,174</u> |
| Total as of August 31, 2019 measurement date | 2,579,974 | 1,776,419 |
| District contributions after measurement date | <u>568,212</u> | <u>-</u> |
| Totals | <u><u>\$ 3,148,186</u></u> | <u><u>\$ 1,776,419</u></u> |

\$568,212 reported as a deferred outflow of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending August 31, 2021.

The other amounts of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending August 31, | Pension Expense (Income) |
|---------------------------|-----------------------------|
| 2021 | \$ 45,913 |
| 2022 | (16,657) |
| 2023 | 316,826 |
| 2024 | 376,594 |
| 2025 | 140,507 |
| Thereafter | <u>(59,628)</u> |
| Total | <u><u>\$ 803,555</u></u> |

Note 10. Compensable Absences

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

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Notes to the Financial Statements

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 \$473,671 and \$491,971 at August 31, 2020 and 2019, 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 \$251,820 and \$229,601 at August 31, 2020 and 2019 respectively, all of which has been classified as a current liability.

Note 11. Health Care and Life Insurance Benefits

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

The State's contribution per full-time employee varies based upon coverage category. Monthly contributions was \$624.82 and \$624.82 for "Employee Only" coverage, \$1,340.82 and \$1,340.82 for "Employee and Spouse" coverage, \$1,104.22 and \$1,104.22 for "Employee and Children" coverage, and \$1,820.22 and \$1,820.22 for "Employee and Family" coverage for both years ended August 31, 2020 and 2019.

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

The State's contribution totaled \$2,172,510 and \$1,824,429 for the years ended August 31, 2020 and 2019, respectively. S.B. 1812, effective September 1, 2013, limits the amount of the State's contribution to 50% of eligible employees in the reporting district.

The cost of providing those benefits for retirees and active employees as of August 31, 2020 and 2019 was as follows:

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Cost of state's contribution | \$ 989,552 | \$ 998,882 |
| Cost of local contribution | 991,903 | 977,733 |
| Total cost of benefits for retirees | \$ 1,981,455 | \$ 1,976,615 |
| Cost of state's contribution | \$ 1,182,958 | \$ 825,547 |
| Cost of local contribution | 1,970,239 | 2,057,161 |
| Total cost of benefits for active employees | \$ 3,153,197 | \$ 2,882,708 |

Note 12. Defined Other Post-Employment Benefit Plan

Plan Description

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

OPEB Plan Fiduciary Net Position

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

Benefits Provided

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

Contributions

Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employer and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and its consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds. There are no long-term contract for contributions to the plan.

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

Maximum Monthly Employer Contribution
Retiree Health and Basic Life Premium
Fiscal Year 2020

| | | |
|----------------------|----|-------|
| Retiree only | \$ | 625 |
| Retiree and spouse | | 1,341 |
| Retiree and children | | 1,104 |
| Retiree and family | | 1,820 |

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Notes to the Financial Statements

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

Premium Contributions by Source
Group Benefits Program Plan
For the Fiscal Year Ended August 31, 2020

| | | |
|---|----|---------|
| Employer contributions | \$ | 991,903 |
| Member contributions | | - |
| 2019 measurement year NECE on-behalf contribution | | 31,526 |

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of August 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|--|
| Actuarial Assumptions | |
| ERS Group Benefits Program Plan | |
| Valuation date | August 31, 2019 |
| Actuarial cost method | Entry age |
| Amortization method | Level percent of payroll, open |
| Remaining amortization period | 30 years |
| Projected annual salary increases (includes inflation) | 2.50% to 9.50% |
| Inflation assumption rate | 2.50% |
| Mortality rate | - Service Retirees, Survivors and other Inactive Members - Tables 9 based on Teachers Retirement System of Texas experience with Ultimate MP Projection Scale from the year 2018. - Disability Retirees - Tables based on Teachers Retirement System of Texas 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. |

Investment Policy

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

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 3.96%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 2.97%, which amounted to a decrease of 0.99%. 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.

Sensitivity of the Net OPEB Liability

Discount Rate

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.97%) in measuring the net OPEB liability.

Sensitivity of the Net OPEB Liability
to the Single Discount Rate Assumptions

| 1% Decrease (1.97%) | Current Discount Rate (2.97%) | 1% Increase (3.97%) |
|------------------------|-------------------------------------|------------------------|
| \$ 33,542,306 | \$ 28,108,603 | \$ 23,927,566 |

Healthcare Cost Trend Rates

The initial healthcare trend rate is 7.3% and the ultimate rate is 4.5%. The following schedule shows the impact on 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 in measuring the net OPEB Liability.

Sensitivity of the Net OPEB Liability to
the Healthcare Cost Trend Rate Assumptions

| 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|---------------|--|---------------|
| \$ 23,602,545 | \$ 28,108,603 | \$ 33,996,989 |

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

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

At August 31, 2020, the District reported a liability of \$28,108,603 for its proportionate share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to the District for OPEB. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

| | |
|--|-----------------------------|
| District's proportionate share of the collective net OPEB liability | \$ 28,108,603 |
| State's proportionate share of the net OPEB liability associated with the District | <u>27,827,761</u> |
| Total | <u>\$ 55,936,364</u> |

The 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 employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018, through August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net OPEB liability was 0.0813265% which was a decrease of 0.02280573% from its proportion measured as of August 31, 2018.

For the year ended August 31, 2020, the District recognized OPEB expense of \$31,526 and revenue of \$31,526 for support provided by the State.

Changes Since the Prior Actuarial Valuation

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

- Demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the trustees from the Teachers Retirement System of Texas.
- Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent experience and its effects on our short-term expectations.
- 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 retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.
- The percentage of future retirees and future retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends.
- The discount rate assumption was decreased from 3.96% to 2.97% as a result of requirements by GASB No. 75 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.

Changes of Benefit Terms Since Prior Measurement Date

The following benefit revisions have been adopted since the prior valuation:

- An increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect for those HealthSelect retirees and dependents for whom Medicare is not primary.

These minor benefit changes have been reflected in the fiscal year 2020 Assumed Per Capita Health Benefit Costs.

