COLLEGE OF THE MAINLAND

ANNUAL FINANCIAL AND COMPLIANCE REPORT

Years Ended August 31, 2018 and 2017
with Independent Auditor's Report

COLLEGE OF THE MAINLAND
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COLLEGE OF THE MAINLAND

ORGANIZATIONAL DATA

For the Fiscal Year Ended August 31, 2018

BOARD OF TRUSTEES

OFFICERS AND MEMBERS

			Term Expires May 31,
Kyle Dickson	Chairperson	Texas City, Texas	2021
Alan Waters	Vice-Chairperson	La Marque, Texas	2021
Rosalie R. Kettler	Secretary	Dickinson, Texas	2019
Bennie Matthews	Member	La Marque, Texas	2019
Rachel Delgado	Member	Texas City, Texas	2019
Donald G. Gartman	Member	Texas City, Texas	2023
Melissa Skipworth	Member	Dickinson, Texas	2023

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Warren Nichols .... President
James R. Templer, Ph. D. .... Vice President for Instruction
Vicki Stanfield, Ed. D. .... Vice President for Student Services
Mary Ann Amelang. .... Vice President for Institutional Advancement and Executive Director of Foundation
Clen Burton, PhD, CPA .... Vice President for Fiscal Affairs
Trudy Trochesset .... Controller

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
College of the Mainland
Texas City, Texas

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of College of the Mainland (the "College") as of and for the year ended August 31, 2018 and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. The College of the Mainland Foundation, the discretely presented component unit, was not audited in accordance with *Government Auditing Standards.*

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of College of the Mainland as of August 31, 2018, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, Note 9, and Note 22 to the financial statements, the District adopted the provisions of Government Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of August 31, 2018. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the College of the Mainland's 2017 financial statements, and our report dated December 6, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other post-employment benefit information on pages 9 through 14 and 60 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The Supplemental Schedules A through F as required by the Texas Higher Education Coordinating Board's (THECB) *Budget Requirements and Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges* 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 (Schedule E), as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are also presented for additional analysis and are not a required part of the basic financial statements.

The Supplemental Schedules A through F, (as listed in the table of contents) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules A through F are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

The financial statements of the College of the Mainland Foundation were not audited in accordance with *Government Auditing Standards.*

Whitley Penn LLP

Texas City, Texas
December 6, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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In June 1999, the Governmental Accounting Standards Board ("GASB") released Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments," which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards to public colleges and universities. College of the Mainland (the "College") is a local government entity and falls under GASB Standards for accounting and financial reporting. The College also falls under the financial reporting standards of the Texas Higher Education Coordinating Board (the "Coordinating Board"), and as directed by GASB 34, the Coordinating Board implemented the new accounting standards for fiscal year 2002.

The following analysis provides an overview of the College's financial activities for fiscal year 2018. The purpose of this overview is to present an "objective and easily readable analysis of the financial activities based on currently known facts, decisions, or conditions." The analysis conforms to topics covered in GASB Statement 34, paragraph 4, and reflects transactions, events, legislation and conditions that are presented in the College's financial report.

The College is a comprehensive public community college funded primarily through state appropriations, tuition and fees, taxes, and grant income. The College district is coterminous with the boundaries of five school districts; Dickinson ISD, Hitchcock ISD, La Marque ISD, Santa Fe ISD, and Texas City ISD. It has a service area that covers the whole of mainland Galveston County, Texas. The College employs approximately 316 full time staff and several hundred part-time staff and student workers.

Three financial statements are required to be presented under the new GASB requirements and they are: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. Management's discussion will address all three (3).

The Statement of Net Position

The statement of net position represents the financial position of the College and presents all assets, deferred outflows/inflows of resources and liabilities using the accrual basis of accounting.

During fiscal year 2018, the College implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which resulted in a prior period adjustment of $43.6 million for the change in accounting principle. Total assets increased by $17.9 million, which is attributed to restricted cash remaining of the 2017 Maintenance Tax Notes of $9.7 million and capital assets of $9.8 million.

Current liabilities increased by $3.2 million primarily due to an increase of $2.9 million in accounts payable related to the 2017 Maintenance Tax Notes projects begun during the fiscal year. The current portion of the 2017 Maintenance Tax Notes totaled $495,000 and also contributed to the increase.

Noncurrent liabilities increased by $51.2 million, which was primarily caused by the $37.2 million in the other post-employment benefits (OPEB) as a result of the implementation of GASB No. 75. In addition, 2017 Maintenance Tax Notes of $16.4 million ($15.1 million par value plus $1.3 million in premium) were issued. Principal payments of $0.6 million were made during the fiscal year, which decreased the outstanding balance to $14.5 million.

In 2017, current liabilities decreased by $0.4 million, which was primarily due a decrease in accrued liabilities of$0.6 million. Accounts payable also decreased by $0.1 million. However, some of the decrease was offset by the tax refund payable of $0.4 million added in fiscal year 2017.

Summary data for the Statement of Net Position is provided in the table below for fiscal years 2018, 2017, and 2016.

	2018	2017	2016
Current assets	$ 20,902,558	$ 19,705,929	$ 21,613,397
Capital assets (net)	23,235,261	13,440,062	11,902,951
Other non-current assets	9,714,456	2,801,901	2,865,489
Total Assets	53,852,275	35,947,892	36,381,837
Deferred Outflows of Resources	2,503,128	2,270,304	1,237,449
Current liabilities	10,647,301	7,268,176	7,649,337
Non-current liabilities	59,590,894	8,379,976	7,700,030
Total Liabilities	70,238,195	15,648,152	15,349,367
Deferred Inflows of Resources	9,997,686	2,106,480	1,305,884
Net investment in capital assets	14,867,221	13,440,062	11,902,951
Restricted net position	2,057,500	2,636,002	2,536,448
Unrestricted net position	(40,805,199)	4,387,500	6,524,636
Total net position	$ (23,880,478)	$ 20,463,564	$ 20,964,035

Capital Assets and Long-Term Debt

The College's capital assets increased by $9.8 million. The College's capital asset additions totaled $11.5 million, while the accumulated depreciation increased by $1.5 million. Disposals totaled approximately $275,000. Details about the College's capital assets can be found on pages 32 and 33.

In 2017, the College's capital assets increased by $1.5 million. The College's capital asset additions totaled $2.9 million, while the accumulated depreciation increased by $1.4 million.

The College has a Maintenance Tax Note with a balance of $15.7 million ($14.5 million outstanding principal balance and $1.2 million in unamortized premium balance). More details on the College's long-term debt liabilities can be found on pages 33 and 34.

Statement of Revenues, Expenses, and Changes in Net Position

This statement represents the operating activity of the College, which results from revenue, expenses, gains and losses during the year. In 2018, the College's net position decreased by $0.6 million. This primarily due to the implementation of GASB No. 75. The details of the operating and non-operating revenues and expenses are described below.

Operating Revenue

The increase of $0.1 million was caused by several factors as described above. The total increase of these items of $0.5 million in general revenues was offset by decreases in state and private grants and contracts of $0.4 million. Tuition and fees, makes up 47 percent of total operating revenues and totaled $4.6 million. The College received approximately $0.4 million in insurance proceeds related to Hurricane Harvey, which made land fall in August of 2017.

In 2017, operating revenues increased by $1.7 million from the prior year. The increase was mainly attributable to an increase in federal grants and contracts of $1.4 million. The College received new federal contracts such as the H-1B Ready to Work grant in the amount of $0.5 million and an additional $0.5 million for adult education. The College also spent $0.3 million in Title V funding.