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

At August 31, 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:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experiences | \$ - | \$ 731,411 |
| Changes in actuarial assumptions | 2,000,340 | 6,281,207 |
| Differenced between projected and actual investment earnings | 11,556 | - |
| Changes in proportion and differences between the employer’s contributions and the proportionate share of contributions | <u>1,325,304</u> | <u>7,160,933</u> |
| Total as of August 31, 2019 measurement date | 3,337,200 | 14,173,551 |
| Contributions paid to the ERS subsequent to the measurement date | <u>991,903</u> | <u>-</u> |
| Total as of fiscal year end | <u>\$ 4,329,103</u> | <u>\$ 14,173,551</u> |

\$991,903 reported as a deferred outflow of resources resulting from the District’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending August 31, 2021.

The other amounts of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense (income) as follows:

| Year Ending August 31, | OPEB Expense (Income) |
|---------------------------|-------------------------------|
| 2021 | \$ (3,163,720) |
| 2022 | (3,163,720) |
| 2023 | (2,393,009) |
| 2024 | (1,535,926) |
| 2025 | <u>(579,976)</u> |
| Total | <u>\$ (10,836,351)</u> |

Note 13. Pending Lawsuits and Claims

On August 31, 2020, various lawsuits and claims involving the District were pending. While the ultimate liability with respect to litigation and other claims asserted against the District cannot be reasonably estimated at this time, this liability is not likely to have a material effect on the District.

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Note 14. Disaggregation of Receivable and Payable Balances

Receivables

Primary institution receivables at August 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|---------------------------------|---------------------|---------------------|
| Student receivables | \$ 2,566,070 | \$ 3,241,957 |
| Taxes receivable | 899,619 | 841,205 |
| Grant receivable | 511,183 | 478,338 |
| Accounts receivable | - | 51,918 |
| Subtotal | 3,976,872 | 4,613,418 |
| Allowance for doubtful accounts | (2,536,478) | (2,935,934) |
| Total receivables | \$ 1,440,394 | \$ 1,677,484 |

Payables and Accrued Liabilities

Primary institution payables and accrued liabilities at August 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|-------------------------------|---------------------|---------------------|
| Vendors payable | \$ 2,274,665 | \$ 3,862,374 |
| Salaries and benefits payable | 126,788 | 106,370 |
| Student payables | - | 95,000 |
| Sales tax payable | 46,589 | 62,825 |
| Total | \$ 2,448,042 | \$ 4,126,569 |

Note 15. Funds Held in Trust by Others

The balances, or transactions, of funds held in trust by others on behalf of the District are not reflected in the financial statements. There were no such funds for the benefit of the District at August 31, 2020 and 2019.

Note 16. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*. For federal contract and grant awards, funds expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1.

Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant award funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2020 and 2019 for which monies have not been received nor funds expended totaled \$4,059,744 and \$5,250,830, respectively. Of these amounts, \$3,109,175 and \$4,774,471 were from Federal Contract and Grant Awards and \$950,569 and \$476,359 were from State Contract and Grant Awards for fiscal years ended 2020 and 2019, respectively.

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Note 17. Self-Insured Plans

The District did not participate in any self-insured plans during fiscal years 2020 and 2019.

Note 18. Property Tax

The District's *ad valorem* property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The District's taxable values for the fiscal years 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|---|--------------------------------|--------------------------------|
| Assessed Valuation of the District | \$4,567,673,015 | \$ 4,638,211,095 |
| Less: Exemptions and Abatements | <u>(639,125,799)</u> | <u>(646,219,070)</u> |
| Net Assessed Valuation of the District | <u>\$ 3,928,547,216</u> | <u>\$ 3,991,992,025</u> |

Tax rates for the years ending August 31, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------|-----------------------|
| | Current Operations | Current Operations |
| Authorized tax rate per \$100 valuation (Maximum per enabling legislation) | 0.200 | 0.200 |
| Assessed tax rate per \$100 valuation | 0.175 | 0.175 |

There were no taxes authorized or assessed for debt service at August 31, 2020 and 2019. Taxes levied for the years ended August 31, 2020 and 2019, were \$7,084,760 and \$6,638,934, respectively (which includes penalty and interest if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year imposed.

| | <u>2020</u> | <u>2019</u> |
|----------------------------------|----------------------------|----------------------------|
| Current taxes collected | \$ 6,817,372 | \$ 6,435,172 |
| Delinquent taxes collected | 133,675 | 102,289 |
| Penalties and interest collected | <u>114,945</u> | <u>91,035</u> |
| Total collections | <u>\$ 7,065,992</u> | <u>\$ 6,628,496</u> |

Tax collections were 99% and 97% of the current tax levy for the years ended August 31, 2020 and 2019, respectively. There were no tax collections for debt service. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted for the use of maintenance and/or general obligation debt service.

Note 19. Income Taxes

The District is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations*. The District had no unrelated business income tax liability for the years ended August 31, 2020 and 2019.

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Notes to the Financial Statements

Note 20. Discrete Component Unit - Kilgore College Foundation

Organization

Complete financial statements of the Kilgore College Foundation can be obtained from the District's business office. Certain footnotes are excerpted from the Foundation's audited financial statements for the year ended August 31, 2020:

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

Basis of Accounting

The Financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Financial Statement Presentation

The Foundation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities - Presentation of *Financial Statements* in preparing the financial statements. The Foundation is required to report information regarding its financial position and activities according to two classes of net assets; net assets without donor restrictions and net assets with donor restrictions. In addition, the Foundation is required to present a statement of cash flows.

Estimates

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

Investments

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

Recognition of Donor Restricted Contributions

Pursuant to FASB ASC 958-605-15-2 and FASB ASC 958-605-15-4, *Revenue Recognition – Contributions Received*, support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions.

Income Tax Status

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

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Recently Issued Accounting Pronouncements

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

Investments

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

Investment accounts as of August 31, 2020 were as follows:

| | |
|--------------------------------|-----------------------------------|
| Merrill Lynch: | |
| Money market | \$ 324,174 |
| Equity securities | 46,254 |
| Mutual funds | 44,634 |
| | |
| Texas Presbyterian Foundation: | |
| Managed fund | <u>20,979,019</u> |
| | |
| Total | <u><u>\$21,394,081</u></u> |

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

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amounted to approximately \$125,874 as of August 31, 2020, and have been netted against investment revenues in the accompanying statement of activities. The Foundation is not charged directly for custodial fees and investment advisory fees. These fees are charged at the pooled fund level before income is distributed. These fees are approximately 0.60% annually and this includes all fees from outside managers.