Operating Expenses

In 2018, operating expenses increased by $4.8 million compared to the prior year. Instruction and operation and maintenance of plant expenses increased by $1.6 million and $1.0 million respectively. Institutional support and scholarships and fellowships also increased by $0.8 million and $0.5 million respectively. The College implemented GASB No. 75 and recognized approximately $2 million in OPEB expense which contributed to the increase in expenses. The College also had repair and maintenance projects during the year.

In 2017, operating expenses decreased by $0.4 million compared to the prior year. Academic support decreased by $0.9 million. Scholarships and fellowships and auxiliary expenses each decreased by $0.2 million. These decreases were offset by increases in instruction ($0.2 million), student services ($0.2 million), operation and maintenance of plant ($0.3 million) and depreciation ($0.1 million). In 2016, operating expenses of $42.8 million were $1.7 million higher than those of the prior year. Instructional and student services expenses increased by 0.9 million and $0.5 million, respectively. Academic support increased by $0.4 million and scholarships and fellowships decreased by $0.3 million.

Non-Operating Revenues (Expenses)

During fiscal year 2018, non-operating revenues increased by $4.3 million from fiscal year 2017. The College had a tax refund expense in the prior year in the amount of $1.2 million. In addition, state appropriations and property taxes increased by $1.1 million and $1.4 million respectively. Federal revenue related to the Student Financial Cluster increased by $0.7 million.

In fiscal year 2017, non-operating revenues (expenses) decreased by $0.2 million primarily due to the recognition of the tax refund expense of $1.2 million. The tax refund was offset by increases in state appropriations of $0.3 million, and maintenance ad valorem taxes of $0.9 million. In 2016, non-operating revenues (expenses) had decreased by $0.9 million primarily due to the decrease in Pell grant and property tax revenues.

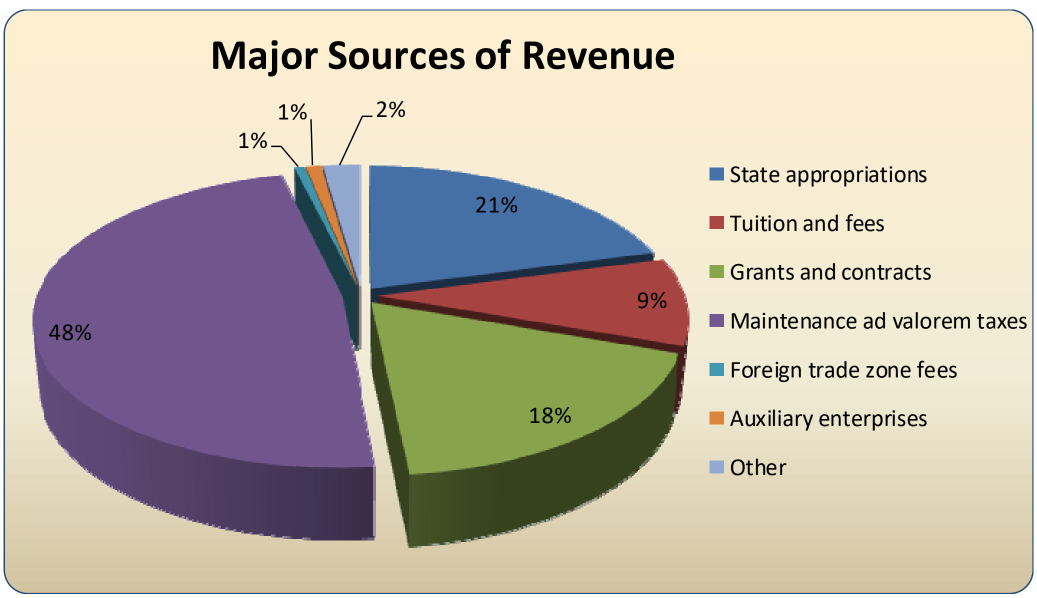
Please see below for the actual revenue and expense figures for fiscal year ending 2018, 2017, and 2016.

	2018	2017	2016
Operating revenues	$ 9,769,700	$ 9,785,958	$ 10,111,675
Operating expenses	(46,923,359)	(42,435,235)	(42,793,265)
Net operating income (loss)	(37,153,659)	(32,649,277)	(32,681,590)
Non-operating revenues (expenses)	36,452,872	32,148,806	32,327,091
Total increase (decrease) in net position	$ (700,787)	$ (500,471)	$ (354,499)

The College's combined operating and non-operating revenues by major source for fiscal years 2018, 2017 and 2016 are shown in the table below.

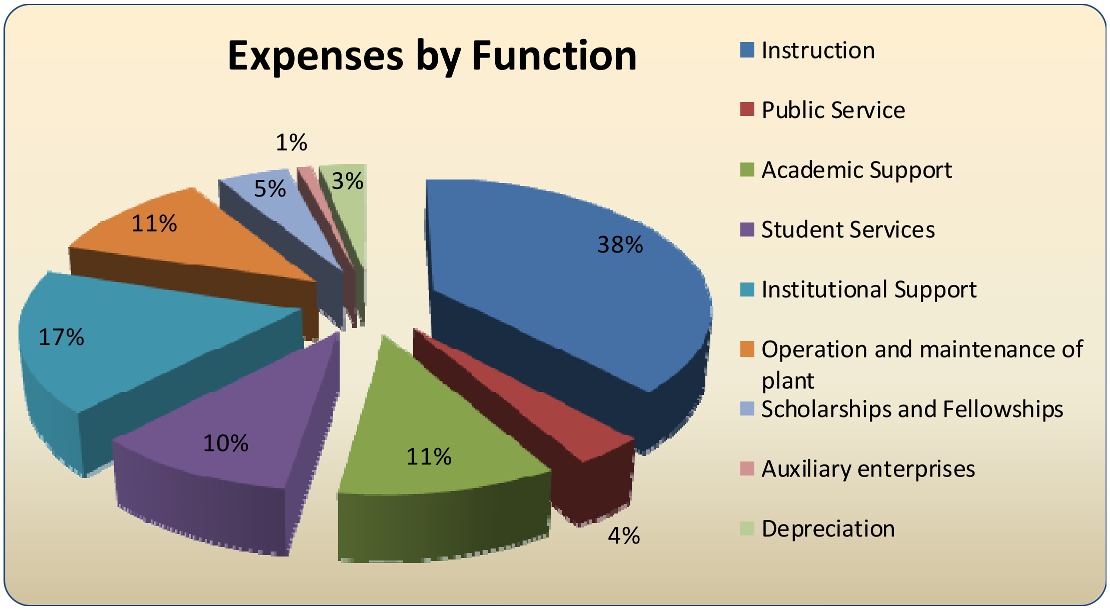
	2018	2017	2016
State appropriations	$ 9,711,741	$ 8,619,642	$ 8,351,206
Tuition and fees (net of discounts)	4,495,757	4,686,816	4,560,455
Grants and contracts	8,426,428	8,056,045	8,495,611
Maintenance ad valorem taxes	22,328,742	20,903,680	19,954,036
Foreign trade zone fees	297,608	247,774	312,084
Auxiliary enterprises	437,331	343,851	452,645
Other	1,047,921	310,173	312,729
Total	$ 46,745,528	$ 43,167,981	$ 42,438,766

The table data for operating and non-operating for 2018 is shown graphically below.



Operating expenses are reported in the financial statement by functional classification and are presented below in the table for fiscal 2018, 2017, and 2016.

Please see the graphical depiction for the table data above for fiscal year 2018.



Statement of Cash Flows

In 2018, Cash flows from operating activities indicate the College cash payments were less than the prior year by $0.2 million. Although receipts were $0.3 million lower than the prior year, the cash payments were $0.5 million lower than the prior year. Payroll and payroll related payments increased by $1.4 million the payments to suppliers were lower than the prior year by $2.3 million. The College spent $11.5 million to invest in capital assets. Non-operating cash receipts were grated from the prior by $2.7 million, primarily due to property tax receipts.

The College also issued the Maintenance Tax Notes during fiscal year 2018 which totaled $16.4 million in proceeds. Interest income totaled $0.5 million and principal and interest totaled $1.2 million.

Cash flow activities in fiscal year 2017 compared to fiscal year 2016 is shown below:

Cash flows from operating activities indicate the College spent $0.8 million more than the prior year. There were $0.4 million more in retirement incentive payments during 2017 than in 2016. In addition, accrued liabilities decreased by $0.5 million which indicates a decrease in cash as well. The increase in cash payments in these areas were offset by increases in cash receipts from customers and students as well as from grants and contracts. Cash flows from noncapital financing for 2017 increased by $0.8 million compared to 2016. Property tax and receipts increased by $0.7 million. Cash used from capital and related financing activities increased by $2.2 million. In 2017, the College spent $2.9 million on capital assets compared to only $0.7 million in 2016.

Conclusion

The College of the Mainland is in excellent financial health. The College has a healthy cash reserve beyond our required minimum cash balance. Our revenues from tuition and ad valorem taxes exceeded our budget projections.

The College made significant progress in implementing the Board of Trustee's three strategic goals of 1) student success, 2) improved facilities, and 3) increased employee satisfaction.
Specific accomplishments include:

1) Area voters approving a $162.5 million bond initiative to significantly improve facilities on campus
2) Implementing $18.0 million in remodeling projects and equipment purchases. Including renovations to our chemistry lab, converting an aging large pool area to a conference center, replacing chilled water piping, and significant renovations to the student center.
3) Creating an academic master plan, which is the basis for our facility master plan.
4) The College became the first college in Texas to successfully and fully implement the co-requisite model for Math and English. This implementation is increasing student success measures. This success will result in increased tuition revenue from increased retention.
5) The College completed and implemented a compensation study. This implementation has brought the vast majority of our employee's compensation in line with the area market.

During the next fiscal year, the College anticipates selling $54 million in bonds. The College will use these proceeds to pay back $3.0 million to the College's fund balance and the remaining amount to begin construction on a new Science, Technology, Engineering, Arts, and Math building. The College is greatly appreciative of the support the area community is providing for both the operation of the institution, but also the facilities improvements.

The financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the College's finances and to demonstrate the College's accountability for funds the College receives. If you have questions about this report or need additional financial information, contact the Vice President for Fiscal Affairs at College of the Mainland, 1200 Amburn Road, Texas City, Texas 77591.

BASIC FINANCIAL STATEMENTS

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COLLEGE OF THE MAINLAND **Exhibit 1**

STATEMENT OF NET POSITION

August 31, 2018 and August 31, 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 16,400,383	$ 15,347,819
Accounts receivable (net)	4,164,604	4,051,446
Due from others	6,461	6,464
Prepaid expenses	331,110	300,203
Total current assets	20,902,558	19,705,932
Noncurrent assets:		
Restricted cash and cash equivalents	9,683,386	2,770,105
Loans receivable (net)	31,070	31,796
Capital assets (net), (see notes)	23,235,261	13,440,062
Total noncurrent assets	32,949,717	16,241,963
Total Assets	53,852,275	35,947,895
Deferred Outflows of Resources		
Deferred outflows related to pension activities	1,442,250	2,270,304
Deferred outflows related to OPEB activities	1,060,878	-
Total deferred outflows of resources	2,503,128	2,270,304
Liabilities		
Current liabilities:		
Accounts payable	4,507,836	1,620,236
Accrued liabilities	596,114	519,315
Compensated absences and severance payable - current	216,896	196,325
Retirement incentive payable - current	209,441	419,105
Funds held for others	115,136	105,818
Unearned income	3,906,093	3,996,305
Tax refund payable - current portion	411,072	411,072
Tax maintenance note payable - current	495,000	-
Net OPEB liability - current	189,713	-
Total current liabilities	10,647,301	7,268,176
Noncurrent liabilities:		
Compensated absences and severance payable - noncurrent	557,734	504,835
Retirement incentive payable - noncurrent	-	206,077
Net pension liability	6,198,639	6,846,919
Tax refund payable - noncurrent	411,073	822,145
Tax maintenance note payable - noncurrent	15,224,718	-
Net OPEB liability - noncurrent	37,198,730	-
Total noncurrent liabilities	59,590,894	8,379,976
Total Liabilities	70,238,195	15,648,152
Deferred Inflows of Resources		
Deferred inflows related to pension activities	1,730,922	2,106,480
Deferred inflows related to OPEB activities	8,266,764	-
Total deferred inflows of resources	9,997,686	2,106,480
Net Position		
Net Investment in capital assets	14,867,221	13,440,062
Restricted for:		
Expendable:		
Grants and donor restrictions	2,057,500	2,538,753
Loan funds	-	97,249
Unrestricted	(40,805,199)	4,387,500
Total Net Position (Schedule D)	$ (23,880,478)	$ 20,463,564

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

COLLEGE OF THE MAINLAND

DISCRETELY PRESENTED COMPONENT UNIT

STATEMENTS OF FINANCIAL POSITION

College of the Mainland Foundation - Fiscal Years August 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 106,576	$ 75,752
Contributions receivable, net	45,559	-
Receivable other	34	-
Restricted assets:		
Cash and cash equivalents	244,714	115,862
Investments, at fair value	3,081,066	2,920,676
Total Assets	$ 3,477,949	$ 3,112,290
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 227,946	$ 194,000
Total liabilities	227,946	194,000
Net Assets:		
Unrestricted	61,579	91,594
Temporarily restricted	972,958	744,092
Permanently restricted	2,215,466	2,082,604
Total Net Assets	3,250,003	2,918,290
Total Liabilities and Net Assets	$ 3,477,949	$ 3,112,290

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

COLLEGE OF THE MAINLAND **Exhibit 2**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended August 31, 2018 and August 31, 2017

	2018	2017
Operating Revenues		
Tuition and fees (net of discounts of $3,884,969 and $3,656,418)	$ 4,495,757	$ 4,686,816
Federal grants and contracts	2,715,485	2,650,416
State grants and contracts	640,570	796,503
Private grants and contracts	923,017	1,126,298
Sales and services of educational activities	28,470	24,797
Auxiliary enterprises (net of discounts)	437,331	343,851
General operating revenues	529,070	157,277
Total operating revenues (Schedule A)	9,769,700	9,785,958
Operating Expenses		
Instruction	17,841,131	16,283,936
Public service	1,654,186	1,308,643
Academic support	5,053,643	5,083,350
Student services	4,714,930	4,496,309
Institutional support	8,183,248	7,368,303
Operation and maintenance of plant	5,314,915	4,305,783
Scholarships and fellowships	2,265,662	1,755,654
Auxiliary enterprises	434,703	467,467
Depreciation expense	1,460,941	1,365,790
Total operating expenses (Schedule B)	46,923,359	42,435,235
Operating income (loss)	(37,153,659)	(32,649,277)
Non-operating revenues (expenses)		
State appropriations	9,711,741	8,619,642
Maintenance ad valorem taxes	22,328,742	20,903,680
Federal revenue, non-operating	4,147,356	3,482,828
Investment income	490,381	128,099
Foreign trade zone fees	297,608	247,774
Property tax refund	-	(1,233,217)
Other non-operating revenues (expenses)	10,000	-
Interest and fees on capital-related debt	(532,956)	-
Net non-operating revenues (expenses) (Schedule C)	36,452,872	32,148,806
Increase (decrease) in net position	(700,787)	(500,471)
Net position - beginning of year	20,463,564	20,964,035
Change in accounting principle	(43,643,255)	-
Net position - end of year	$ (23,880,478)	$ 20,463,564