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Fair Value Measurements

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

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

Level 2 Inputs to the valuation method include:

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

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

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

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

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

The following table sets forth by the level, within the fair value hierarchy, the Foundation's assets at fair value as of August 31, 2020:

| | 2020 | | | |
|-------------------|----------------------|---|---|--|
| | Total Fair Value | Fair Value Measurements Using | | |
| | | Quoted Prices in Active market for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market | \$ 324,174 | \$ 324,174 | \$ - | \$ - |
| Equity securities | 46,254 | 46,254 | - | - |
| Mutual funds | 44,634 | 44,634 | - | - |
| Managed fund | <u>20,979,019</u> | <u>-</u> | <u>20,979,019</u> | <u>-</u> |
| Total | <u>\$ 21,394,081</u> | <u>\$ 415,062</u> | <u>\$ 20,979,019</u> | <u>\$ -</u> |

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Donor-Designated Endowment Funds

The Foundation's endowment consists of approximately 302 individual funds established for a variety of purposes. Its endowment includes only donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

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

Investment Return Objectives, Risk Parameters and Strategies

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

Spending Policy

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

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Endowment net asset composition by type of fund as of August 31, 2020 is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|----------------------------------|----------------------------------|----------------------------|----------------------------------|
| Donor-restricted endowment funds | \$ - | \$ 22,170,293 | \$ 22,170,293 |

Changes in endowment net assets as of August 31, 2020 is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total Net Endowment Assets |
|--|----------------------------------|----------------------------|----------------------------------|
| Endowment net assets, beginning of year | \$ - | \$ 9,903,697 | \$ 9,903,697 |
| Contributions | - | 11,694,670 | 11,694,670 |
| Investment income | - | 667,831 | 667,831 |
| Net appreciation | - | 1,678,141 | 1,678,141 |
| Distributions | - | (1,774,046) | (1,774,046) |
| Endowment net assets, end of year | \$ - | \$ 22,170,293 | \$ 22,170,293 |

Restrictions of Net Assets

Net assets with donor restrictions are restricted for the following purposes:

Subject to the spending appropriation and satisfaction of donor restrictions:

Foundation Program Activities:

Operations, scholarships, student and faculty support,
and general support of Kilgore Junior College

\$ 22,170,293

Total Net Assets with Donor Restrictions

\$ 22,170,293

Related Party

During the fiscal year ended August 31, 2020, Kilgore Junior College District provided certain services, such as office space, utilities, and staff assistance to the Foundation. These facilities and services are not required to be repaid. During September 2019, Kilgore College transferred all of its investment accounts held by Texas Presbyterian Foundation (approximately valued at \$9.6 million) to Kilgore College Foundation.

Availability and Liquidity

The Foundation regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents.

In addition to financial assets available to meet general expenditures over the next twelve months, the Foundation anticipates collecting sufficient revenue to cover general expenditures. Net assets with donor restrictions exceed available assets by \$123,885, largely due to attorney fees related to funds the Foundation expects to receive from an estate that are expected to be reimbursed.

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

The following represents the Foundation’s financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

| | |
|--|---------------------------------------|
| Financial assets at year-end: | |
| Cash | \$ 652,327 |
| Long-term investments | <u>21,394,081</u> |
| Total financial assets | 22,046,408 |
| Less amounts not available to be used for general expenditure within one year: | |
| Contractual or donor-imposed restrictions: | |
| Restricted by donor with purpose restrictions | <u>(22,170,293)</u> |
| | <u>(22,170,293)</u> |
| Financial assets available to meet general expenditures over the next twelve months | <u><u>\$ (123,885)</u></u> |

Date of Management’s Review

In accordance with ASC 855.10, Subsequent Events, the Foundation has evaluated events and transactions for potential recognition or disclosure through January 25, 2021, which is the date the financial statements were available to be issued.

Future Accounting Changes

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 Leases (Topic 842). ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. It was to be effective for years beginning after December 15, 2019. Subsequent to its issuance, the FASB voted to defer the effective date until fiscal years beginning after December 15, 2021. The Foundation has not evaluated the impact of the update guidance on its financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue From Contracts with Customers (Topic 606). It was effective for years beginning after December 15, 2018. The standard supersedes current revenue recognition guidance, including industry-specific guidance. It has been amended to defer implementation until years beginning after December 15, 2019. The adoption of the Standard is not expected to have a material impact on the Foundation’s financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This Standard provides guidance on recognizing contributions made and received for not-for-profit entities. This Standard is effective for years beginning after December 15, 2019. The adoption is not expected to have a material impact on the Foundation’s financial statements.

Note 21. Related Parties

The Texas Shakespeare Festival Foundation is a nonprofit organization that supports the Texas Shakespeare Festival (Festival) that is presented by the District on an annual basis. The Festival is a joint venture between the Foundation and the District. The District accounts for the Festival which includes ticket sales and Festival expenses. In addition, the District receives donations from the Foundation and others, as well as sponsorships. Such events did not include an allocation of the Founder and Artistic Director and the Managing Director salaries and benefits. During the years ended August 31, 2020 and 2019, the District recognized net earnings of \$1,524 and \$152,566, respectively.

Kilgore Junior College District – Kilgore, Texas

Notes to the Financial Statements

Note 22. Subsequent Events

The District has evaluated subsequent events through February 5, 2021, the date on which the financial statements were available to be issued.

Note 23. Coronavirus Pandemic

In March 2020, the World Health Organization declared the novel coronavirus ('COVID-19') a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected public education, workforces, economies, and financial markets globally, potentially leading to economic downturn. It has also disrupted the normal operations of many businesses and organizations. It is not possible for management to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on the District's operations and financial results at this time.



**Required Supplementary Schedules -
Unaudited**

Kilgore Junior College District – Kilgore, Texas
 Required Supplementary Schedules - Unaudited
 Schedule of the District's Proportionate Share of the Net Pension
 Liability of a Cost-Sharing Multiple-Employer Pension Plan
 Teacher Retirement System of Texas
 For the Last Six Fiscal Years*

| | <u>2020</u> |
|---|-----------------------------|
| District's proportionate share of the net pension liability | 0.0144545% |
| District's proportionate share of collective net pension liability | \$ 7,513,872 |
| Portion of non-employer contributing entity's total proportionate share of net pension liability associated with the District | <u>5,553,473</u> |
| TOTAL | <u><u>\$ 13,067,345</u></u> |
| District's covered payroll amount | \$ 12,985,938 |
| Ratio of the District's proportionate share of the collective net pension liability to its covered payroll amount | 57.86% |
| TRS net position as percentage of total pension liability | 75.24% |

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

| <u>2019*</u> | <u>2018*</u> | <u>2017*</u> | <u>2016*</u> | <u>2015*</u> |
|----------------------|---------------------|---------------------|----------------------|---------------------|
| 0.0140104% | 0.0142818% | 0.0147330% | 0.0163080% | 0.0182730% |
| \$ 7,711,649 | \$ 4,566,550 | \$ 5,567,397 | \$ 5,764,767 | \$ 4,880,972 |
| <u>5,515,265</u> | <u>3,273,061</u> | <u>4,025,645</u> | <u>4,305,508</u> | <u>3,624,257</u> |
| <u>\$ 13,226,914</u> | <u>\$ 7,839,611</u> | <u>\$ 9,593,042</u> | <u>\$ 10,070,275</u> | <u>\$ 8,505,229</u> |
| \$ 11,863,073 | \$ 11,692,838 | \$ 11,801,949 | \$ 11,773,932 | \$ 12,888,197 |
| 65.01% | 39.05% | 47.17% | 48.96% | 37.87% |
| 73.74% | 82.17% | 78.00% | 78.00% | 83.25% |

The Notes to the Required Supplementary Information are an integral part of this schedule.

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

| | <u>2020</u> |
|--|------------------|
| Legally required contributions | \$ 568,212 |
| Actual contributions | <u>(568,212)</u> |
| CONTRIBUTIONS DEFICIENCY (EXCESS) | <u>\$ -</u> |
| District covered payroll amount | \$ 13,685,419 |
| Ratio of actual contributions to covered payroll amount | 4.15% |

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

| <u>2019*</u> | <u>2018*</u> | <u>2017*</u> | <u>2016*</u> | <u>2015*</u> |
|------------------|------------------|------------------|------------------|------------------|
| \$ 579,153 | \$ 449,262 | \$ 468,074 | \$ 468,106 | \$ 478,467 |
| <u>(579,153)</u> | <u>(449,262)</u> | <u>(468,074)</u> | <u>(468,106)</u> | <u>(478,467)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 12,985,938 | \$ 11,863,073 | \$ 11,692,838 | \$ 11,801,949 | \$ 11,773,932 |
| 4.46% | 3.79% | 4.00% | 3.97% | 4.06% |

The Notes to the Required Supplementary Information are an integral part of this schedule.

Kilgore Junior College District – Kilgore, Texas

RSS-3

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

| | <u>2020</u> | <u>2019*</u> | <u>2018*</u> |
|--|----------------------|----------------------|----------------------|
| District's proportionate share of the net OPEB liability | 0.0813265% | 0.1041322% | 0.0975673% |
| District's proportionate share of collective net OPEB liability | \$ 28,108,603 | \$ 30,862,433 | \$ 33,244,124 |
| State's proportionate share of collective net OPEB liability | <u>27,827,761</u> | <u>17,802,444</u> | <u>33,244,123</u> |
| TOTALS | <u>\$ 55,936,364</u> | <u>\$ 48,664,877</u> | <u>\$ 66,488,247</u> |
| District's covered payroll amount | \$ 12,985,938 | \$ 11,863,073 | \$ 11,692,838 |
| Ratio of the District's proportionate share of the collective net OPEB liability to its covered payroll amount | 216.45% | 260.16% | 284.31% |
| ERS net position as percentage of total OPEB liability | 1.27% | 1.27% | 2.04% |

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

Kilgore Junior College District – Kilgore, Texas
 Required Supplementary Schedules - Unaudited
 Schedule of the District's Contributions to the
 Employees Retirement System of Texas OPEB Plan
 For the Last Three Fiscal Years*

RSS-4

| | <u>2020</u> | <u>2019*</u> | <u>2018*</u> |
|--|----------------|----------------|----------------|
| Legally required contributions | \$ 991,903 | \$ 977,733 | \$ 988,903 |
| Actual contributions | <u>991,903</u> | <u>977,733</u> | <u>988,903</u> |
| CONTRIBUTIONS DEFICIENCY (EXCESS) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District covered payroll amount | \$ 13,685,419 | \$ 12,985,938 | \$ 11,863,073 |
| Ratio of actual contributions to covered payroll amount | 7.25% | 7.53% | 8.34% |

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

Note: The amounts presented above are as of the District's most recent fiscal year-end.



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

Note 1. Defined Benefit Pension Plan

Changes of Assumptions

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

Changes of Benefit Terms

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

Note 2. Defined Other Post-Employment Benefit Plan

Changes of Assumptions Since the Prior Actuarial Valuation

Demographic Assumptions

Since the last valuation was prepared for this plan, the following assumptions have been updated to reflect recent plan experience and expected trends:

- Percentage of current retirees and retiree spouses not yet eligible to participate in the Health Select Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- Percentage of future male retirees assumed to be married and electing coverage for their spouse.
- Percentages of future retirees and future retiree spouses assumed to use tobacco.

Economic Assumptions

Assumptions for Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution 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 3.96% to 2.97% as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation bonds rated M/ Aa (or equivalent) or higher in effect on the measurement date. Minor benefit changes have been reflected in the FY 2020 Assumed Per Capita Health Benefit Costs.

Changes of Benefit Terms Since Prior Measurement Date

The following benefit revisions have been adopted since the prior valuation:

- An increase in the out-of-pocket maximum for both Health Select and Consumer Directed Health Select for those Health Select retirees and dependents for whom Medicare is not primary.

These minor benefit changes have been reflected in the fiscal year 2020 Assumed Per Capita Health Benefit Costs.