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

College of the Mainland Foundation - Fiscal Year August 31, 2018 with Comparative Totals for 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended August 31, 2018	Year Ended August 31, 2017
Revenue and Support:					
Contributions	$ 70,470	$ 510,360	$ -	$ 580,830	$ 531,542
Grants	-	-	-	-	25,000
In-kind contributions	255,646	-	-	255,646	245,593
Interest and investment income	-	4,535	11,097	15,632	19,354
Net realized and unrealized gains on investments	-	69,455	175,198	244,653	196,386
Net assets released from restrictions	408,917	(355,484)	(53,433)	-	-
Total Revenue and Support	735,033	228,866	132,862	1,096,761	1,017,875
Expenses:					
Program Expenses:					
Student Scholarships	297,112	-	-	297,112	224,819
Other Program Payments	165,898	-	-	165,898	103,011
Supporting services:					
In-kind personnel and benefits	226,261	-	-	226,261	219,668
In-kind general, facilities and equipment	29,385	-	-	29,385	25,925
Management and general:					
Fundraising	-	-	-	-	16,180
Other management and general	46,392	-	-	46,392	15,437
Total Expenses	765,048	-	-	765,048	605,040
Change in Net Assets	(30,015)	228,866	132,862	331,713	412,835
Net Assets, at beginning of year	91,594	744,092	2,082,604	2,918,290	2,505,455
Net Assets, at end of year	$ 61,579	$ 972,958	$ 2,215,466	$ 3,250,003	$ 2,918,290

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

COLLEGE OF THE MAINLAND **Exhibit 3**

STATEMENT OF CASH FLOWS

For the Years Ended August 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from students and other customers	$ 5,036,524	$ 5,090,237
Receipts from grants and contracts	4,091,669	4,558,845
Payments to suppliers for goods and services	(7,436,180)	(9,775,214)
Payments to or on behalf of employees	(29,436,670)	(28,065,099)
Payments for scholarships and fellowships	(2,265,662)	(1,755,654)
Other receipts	529,070	269,625
Net cash (used) by operating activities	(29,481,249)	(29,677,260)
Cash flows from non-capital financing activities:		
Receipts from state appropriations	6,844,969	6,108,832
Receipts from ad valorem taxes	22,384,235	20,728,168
Receipts from foreign trade zone participants	297,608	247,774
Receipts from Non Operating Federal Revenue	4,155,811	3,482,828
Payment for tax refund liability	(411,072)	-
Receipts from student organizations and other agency transactions	115,136	105,818
Payments to student organization and other agency transactions	(115,136)	(105,818)
Receipts from loan receivable	726	1,473
Net cash provided by non-capital financing activities	33,272,277	30,569,075
Cash flows from capital and related financing activities:		
Purchase of capital assets	(11,531,378)	(2,904,101)
Net cash (used) by capital and related financing activities	(11,531,378)	(2,904,101)
Cash flows from investing activities:		
Proceeds from Maintenance Tax Notes	16,413,914	-
Payments on notes - principal	(630,000)	-
Payments on notes - interest	(568,100)	-
Investment income	490,381	128,099
Net cash provided by investing activities	15,706,195	128,099
Increase (decrease) in cash and cash equivalents	7,965,845	(1,884,187)
Cash and cash equivalents, beginning of year	18,117,924	20,002,111
Cash and cash equivalents, end of year	$ 26,083,769	$ 18,117,924
Components of cash and cash equivalents		
Cash and cash equivalents	$ 16,400,383	$ 15,347,819
Restricted cash and cash equivalents	9,683,386	2,770,105
	$ 26,083,769	$ 18,117,924
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (37,153,659)	$ (32,649,277)
Adjustments:		
Depreciation expense and amortization	1,460,941	1,365,790
Loss on disposal of capital asset	275,238	-
Payments made directly by state for benefits	2,866,772	2,665,984
Changes in assets and liabilities:		
Receivables, net	(157,787)	(12,866)
Deferred outflows	795,160	(1,032,855)
Deferred inflows	7,891,206	800,596
Net pension liability	(648,280)	235,939
Net OPEB liability	(7,282,797)	-
Prepaid expenses	(30,907)	98,262
Accounts payable	2,887,600	(129,141)
Accrued liabilities	47,747	(567,345)
Compensated absences/retirement incentive payable	(342,271)	(368,766)
Unearned income	(90,212)	(83,581)
Net cash (used) by operating activities	$ (29,481,249)	$ (29,677,260)

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

COLLEGE OF THE MAINLAND

DISCRETELY PRESENTED COMPONENT UNIT

STATEMENTS OF CASH FLOWS

College of the Mainland Foundation - Fiscal Year August 31, 2018 with Comparative Totals for 2017

	Year Ended August 31, 2018	2017
Cash flows from operating activities:		
Cash received from contributions, grants and events	$ 535,271	$ 497,636
Cash received from interest earnings	15,632	19,354
Cash paid for scholarships and grants	(429,064)	(312,155)
Cash paid for management and general expenses	(46,392)	(17,858)
Net cash provided by operating activities	75,447	186,977
Cash flows from investing activities:		
Reinvestment income and fees in endowments	35,479	27,500
Proceeds from sales and maturities of investments	119,544	307,645
Purchases of investments	(70,794)	(596,874)
Net cash provide by (used in) investing activities	84,229	(261,729)
Net change in cash and cash equivalents	159,676	(74,752)
Cash and cash equivalents at beginning of year	191,614	266,366
Cash and cash equivalents at end of year	$ 351,290	$ 191,614
Presented on statement of financial position as follows:		
Cash and cash equivalents	$ 106,576	$ 75,752
Restricted Cash and Cash Equivalents	244,714	115,862
	$ 351,290	$ 191,614
Reconciliation of Increase in Net Assets to Cash flows from operating activities		
Increase (decrease) in net assets	$ 331,713	$ 412,835
Adjustments to reconcile increase (decrease) in net assets to net cash provided by:		
Net Unrealized and realized (gain) loss in investments	(244,653)	(196,386)
(Increase) decrease in contribution receivables	(45,559)	10,050
(Increase) decrease in prepaid expenses	-	13,759
Increase (decrease) in accounts payable	33,946	15,675
Increase (decrease) in unearned revenue	-	(68,956)
Net cash provided by operating activities	$ 75,447	$ 186,977

See accompanying notes to the financial statements.