Supplemental Schedules



Kilgore Junior College District – Kilgore, Texas

Schedule A

Schedule of Operating Revenues

For the Year Ended August 31, 2020

(With Memorandum Totals for the Year Ended August 31, 2019)

| | Unrestricted | Restricted | Total Educational Activities | Auxiliary Enterprises | 2020 Total | 2019 Total |
|---|---------------------|---------------------|------------------------------------|--------------------------|----------------------|----------------------|
| TUITION | | | | | | |
| State funded courses | | | | | | |
| In-district resident tuition | \$ 1,413,899 | \$ - | \$ 1,413,899 | \$ - | \$ 1,413,899 | \$ 1,127,546 |
| Out-of-district resident tuition | 4,458,199 | - | 4,458,199 | - | 4,458,199 | 3,646,355 |
| TPEG (set aside)* | 310,928 | - | 310,928 | - | 310,928 | 294,237 |
| Non-resident tuition | 421,252 | - | 421,252 | - | 421,252 | 425,657 |
| State funded continuing education | 1,051,820 | - | 1,051,820 | - | 1,051,820 | 1,362,436 |
| Non-state funded continuing education | 37,058 | - | 37,058 | - | 37,058 | 30,329 |
| | <u>7,693,156</u> | <u>-</u> | <u>7,693,156</u> | <u>-</u> | <u>7,693,156</u> | <u>6,886,560</u> |
| FEES | | | | | | |
| General education fees | 3,323,811 | - | 3,323,811 | - | 3,323,811 | 2,827,326 |
| Out-of-district fees | 5,410,634 | - | 5,410,634 | - | 5,410,634 | 4,893,911 |
| Laboratory fees | 1,578,834 | - | 1,578,834 | - | 1,578,834 | 1,095,041 |
| Testing fees | 196,808 | - | 196,808 | - | 196,808 | 77,391 |
| Administrative fees | 38,653 | - | 38,653 | - | 38,653 | 32,999 |
| Special services fees | 7,889 | - | 7,889 | - | 7,889 | 573,141 |
| Orientation fees | - | - | - | - | - | 8,595 |
| Distance learning fees | 578,334 | - | 578,334 | - | 578,334 | 128,771 |
| | <u>11,134,963</u> | <u>-</u> | <u>11,134,963</u> | <u>-</u> | <u>11,134,963</u> | <u>9,637,175</u> |
| SCHOLARSHIP ALLOWANCES AND DISCOUNTS | | | | | | |
| Remissions and exemptions - state | (475,669) | - | (475,669) | - | (475,669) | (913,607) |
| Remissions and exemptions - federal | (41,278) | - | (41,278) | - | (41,278) | (31,954) |
| Federal grants to students | (7,586,758) | - | (7,586,758) | - | (7,586,758) | (6,075,030) |
| TPEG awards | (184,769) | - | (184,769) | - | (184,769) | (84,316) |
| Miscellaneous state grants | (423,636) | - | (423,636) | - | (423,636) | (371,072) |
| Local scholarships | (533,510) | - | (533,510) | - | (533,510) | (471,274) |
| | <u>(9,245,620)</u> | <u>-</u> | <u>(9,245,620)</u> | <u>-</u> | <u>(9,245,620)</u> | <u>(7,947,253)</u> |
| TOTAL NET TUITION AND FEES | <u>\$ 9,582,499</u> | <u>\$ -</u> | <u>\$ 9,582,499</u> | <u>\$ -</u> | <u>\$ 9,582,499</u> | <u>\$ 8,576,482</u> |
| OTHER OPERATING REVENUES | | | | | | |
| Federal grants and contracts | \$ - | \$ 5,851,256 | \$ 5,851,256 | \$ - | \$ 5,851,256 | \$ 2,799,491 |
| State grants and contracts | - | 600,326 | 600,326 | - | 600,326 | 832,179 |
| Nongovernmental grants and contracts | 400 | 378,864 | 379,264 | - | 379,264 | 103,150 |
| Sales and services of educational activities | 6,707 | - | 6,707 | - | 6,707 | 16,043 |
| Other operating revenues | 404,948 | - | 404,948 | - | 404,948 | 578,540 |
| | <u>412,055</u> | <u>6,830,446</u> | <u>7,242,501</u> | <u>-</u> | <u>7,242,501</u> | <u>4,329,403</u> |
| AUXILIARY ENTERPRISES | | | | | | |
| Bookstore | - | - | - | 1,604,053 | 1,604,053 | 2,679,834 |
| Bookstore scholarship allowance and discounts | - | - | - | (857,944) | (857,944) | (1,278,802) |
| Dormitories | - | - | - | 779,435 | 779,435 | 1,154,496 |
| Dormitories scholarship allowance and discounts | - | - | - | (274,002) | (274,002) | (423,167) |
| Cafeteria | - | - | - | 1,189,501 | 1,189,501 | 1,303,197 |
| Cafeteria scholarship allowance and discounts | - | - | - | (176,898) | (176,898) | (261,264) |
| Athletics | - | - | - | 62,544 | 62,544 | 42,385 |
| East Texas Oil Museum | - | - | - | 149,565 | 149,565 | 201,683 |
| Texas Shakespeare Festival | - | - | - | 59,767 | 59,767 | 291,344 |
| Fitness Center | - | - | - | 67,641 | 67,641 | 124,949 |
| Student activities | - | - | - | 27,872 | 27,872 | 40,614 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,631,534</u> | <u>2,631,534</u> | <u>3,875,269</u> |
| TOTAL OPERATING REVENUES | <u>\$ 9,994,554</u> | <u>\$ 6,830,446</u> | <u>\$ 16,825,000</u> | <u>\$ 2,631,534</u> | <u>\$ 19,456,534</u> | <u>\$ 16,781,154</u> |
| | | | | (Exhibit 2) | (Exhibit 2) | |

* In accordance with Education Code 56.033, \$310,928 and \$294,237 of tuition for the years ended August 31, 2020 and 2019, respectively, was set aside for Texas Public Education Grants (TPEG)

Kilgore Junior College District – Kilgore, Texas

Schedule of Operating Expenses by Object

For the Year Ended August 31, 2020

(With Memorandum Totals for the Year Ended August 31, 2019)

| | Operating Expenses | | | |
|--|-----------------------|---------------------|---------------------|----------------------|
| | Salaries and Wages | Staff Benefits | | Other Expenses |
| | | State | Local | |
| UNRESTRICTED - EDUCATIONAL ACTIVITIES | | | | |
| Instruction | \$ 11,362,656 | \$ - | \$ 423,676 | \$ 722,010 |
| Public service | - | - | - | 7,049 |
| Academic support | 1,992,280 | - | 60,931 | 371,378 |
| Student services | 1,319,276 | - | 48,781 | 193,024 |
| Institutional support | 3,695,739 | - | 202,832 | 1,799,411 |
| Operation and maintenance of plant | 114,227 | - | 21,061 | 4,799,118 |
| Scholarships and fellowships | - | - | - | 516,947 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total unrestricted educational activities | 18,484,178 | - | 757,281 | 8,408,937 |
| RESTRICTED - EDUCATIONAL ACTIVITIES | | | | |
| Instruction | 1,098,643 | 1,394,355 | 194,626 | 668,191 |
| Public service | 214,191 | - | 43,121 | 101,177 |
| Academic support | - | 250,640 | - | 86,433 |
| Student services | 319,826 | 176,768 | 73,624 | 372,785 |
| Institutional support | - | 376,841 | 31 | 1,003,441 |
| Scholarships and fellowships | 350 | - | 984 | 4,132,767 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total restricted educational activities | 1,633,010 | 2,198,604 | 312,386 | 6,364,794 |
| Total educational activities | 20,117,188 | 2,198,604 | 1,069,667 | 14,773,731 |
| Auxiliary enterprises | 1,092,543 | - | 232,861 | 3,586,936 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| DEPRECIATION EXPENSE | | | | |
| Buildings and other real estate improvements | - | - | - | 1,199,049 |
| Equipment and furniture | - | - | - | 807,773 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL OPERATING EXPENSES | \$ 21,209,731 | \$ 2,198,604 | \$ 1,302,528 | \$ 20,367,489 |

Schedule B

| <u>2020</u> <u>Total</u> | <u>2019</u> <u>Total</u> |
|-----------------------------|-----------------------------|
| \$ 12,508,342 | \$ 14,807,091 |
| 7,049 | 7,690 |
| 2,424,589 | 2,814,997 |
| 1,561,081 | 1,681,205 |
| 5,697,982 | 6,696,861 |
| 4,934,406 | 4,552,456 |
| 516,947 | 940,297 |
| 27,650,396 | 31,500,597 |
| 3,355,815 | 3,697,966 |
| 358,489 | 337,554 |
| 337,073 | 385,572 |
| 943,003 | 1,111,802 |
| 1,380,313 | 426,938 |
| 4,134,101 | 2,716,992 |
| 10,508,794 | 8,676,824 |
| 38,159,190 | 40,177,421 |
| 4,912,340 | 6,538,406 |
| 1,199,049 | 1,187,162 |
| 807,773 | 580,468 |
| \$ 45,078,352 | \$ 48,483,457 |
| (Exhibit 2) | (Exhibit 2) |

Kilgore Junior College District – Kilgore, Texas
 Schedule of Nonoperating Revenues and Expenses
 For the Year Ended August 31, 2020
 (With Memorandum Totals for the Year Ended August 31, 2019)

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Auxiliary Enterprises</u> |
|-------------------------------------|---------------------|----------------------|----------------------------------|
| NONOPERATING REVENUES | | | |
| State appropriations: | | | |
| Education and general state support | \$ 9,245,583 | \$ - | \$ - |
| State group insurance | - | 1,182,958 | - |
| State on-behalf | - | 1,015,646 | - |
| | <hr/> | <hr/> | <hr/> |
| Total state appropriations | 9,245,583 | 2,198,604 | - |
| Ad valorem taxes (net) | 7,263,613 | - | - |
| Federal revenue, nonoperating | - | 10,785,587 | - |
| Gifts | 50,036 | 696,494 | 158,139 |
| Investment income | 328,339 | - | - |
| Endowment income | - | 107 | - |
| Disposal of capital assets | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total nonoperating revenues | 16,887,571 | 13,680,792 | 158,139 |
| NONOPERATING EXPENSES | | | |
| Interest on capital related debt | 201,815 | - | - |
| Disposal of capital assets | - | - | - |
| Other nonoperating expenses | - | - | - |
| Contributions to Foundation | 9,591,814 | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total nonoperating expenses | 9,793,629 | - | - |
| | <hr/> | <hr/> | <hr/> |
| NET NONOPERATING REVENUES | <u>\$ 7,093,942</u> | <u>\$ 13,680,792</u> | <u>\$ 158,139</u> |

Schedule C

| <u>2020</u> | <u>2019</u> |
|----------------------|----------------------|
| <u>Total</u> | <u>Total</u> |
| \$ 9,245,583 | \$ 9,732,018 |
| 1,182,958 | 1,520,166 |
| <u>1,015,646</u> | <u>586,652</u> |
| 11,444,187 | 11,838,836 |
| 7,263,613 | 6,602,588 |
| 10,785,587 | 10,592,036 |
| 904,669 | 1,948,142 |
| 328,339 | 404,705 |
| 107 | 1,206,794 |
| <u>-</u> | <u>127,514</u> |
| 30,726,502 | 32,720,615 |
| 201,815 | - |
| - | 90,136 |
| - | 293,649 |
| <u>9,591,814</u> | <u>1,348,741</u> |
| <u>9,793,629</u> | <u>1,732,526</u> |
| <u>\$ 20,932,873</u> | <u>\$ 30,988,089</u> |
| (Exhibit 2) | (Exhibit 2) |

Kilgore Junior College District – Kilgore, Texas
Schedule of Net Position by Source and Availability
For the Year Ended August 31, 2020

| | Detail by Source | | |
|-------------------------------------|---------------------|---------------------|-----------------------|
| | Unrestricted | Restricted | |
| | | Expendable | Nonexpendable |
| Current: | | | |
| Unrestricted | \$ (23,598,115) | \$ - | \$ - |
| Restricted | - | 843,312 | - |
| Auxiliary enterprises | (4,597,784) | - | - |
| Endowment | - | - | - |
| Plant: | | | |
| Unexpended | (1,675,844) | - | - |
| Debt Service | - | 3,905 | - |
| Investment in plant | - | - | - |
| | (29,871,743) | 847,217 | - |
| Total net position, August 31, 2020 | | | |
| | (35,211,370) | 1,207,311 | 9,594,177 |
| Total net position, August 31, 2019 | | | |
| NET INCREASE (DECREASE) | | | |
| IN NET POSITION | \$ 5,339,627 | \$ (360,094) | \$ (9,594,177) |

| Detail by Source | | Available for Current Operations | |
|-------------------------------------|-----------------|----------------------------------|-----------------|
| Net Investment in Capital Assets | Total | Yes | No |
| \$ - | \$ (23,598,115) | \$ (23,598,115) | \$ - |
| - | 843,312 | - | 843,312 |
| - | (4,597,784) | (4,597,784) | - |
| - | - | - | - |
| - | (1,675,844) | (1,675,844) | - |
| - | 3,905 | - | 3,905 |
| 54,266,347 | 54,266,347 | - | 54,266,347 |
| 54,266,347 | 25,241,821 | (29,871,743) | 55,113,564 |
| | (Exhibit 1) | | |
| 54,340,648 | 29,930,766 | (35,211,370) | 65,142,136 |
| | (Exhibit 2) | | |
| \$ (74,301) | \$ (4,688,945) | \$ 5,339,627 | \$ (10,028,572) |
| | (Exhibit 2) | | |