Note 1 - Reporting Entity

College of the Mainland (the "College") was established in 1962, in accordance with the laws of the State of Texas, to serve the educational needs of Texas City and the surrounding communities. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board ("GASB") Statement 61, *The Financial Reporting Entity: Omnibus (*an amendment of GASB Statements No 14. and No. 34). While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The basic financial statements of the College include the funds of all organizational entities for which the College has oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. In evaluating how to define the College for financial reporting purposes, management has considered all potential component units, including the College of the Mainland Foundation (the "Foundation").

The Foundation is a legally separate not-for-profit organization, which provides benefits such as scholarships to the College's students and assists in the development and growth of the College. The Foundation does not provide a financial benefit or impose a financial burden on the College. The College does not appoint any of the Foundation's board members. As a result, the financial position and results of operations of the Foundation are not combined with the financial position and changes in net position of the College.

GASB Statement 39 requires governments to report certain legally separate organizations as component units even though the primary government is *not* financially accountable for those organizations. The standard is directed principally toward fund-raising organizations. GASB Statement 39 requires a legally separate tax-exempt organization to be reported as a component unit if *all* of these criteria are met:

a. The economic resources of the separate organization entirely, or almost entirely, directly benefit the primary government, its component units, or its constituents.

b. The primary government or its component units are entitled to, or can otherwise access, a majority of the economic resources of the separate organization.

c. The economic resources of the individual separate organization the primary government or the component unit is entitled to, or can otherwise access, are significant to that primary government.

Organizations that are component units based solely on the criteria established by GASB Statement 39 are required to be reported using discrete presentation. These organizations may not be blended.

Therefore, the Foundation has been presented as a discretely presented component unit in the College's financial statements. Note disclosures pertinent to the Foundation's financial information are contained in the notes to these financial statements. The Foundation's separately issued financial statements may be obtained by contacting the Foundation's business office at 1200 Amburn Road, Texas City, TX 77591.

Note 2 - Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

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

***Texas Public Education Grants* -** certain tuition amounts are required to be set aside for the 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 56.0333). When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

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

Basis of Accounting

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

Net Position
The College's net position categories are classified as follows:

> ***Net Investment in Capital Assets***
> This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component net investment in capital assets.
>
> ***Restricted Net Position - Expendable***
> Restricted expendable net position includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Note 2 - Summary of Significant Accounting Policies (continued)

Unrestricted Net Position

Unrestricted net position represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. The pension related items such as the deferred outflows and inflows of resources and net pension liability are included in unrestricted net position.

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 College's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget 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 College's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

Investments

Short-term investments have an original maturity greater than three months, but less than one year at the time of purchase. Long-term investments have an original maturity of greater than one year at the time of acquisition.

The College reports all investments at fair value, except for investment pools. The College's investment pools are valued and reported at amortized cost, which approximates fair value. The College categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which as three levels, is based on the valuation inputs used to measure as asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The College's local government investment pools are recorded at amortized costs as permitted by GASB Statement no. 79, *Certain Investment Pools and Pool Participants.*

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life in excess of one year. 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 the assets' lives are charged to operating expense in the year in which the expense is incurred.

Note 2 - Summary of Significant Accounting Policies (continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets applying the half-year convention. The following estimated useful lives are used:

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

Deferred Outflows of Resources
A deferred outflow of resources is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The College has two items that qualify for reporting in this category:

Deferred outflows of resources for pension – This deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of (1) differences between projected and actual earnings on pension plan investments; (2) changes in actuarial assumptions; (3) differences between expected and actual actuarial experiences and (4) changes in the College's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Deferred outflows of resources for OPEB - This deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of (1) differences between projected and actual earnings on OPEB plan investments; (2) changes in actuarial assumptions; (3) differences between expected and actual actuarial experiences and (4) changes in the College's proportional share of OPEB liabilities. The deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five-year period. The remaining OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with benefits through the OPEB plan.

Deferred Inflows of Resources
A deferred inflow of resources is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The College has two item that qualifies for reporting in this category:

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred inflows of resources for pension - This deferred inflows result primarily from (1) changes in actuarial assumptions; (2) differences between expected and actual actuarial experiences and (3) changes in the College's proportional share of pension liabilities. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Deferred inflows of resources for OPEB - This deferred inflows result primarily from (1) changes in actuarial assumptions; (2) differences between expected and actual actuarial experiences and (3) changes in the College's proportional share of OPEB liabilities. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB benefits through the OPEB plan, primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

Unearned Revenues
Tuition, fees, and other revenues received that are related to the period after August 31, 2018, are reported as unearned revenues. Those amounts are as follows:

	2018	2017
Tuition and fees	$ 3,304,154	$ 3,116,417
Season tickets - Theater	241,849	206,512
Federal, state and local grants	316,625	579,949
Other	43,465	93,427
	$ 3,906,093	$ 3,996,305

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

Application of Restricted and Unrestricted Resources
The College's policy is to first apply an expense against restricted resources then toward unrestricted resources, when both restricted and unrestricted resources are available to pay an expense.

Operating and Non-Operating Revenue and Expense Policy
The College distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. As of July 2011, the operation of the bookstore is not performed by the College.

Presentation of State Benefit Payments on Cash Flow Statements
In response to guidance form the Texas Higher Education Coordinating Board, benefit payments made by the state directly to the Employees' Retirement System of Texas (ERS) on behalf of the College are excluded from cash flows from operating activities on the Statement of Cash Flows. Instead, these payments are now included as reconciling items in the reconciliation of operating loss to net cash used by operating activities.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

New Accounting Standards
In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the other postemployment benefits (OPEB) that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

New Accounting Standards
GASB Statement No. 85, Omnibus 2017. This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

Reclassifications
Certain amounts for 2017 have been reclassified to conform to current year reporting requirements.

Note 3 - Authorized Investments

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

Note 4 - Deposits and Investments

At August 31, 2018 and 2017, the carrying amounts of the bank balances exceeded the federal depository insurance of $250,000, but were properly covered by collateral pledged in the College's name for the years ended August 31, 2018 and 2017.

During the fiscal years 2018 and 2017, the College held investments in TexPool, a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (the "Trust Company") to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of or obligations guaranteed by the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; commercial paper and fully collateralized direct repurchase agreements secured by U.S. Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer upon authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep and invests public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. The College also invests in Local Government Investment Cooperative (LOGIC), which is organized and existing as a business trust under the laws of the State of TEexas with all Participants funds and all investment assets held and managed in trust by a Board of Trustees for the benefit of the Participants.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the College's investments in TexPool are stated at cost, which approximates fair value.

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

	2018	2017
Cash and Deposits:		
Bank Deposits:		
Demand deposits	$ 595,942	$ 621,878
Cash on cash equivalents:		
Petty cash on hand and change funds	1,790	3,070
Total Cash and Deposits	$ 597,732	$ 624,948

Note 4 - Deposits and Investments (continued)

Reconciliation of Deposits and Investments to Exhibit 1:

Type of Security	Fair Value 2018	Fair Value 2017
Investments:		
Government Investment Pools:		
TexPool	$ 9,038,915	$ 17,492,976
LOGIC	16,447,122	-
Total Investments	25,486,037	17,492,976
Total Cash and Deposits	597,732	624,948
Total Deposits and Investments	$ 26,083,769	$ 18,117,924
Cash and temporary investments (Exhibit 1):		
Cash and cash equivalents	$ 16,400,383	$ 15,347,819
Restricted cash and cash equivalents	9,683,386	2,770,105
Total Deposits and Investments	$ 26,083,769	$ 18,117,924

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

	Carrying Value	Credit Quality Rating	Percentage of Investments
Investment Type:			
Local Government Investment Pools:			
TexPool	$ 9,038,915	AAAm	35.5%
LOGIC	16,447,122	AAAm	64.5%
Total Local Government Investment Pools	25,486,037		100.0%
Total investments	$ 25,486,037		100.0%

	Fair Value	Percentage of Investments	Weighted Average Maturity (Days)
Investments			
Local Government Investment Pools:			
TexPool	$ 9,038,915	35.5%	28
LOGIC	16,447,122	64.5%	34
Total Local Government Investment Pools	25,486,037	100.0%	32
Total investments	$ 25,486,037	100.0%	32

Interest Rate Risk

The College has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate changes.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. As of August 31, 2018, the College's investment in TexPool and LOGIC (public funds investment pools) were rated AAAm by Standard and Poor’s.