Kilgore Junior College District – Kilgore, Texas

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2020

Schedule E

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass Through Grantor's Number | Pass Through Disbursements and Expenditures |
|--|---------------------------|--|--|
| DEPARTMENT OF EDUCATION | | | |
| Federal Direct Programs: | | | |
| Student Financial Assistance Cluster | | | |
| Federal Supplemental Educational Opportunity Grant | 84.007 | | \$ 130,379 |
| Federal Work Study Program | 84.033 | | 116,013 |
| Federal Pell Grant Program | 84.063 | | 10,539,195 |
| Federal Direct Student Loans | 84.268 | | <u>7,874,175</u> |
| Total Student Financial Assistance Cluster | | | 18,659,762 |
| TRIO Cluster | | | |
| TRIO Student Support Services | 84.042A | | 268,845 |
| TRIO Upward Bound | 84.047A | | <u>266,486</u> |
| Total TRIO Cluster | | | <u>535,331</u> |
| Total Direct from Department of Education | | | 19,195,093 |
| Title III (Expanding and Strengthening Online Access & Success) | 84.031F | | 582,579 |
| CARES Act: Higher Education Emergency Relief Fund - Student Aid Portion | | | |
| CARES Act: Higher Education Emergency Relief Fund - Institutional Portion | 84.425E | | 1,497,230 |
| CARES Act: Higher Education Emergency Relief Fund - Institutional Portion | 84.425F | | 1,719,471 |
| CARES Act: Higher Education Emergency Relief Fund - Strengthening Institutions Program | 84.425M | | <u>190,325</u> |
| Total CARES Act: Higher Education Emergency Relief Fund | | | 3,407,026 |
| Pass-Through From Texas Workforce Commission: | | | |
| Literacy Council of Tyler: Adult Education and Literacy | 84.002 | 0819AEL001 | 569,353 |
| Pass-Through From Higher Education Coordinating Board: | | | |
| Career and Technical Education - Basic Grants to States | 84.048 | 22100 | <u>451,137</u> |
| Total Department of Education | | | 24,205,188 |
| DEPARTMENT OF LABOR | | | |
| Pass-Through From Texas Workforce Commission: | | | |
| Employment Service / Wagner-Peyser Funded Activities | 17.207 | 0818WPB001 | <u>37,341</u> |
| Total Department of Labor | | | 37,341 |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Pass-Through From: | | | |
| Texas Workforce Commission | | | |
| Temporary Assistance for Needy Families - Adult Education | 93.558 | 0818ALA008 | 6,999 |
| Temporary Assistance for Needy Families - Texas Internship Initiative | 93.558 | 0818ALA008 | <u>4,352</u> |
| Total Temporary Assistance for Needy Families | | | <u>11,351</u> |
| Total Department of Health and Human Services | | | <u>11,351</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | <u><u>\$ 24,253,880</u></u> |

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

Kilgore Junior College District – Kilgore, Texas
 Notes to Schedule of Expenditures of Federal Awards
 For the Year Ended August 31, 2020

Note 1. Summary of Significant Accounting Policies Used in Preparing the Schedule

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

Note 2. De Minimis Cost Rate

The District has elected to use the 10% de minimis cost rate as permitted in the Uniform Guidance, section 200.414.

Note 3. Expenditures Not Subject to Federal Single Audit

The following federal funds were not subject to federal single audit - CFDA 64.027 Post 9/11 Veterans Educational Assistance \$257,138.

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

Note 4. Amounts Passed Through by the District

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

Note 5. Federal Assistance Reconciliation

| | |
|--|---------------------------------|
| Federal Grants and Contracts Revenue - per Schedule A | \$ 5,851,256 |
| Add: Nonoperating Federal Revenue - per Schedule C | <u>10,785,587</u> |
| Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Assets | 16,636,843 |
| Reconciling Items: | |
| Add: Direct Student Loans | 7,874,175 |
| Less: Programs not Subject to Federal Single Audit | <u>(257,138)</u> |
| Total Federal Revenues per Schedule of Expenditures of Federal Awards | <u><u>\$ 24,253,880</u></u> |

Kilgore Junior College District – Kilgore, Texas

Schedule of Expenditures of State Awards

For the Year Ended August 31, 2020

Schedule F

| (1) | (2) | (3) |
|---|--------------------------------------|-------------------------------|
| <u>Pass-Through Grantor/ Program Title</u> | <u>Grant Contract Number</u> | <u>State Expenditures</u> |
| Passed Through Texas Workforce Commission Luminant Generation Company, LLC | 0820SDF002 | \$ 57,398 |
| Total Passed Through Texas Workforce Commission | | 57,398 |
| Passed Through Literacy Council of Tyler Adult Basic Education | | 55,449 |
| Adult Education - Accl Tx | 0820SDF002 | 56,051 |
| Total Passed Through Literacy Council of Tyler | | 111,500 |
| Passed Through Texas Higher Education Coordinating Board Texas Educational Opportunity Grant | N/A* | 356,094 |
| Texas Workstudy | N/A* | 25,393 |
| Emergency Assistance Program | N/A* | 7,758 |
| Guided Pathways | N/A* | 5,951 |
| CRSM - closed | N/A* | 36,232 |
| Total Passed Through Texas Higher Education Coordinating Board | | 431,428 |
| TOTAL STATE FINANCIAL ASSISTANCE | | \$ 600,326 |

*Not Available

Kilgore Junior College District – Kilgore, Texas
Notes to Schedule of Expenditures of State Awards
For the Year Ended August 31, 2020

Note1. Summary of Significant Accounting Policies

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

Note 2. State Assistance Reconciliation

| | |
|--|---------------------------------|
| State Grants and Contracts - per Schedule A | <u>\$ 600,326</u> |
| Total State Revenues per Schedule of Expenditures of State Awards | <u><u>\$ 600,326</u></u> |



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

The Board of Trustees of
Kilgore Junior College District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kilgore Junior College District (the District) as of and for the year ended August 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 5, 2021. Our report includes a reference to other auditors who audited the financial statements of The Kilgore College Foundation (the Foundation), as described in our report on the District's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-02 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-01 to be a significant deficiency.