Note 4 - Deposits and Investments (continued)

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* both TexPool and LOGIC do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

Concentration of Credit Risk
The College places no limit on the amount that may be invested in any one issuer. One hundred percent (100%) of the College's investments were invested in public investment pools as of August 31, 2018.

Custodial Credit Risk
The College's deposits are subject to custodial credit risk as total deposits were uninsured but collateralized by securities held by the pledging financial institutions agent in the College's name. The College's deposits were fully collateralized at year-end and through-out the year.

Investment income for 2018 and 2017 was as follows:

	2018	2017
Interest income	$ 490,381	$ 128,099
Total Investment Earnings	$ 490,381	$ 128,099

As of August 31, 2018 and 2017, cash and cash equivalents was restricted for the following purposes:

	2018	2017
Grants and awards	$ 2,053,928	$ 2,704,652
Payment of long-term debt and unspent proceeds of Maintenance Tax Notes	7,629,458	65,453
Total restricted cash and cash equivalents	$ 9,683,386	$ 2,770,105

Note 5 - Disaggregation of Receivables and Payables Balances

Accounts receivable at August 31, 2018 and 2017, consisted of the following:

	2018	2017
Property taxes receivable	$ 2,585,607	$ 2,474,814
Allowance for uncollectible property taxes	(1,453,166)	(1,306,197)
Property taxes receivable, net	1,132,441	1,168,617
Tuition and fees receivable	3,305,716	3,079,303
Allowance for uncollectible tuition and fees	(949,679)	(764,166)
Tuition and fees receivable, net	2,356,037	2,315,137
Due from tax collector	8,054	8,054
Due from other governments for grant awards	288,203	341,963
Due from grantors for private awards	39,016	131,310
Other receivables	340,853	86,365
Total receivables, net	$ 4,164,604	$ 4,051,446

Note 5 - Disaggregation of Receivables and Payables Balances (continued)

Accrued liabilities at August 31, 2018 and 2017, consisted of the following:

	2018	2017
Accrued wages payable	$ 452,071	$ 382,689
Reserve for incurred but not reported worker's compensation benefits	41,345	116,286
Other accrued liabilities	102,698	20,340
Total accrued liabilities	$ 596,114	$ 519,315

Note 6 - Capital Assets

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

	Balance 09/01/17	Additions	Retirements and Transfers	Balance 08/31/18
Not depreciated:				
Land	$ 372,145	$ -	$ -	$ 372,145
Construction in progress	272,615	10,165,218	(272,615)	10,165,218
Subtotal	644,760	10,165,218	(272,615)	10,537,363
Buildings and other capital assets:				
Buildings and building improvements	16,590,134	-	-	16,590,134
Improvements other than buildings	17,451,914	246,973	-	17,698,887
Total buildings and other real estate improvements	34,042,048	246,973	-	34,289,021
Furniture, equipment and vehicles	4,287,092	570,366	(120,536)	4,736,922
Telecommunication equipment	5,224,616	492,941	-	5,717,557
Library books	1,773,889	55,880	-	1,829,769
Total buildings and other capital assets	45,327,645	1,366,160	(120,536)	46,573,269
Accumulated depreciation:				
Buildings and building improvements	(13,079,999)	(331,803)	-	(13,411,802)
Improvements other than buildings	(10,729,861)	(625,432)	-	(11,355,293)
Total buildings and other real estate improvements	(23,809,860)	(957,235)	-	(24,767,095)
Furniture, equipment and vehicles	(2,666,494)	(252,066)	117,913	(2,800,647)
Telecommunication equipment	(4,658,305)	(202,243)	-	(4,860,548)
Library books	(1,397,684)	(49,397)	-	(1,447,081)
Total Accumulated depreciation	(32,532,343)	(1,460,941)	117,913	(33,875,371)
Net capital assets	$ 13,440,062	$ 10,070,437	$ (275,238)	$ 23,235,261

Commitments related to construction projects are as follows:

	Remaining Balance
Pool & PE Renovation	$ 2,609,749
Student Center Renovation & Façade	2,731,847
Chemistry Lab Renovation	135,528
Underground Infrastructure, Replacing piping	1,425,793
Metal Storage Building (New Construction)	25,444
EMS System & Cabling	779,241
Roof Replacements-Fine Arts	562,934
Preconstruction Fee/Gen Cond	426,646
PBK Archetect fees for projects	470,822
	$ 9,168,004

Note 6 - Capital Assets (continued)

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

	Balance 09/01/16	Additions	Retirements and Transfers	Balance 08/31/17
Not depreciated:				
Land	$ 372,145	$ -	$ -	$ 372,145
Construction in progress	1,200	272,615	(1,200)	272,615
Subtotal	373,345	272,615	(1,200)	644,760
Buildings and other capital assets:				
Buildings and building improvements	16,590,134	-	-	16,590,134
Improvements other than buildings	16,205,152	1,246,762	-	17,451,914
Total buildings and other real estate improvements	32,795,286	1,246,762	-	34,042,048
Furniture, equipment and vehicles	3,463,807	823,285	-	4,287,092
Telecommunication equipment	4,726,646	497,970	-	5,224,616
Library books	1,710,420	63,469	-	1,773,889
Total buildings and other capital assets	42,696,159	2,631,486	-	45,327,645
Accumulated depreciation:				
Buildings and building improvements	(12,748,196)	(331,803)	-	(13,079,999)
Improvements other than buildings	(10,109,199)	(620,662)	-	(10,729,861)
Total buildings and other real estate improvements	(22,857,395)	(952,465)	-	(23,809,860)
Furniture, equipment and vehicles	(2,459,745)	(206,749)	-	(2,666,494)
Telecommunication equipment	(4,500,275)	(158,030)	-	(4,658,305)
Library books	(1,349,138)	(48,546)	-	(1,397,684)
Total Accumulated depreciation	(31,166,553)	(1,365,790)	-	(32,532,343)
Net capital assets	$ 11,902,951	$ 1,538,311	$ (1,200)	$ 13,440,062

There were no commitments in fiscal year 2017.

Note 7 - Long-term Debt

Noncurrent liabilities activity for the year ended August 31, 2018, was as follows:

	Balance 09/01/17	Additions	Retirements	Balance 08/31/18	Current Portion
Notes payable					
Maintenance Tax Notes, 2017	$ -	$ 15,130,000	$ (630,000)	$ 14,500,000	$ 495,000
Premium, Maintenance Tax Notes, 2017	-	1,283,914	(64,196)	1,219,718	-
	$ -	$ 16,413,914	$ (694,196)	$ 15,719,718	$ 495,000
Other liabilities					
Compensated absences payable	$ 701,160	$ 130,799	$ (57,329)	$ 774,630	$ 216,896
Retirement incentive payable	625,181	-	(415,740)	209,441	209,441
	1,326,341	130,799	(473,069)	984,071	426,337
Total noncurrent liabilities	$ 1,326,341	$ 16,544,713	$ (1,167,265)	$ 16,703,789	$ 921,337

Note 7 - Long-term Debt (continued)

The College issued 2017 Maintenance Tax Notes with a par value of $15.1 million and a premium of $1.3 million. The interest rates range from 2.0% to 5.0% and mature in fiscal year 2037. The following details the payments due through the date of maturity:

Year Ending August 31,	Principal	Interest	Totals
2019	$ 495,000	$ 705,000	$ 1,200,000
2020	505,000	690,150	1,195,150
2021	525,000	675,000	1,200,000
2022	550,000	648,750	1,198,750
2023	575,000	621,250	1,196,250
2024-2028	3,340,000	2,644,750	5,984,750
2029-2033	4,265,000	1,722,250	5,987,250
2034-2037	4,245,000	543,500	4,788,500
	$ 14,500,000	$ 8,250,650	$ 22,750,650

Noncurrent liabilities activity for the year ended August 31, 2017, was as follows:

	Balance 09/01/16	Additions	Retirements	Balance 08/31/17	Current Portion
Other liabilities					
Compensated absences payable	$ 644,262	$ 97,527	$ (40,629)	$ 701,160	$ 180,393
Retirement incentive payable	1,050,846	-	(425,664)	625,182	425,665
	1,695,108	97,527	(466,293)	1,326,342	606,058
Total noncurrent liabilities	$ 1,695,108	$ 97,527	$ (466,293)	$ 1,326,342	$ 606,058

Note 8 - Defined Benefit Pension Plan

A. Plan Description

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

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

B. Pension Plan Fiduciary Net Position

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

Note 8 - Defined Benefit Pension Plan (continued)

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

D. 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 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

	Contribution Rates Plan Fiscal Year	
	2017	**2018**
Member (Employee)	7.7%	7.7%
Non-employer contributing agency (State)	6.8%	6.8%
District	6.8%	6.8%

Note 8 - Defined Benefit Pension Plan (continued)

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

	Measurement Year (2017)	Fiscal Year (2018)
	Contributions Required and Made	TRS Contributions Made During Fiscal Year
Member (Employee)	$ 1,235,655	$ 1,302,441
Non-employer contributing agency (State)	472,986	489,342
College	635,854	693,230

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

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

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

Note 8 - Defined Benefit Pension Plan (continued)

E. Actuarial Assumptions

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Municipal Bond Rate	N/A*
Inflation	2.5%
Salary Increases	3.5% to 9.5% including inflation
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-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.

Note 8 - Defined Benefit Pension Plan (continued)

F. Discount Rate (continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
College's proportional share of the net pension liability	$ 10,449,679	$ 6,198,638	$ 2,658,956

Note 8 - Defined Benefit Pension Plan (continued)

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

At August 31, 2018, the College reported a liability of $6,198,638 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College were as follows:

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net pension liability was 0.0194%, which was an increase from its proportion measured as of August 31, 2016, of 0.0181%.

Changes since the Prior Actuarial Valuation

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

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

For the year ended August 31, 2018, the College recognized pension expense of $849,935 and revenue of $352,713 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 90,689	$ (334,284)
Changes in actuarial assumptions	282,358	(161,643)
Net difference between projected and actual investment earnings	-	(451,743)
Changes in proportion and differences between College contributions and proportionate share of contributions	375,483	(783,252)
Contributions paid to TRS subsequent to the measurement date	693,720	-
Total	$ 1,442,250	$ (1,730,922)

Note 8 - Defined Benefit Pension Plan (continued)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The $693,720 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31	Amount
2019	$ (326,591)
2020	69,084
2021	(356,987)
2022	(437,438)
2023	26,382
Thereafter	43,158
	$ (982,392)

In fiscal year, 2017 the College reported a net pension liability of $6,846,918 and deferred outflows and deferred inflows of resources of $2,270,304 and $2,106,480, respectively.

Optional Retirement Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.6% and 6.65%, respectively. The College contributes 8.5% for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense to the State for the College was $471,780 and $442,373 for the fiscal years ended August 31, 2018 and 2017, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for all college employees was $24,168,652 and $22,736,001 fiscal years 2018 and 2017, respectively. The total payroll of employees covered by the Teacher Retirement System was $16,914,824 and $16,048,298 for fiscal years 2018 and 2017, respectively. The total payroll of employees covered by the Optional Retirement System was $3,168,201 and $3,334,000 for fiscal years 2018 and 2017, respectively.

Note 9 - Other Post-Employment Benefit Plan (OPEB)

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

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

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

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

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

Employer Contribution Rates
Retiree Health and Basic Life Premium
Measurement Year 2017

Retiree Only	$ 617.30
Retiree & Spouse	970.98
Retiree & Children	854.10
Retiree & Family	1,207.78

Note 9 - Other Post-Employment Benefit Plan (OPEB) (continued)

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

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

Employers	$	977,407
Members (Employees)		214,859
Nonemployer Contributing Entity (State of Texas)		863,890

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level of Percent of Pay, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Not Applicable
Actuarial Assumptions:	
Discount Rate:	3.51%
Projected Annual Salary Increase	2.50% to 9.50%
Annual Healthcare Trend Rate	8.50 for FY 2019, decreasing 0.5% per year to 4.50%
Inflation Assumption Rate	2.50%
Ad hoc Post-employment Benefit Changes	None
Mortality Assumptions	
Service retirees, survivors and other inactive members	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014.
Disability retirees	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 using a 3- year set forward and minimum mortality rates of four per 100 male members and two per 100 female members.
Active members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB.

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

Note 9 - Other Post-Employment Benefit Plan (OPEB) (continued)

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

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

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

	1% Decrease 2.51%	Current Discount Rate 3.51%	1% Increase 4.51%
College's proportional share of the net OPEB liability	$ 44,630,875	$ 37,388,442	$ 31,778,530

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

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
	(7.50% decreasing to 3.50%)	8.5% decreasing to 4.50%)	(9.50% decreasing to 5.50%)
College's proportionate share of net OPEB liability	$ 31,431,338	$ 37,388,442	$ 45,118,124

Note 9 - Other Post-Employment Benefit Plan (OPEB) (continued)

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

At August 31, 2018, the College reported a liability of $37,388,442 for its proportionate share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to the College for OPEB. The amount recognized by the College as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

College's proportion of the net OPEB liability		0.1097304%
College's proportionate share of the net OPEB liability	$	37,388,442
State's proportionate share of the net OPEB liability associated with the College		31,831,667
Total	$	69,220,109

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

At the measurement date of August 31, 2017, the employer's proportion of the collective net OPEB liability was 0.10973%, which was the same proportion measured as of August 31, 2016. For the year ended August 31, 2018, the College recognized OPEB expense of $2,000,882 and revenue of $1,703,506 for support provided by the State.