The Board of Trustees of
Kilgore Junior College District

Compliance and Other Matters

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

The District's Responses to Findings

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

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 5, 2021



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

The Board of Trustees of
Kilgore Junior College District

Report on Compliance for Each Major Federal Program

We have audited Kilgore Junior College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2020. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020.

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 program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 5, 2021

Kilgore Junior College District – Kilgore, Texas

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2020

Section 1. Summary of Auditor's Results

Financial Statements

- | | |
|--|------------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | Finding 2020-002 |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | Finding 2020-001 |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 5. Type of auditors' report issued on compliance with major programs? | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? | No |
| 7. Identification of Major Programs | Student Financial Aid Cluster 84.007, 84.033, 84.063, 84.268 CARES Act: Higher Education Emergency Relief Fund 84.425E, 84.425F, 84.425M |
| 8. Dollar threshold used to distinguish between Type A and Type B federal programs | \$750,000 |
| 9. Auditee qualified as a low-risk auditee? | No |

State Awards

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

Kilgore Junior College District – Kilgore, Texas

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2020

Section 2. Financial Statement Findings

Finding 2020-001: Financial Accounting and Reporting (Recurring-partially resolved)

Type of Finding: Significant Deficiency in Controls

Criteria or specific requirement

The District is responsible for establishing financial and accounting processes to achieve the timely closing of the general ledger and provide accurate account reconciliation schedules that provide necessary support for the timely and accurate financial reporting.

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

Condition

The District's business office was not able to provide timely, complete and accurate reconciliations for various balance sheet accounts. Such reconciliations were achieved throughout the audit process and several entries were required. We noted improvement in the condition of the District's records from the prior year as evidenced by a reduction in the number of entries required to be made to the District's general ledger as a result of our audit procedures. This improvement took place despite the additional challenges presented by the onset of the coronavirus pandemic during 2020.

Cause

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

Effect

The lack of timely and accurate reconciliations resulted in additional time for both District staff and audit personnel to conduct the audit of the District's financial statements.

Recommendation

Develop and institute a sustainable internal controls management program to ensure controls are adequately designed, implemented, executed, and monitored on an ongoing basis to achieve the goal of timely closing of the general ledger and provide accurate account reconciliation schedules to the general ledger which support the financial statements.

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

Implementation of this recommendation will help further improve the accuracy and timeliness of the District's financial reporting.

Kilgore Junior College District – Kilgore, Texas

Schedule of Findings and Questioned Costs

For the Year Ended August 31, 2020

Finding 2020-002: Grant Accounting and Reporting (Recurring)

Type of Finding: Material Weakness in Controls

Criteria or specific requirement

The District is responsible for preparing a Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards. These schedules should be reconciled between the District's financial records and those reports available from the various grant or agencies.

An effective internal control environment for grant accounting is evidenced by documented procedures with strong ongoing communications between key departments managing grants and the business office.

Condition

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

Cause

The District incurred turnover of key accounting positions. The lack of written procedures and cross training in a large complex organization such as the District as well as new personnel learning the intricacies of federal and state grant accounting, reconciling, and reporting contributed to the deficiency.

Whereas management has changed and there has been turnover in employees, the lack of routine processes which included identifying responsibilities to prepare reconciliations for each grant and the responsibility for monitoring and approving such reconciliations are essential to prepare an accurate and timely Schedule of Expenditures of Federal and State Awards for grant accounting and reporting. In addition, the onset of the coronavirus pandemic presented additional challenges to improving the condition during 2020.

Effect

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

Recommendation

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

Implementation of this recommendation will help ensure the accuracy of the District's schedules of expenditures or federal and state awards.

Section 3. Federal Award Findings and Questioned Costs

None reported

Kilgore Junior College District – Kilgore, Texas

Summary Schedule of Prior Audit Findings and Questioned Costs

For the Year Ended August 31, 2020

Corrective Action Plan 2019-001: Financial Accounting and Reporting

Type of Finding: Material Weakness in Controls

Condition

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

Corrective Action Plan

Due to key staff turnover and new employees, sufficient time was not available to remediate the existing deficiency noted in financial reporting in the prior year audit report. While progress has been made, there are issues remaining related to accounts receivable balances converted from the prior ERP system and the ability to calculate deferred revenue in the new ERP system. Kilgore College 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.

Status

The finding noted above recurred during the current year as the District did not fully implement and consistently apply the procedures noted in the District's corrective action plan. See finding 2020-001.

Corrective Action Plan 2019-002: Grant Accounting and Reporting

Type of Finding: Material Weakness in Controls

Condition

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

Corrective Action Plan

Kilgore College will develop routine and timely processes to ensure appropriate identification of federal and state award grants. Kilgore College will continue to seek out appropriate training for key accounting personnel to ensure that they are fully capable of carrying-out all accounting procedures for federal and state awards.

Status

The finding noted above recurred during the current year as the District did not fully implement and consistently apply the procedures noted in the District's corrective action plan. See finding 2020-002.



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Kilgore, Texas
75662-3204
www.kilgore.edu

Finding 2020-001:
Type of Finding: Significant Deficiency

Corrective Action Plan

Due to key staff turnover (CFO) and the disruption caused by the COVID-19 global pandemic and resulting remote working environments, etc., sufficient time was not available to remediate the existing deficiency noted in financial reporting in the prior year audit report. While progress has been made, there are issues remaining related to accounts receivable balances converted from the prior ERP system and the ability to calculate deferred revenue in the new ERP system. This will be remedied via the creation/establishment of a new Chart of Accounts currently underway and being performed by a CPA consultant retained for that purpose. Kilgore College 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.

Person(s) Responsible

Vacant-Vice-President of Administrative Services/CFO
Dawn Jones, Controller

Anticipated Completion Date

August 31, 2021

Your Future Starts Here!



1100 Broadway
Kilgore, Texas
75662-3204
www.kilgore.edu

Finding 2020-002:
Type of Finding: Material Weakness

Corrective Action Plan

Kilgore College will develop routine and timely processes to ensure appropriate identification of federal and state award grants. Kilgore College will continue to provide appropriate training for key accounting personnel to ensure that they are fully capable of carrying-out all accounting procedures for federal and state awards.

Person(s) Responsible

Vacant-Vice-President of Administrative Services/CFO
Dawn Jones, Controller
Chris Foote, Grants Accountant

Anticipated Completion Date

August 31, 2021

Your Future Starts Here!