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

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

Note 9 - Other Post-Employment Benefit Plan (OPEB) (continued)

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

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

- An increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility;
- An elimination of the copayment for virtual visits;
- A copay reduction for Airrosti and for out-of-state participants;
- Elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (449,289)
Changes in actuarial assumptions	-	(7,817,475)
Net difference between projected and actual investment earnings	11,070	-
Contributions paid to TRS subsequent to the measurement date	1,049,808	-
Total	$ 1,060,878	$ (8,266,764)

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

Year ended August 31	Amount
2019	$ (1,859,116)
2020	(1,859,116)
2021	(1,859,116)
2022	(1,859,116)
2023	(819,231)
	$ (8,255,695)

Note 10 - Deferred Compensation Program

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

Note 11 - Compensated Absences

Sick Leave - All 100 percent full-time equivalent employees of the College earn one day of sick leave for each month of service. Sick leave benefits are earned by benefit eligible employees that are less than 100 percent full-time equivalent on a pro-rata basis. The maximum amount employees that are 100 percent full-time equivalent are eligible to accrue is 960 hours. Effective September 1, 2013, sick leave is no longer paid out when an employee separates their employment with the College.

Vacation Leave - Employees Hired Before or by June 30, 2012 – Vacation Leave - Employees Hired Before or by June 30, 2012 – All 100 percent full-time equivalent, non-faculty personnel employed on a 12-month basis shall earn vacation time at the rate of 13.33 hours per calendar month of service and are entitled to 20 working days of vacation per year. Benefit eligible employees that are less than 100 percent full-time equivalent, non-faculty personnel employed on a 12-month basis shall earn vacation time on a pro-rata basis related to their full-time equivalency, Personnel that are eligible to earn vacation time but are employed for a period less than 12 months will earn vacation time on a pro-rata basis related to their full-time equivalency.All accrued vacation over 240 hours or 30 days must be taken or shall be lost by the employee’s anniversary date of service each year unless the employee is prevented from taking vacation for the convenience of the College. The maximum accrual of 240 hours shall be adjusted pro-rata for benefit eligible employees, non-faculty employees that are less than 100 percent full-time equivalent.

The College's vacation leave payable at August 31, 2018 and 2017 was $774,630 and $701,160, respectively, and is included in accrued compensable absences on the balance sheet. The following is a summary of changes in vacation leave payable:

Note 12 - Pending Lawsuits and Claims

On August 31, 2018, various lawsuits and claims involving the College were pending. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.p

Note 13 - Operating Lease Commitments and Rental Agreements

Commitments under operating lease agreements for facilities and equipment are cancelable at any time. The College is therefore not obligated for minimum future rental payments at August 31, 2018. Rental expenditures were paid only 2018 and 2017, and were $712,125 and $736,226, respectively.

Note 14 - Property Tax Refund Liability

During fiscal year 2018, the District entered into a Property Tax Refund Agreement after settlement of several lawsuits related to appraised values for ad valorem taxes. The College’s portion totaled $1,233,217 and will be repaid in three equal payments of $411,072, beginning January 15, 2018. The final payment is due January 15, 2020. The ending balance as of fiscal years 2018 and 2017 was $822,145 and $1,233,217, respectively.

Note 15 - Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities.* Funds received, but not expended during the reporting period, are unearned. Revenues are recognized on Exhibit 2 as funds are actually expended. For federal and state contract and grant awards, funds 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.

Note 16 - Self-Insured Plans

The College participates in the TASB Risk Management Fund's (the Fund's) Property Casualty Program with coverage in Auto Liability, Auto Physical Damage, General Liability, Property, Sexual Misconduct Endorsement, and SP Legal Liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2018, the Fund anticipates the College has no additional liability beyond the contractual obligations for payment of contributions.

During the year ended August 31, 2018, the College provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

For the year ended August 31, 2018, the College participated with other governments to form a Workers Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for the Texas Public Jr. and Community College Employee Benefits Consortium (the "Pool"). The agreement for formation of the Pool provides that the Pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $200,000 for each insured event and $5,000,000 in the aggregate.

The pooling agreement requires the Pool to be self-sustaining. The estimated range of losses to be borne by the College as of August 31, 2018 and 2017 amounted to $41,345 and $116,286, respectively.

The Texas Public Jr. and Community College Employee Benefits Consortium publishes its own financial report, which can be obtained from Claims Administrative Services, Inc.

Note 17 - Related Parties

The College of the Mainland Foundation is a nonprofit organization with the sole purpose of providing scholarships for College of the Mainland students. The College does not appoint a voting majority; it confirms appointments made by the Foundation board of directors which is not substantive in nature. The College does not fund nor is it obligated to pay debt related to the Foundation. The College does not approve or amend the Foundation's budget. However, the College does have the ability to significantly influence the policies of the Foundation. The Foundation solicits donations to provide scholarships.

Note 18 - Property Tax

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

	2018	2017
Assessed Valuation of the College:	$ 14,003,655,891	$ 13,390,783,664
Less: Exemptions	(3,552,165,737)	(3,322,075,175)
Net Assessed Valuation of the College	$ 10,451,490,154	$ 10,068,708,489

	2018			2017		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized Tax Rate per $100 Valuation	$ 0.600000	$ 0.000000	$ 0.600000	$ 0.600000	$ 0.000000	$ 0.600000
Assessed Tax Rate per $100 Valuation	$ 0.216791	$ 0.000000	$ 0.216791	$ 0.208376	$ 0.000000	$ 0.208376

The maximum combined authorized tax rate approved by voters in the College district is $0.60. No separate limit is imposed on the tax rate specifically for current operations or debt service. However, pursuant to Texas Education Code Section 130.122 *Junior College Districts - Tax Bonds and Maintenance Tax*, the debt service portion of the combined tax rate may not exceed $0.50.

Taxes levied for the year ended August 31, 2018 and 2017 amounted to $22,657,890 and $20,980,772 respectively, including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Tax collections for the years ended August 31, 2018 and 2017 approximated 98.2% of the current year levy for 2018 and 98.1% for 2017. 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 - Retirement Incentive Packages

During fiscal years 2011 and 2010, the College offered retirement incentive packages in the amount of $873,187 and $1,953,066, respectively. During fiscal year 2013, the College offered an incentive package in the amount of $651,584. During fiscal year 2014, the College offered an incentive package in the amount of $1,522,850. During fiscal year 2015, the College offered an incentive package in the amount of $1,618,574. As of August 31, 2018, the combined liability for those retirement incentive packages is $209,441, all of which is considered current.

Retirement incentives payable were as follows as of August 31, 2018 and 2017.

	2018	2017
Balance, September 1	$ 625,181	$ 1,044,287
Payments	(415,740)	(419,105)
Balance, August 31	$ 209,441	$ 625,182

Retirement incentive payment requirements for the next five years are summarized below:

Year Ending August 31,	Retirement Incentives
2019	$ 209,441
	$ 209,441

Note 20 - Income Taxes

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

Note 21 - Tax Abatements

The City of Texas City operates a Foreign Trade Zone (#199) in accordance with the Foreign Trade Zone Act, which was created to "expedite and encourage foreign commerce" in the United States. The primary mission of Foreign Trade Zone #199 is to provide the local petrochemical industries and other enterprises engaging in international commerce with a competitive global marketing advantage that stimulates expansion of their operations and enhances the local, state, and national economies. A U.S.-based manufacturer can bring foreign-sourced parts or materials into the Zone, pay no duty, incorporate those parts or materials into a finished product using U.S. parts and labor, and, if the finished product entered the U.S. commerce, pay duty on the value of the foreign non-duty-paid content only. The City of Texas City oversees Foreign Trade Zone #199, and allows interested parties to create a subzone that is then operated by the business and then provides reports to the City. There are a number of consultants and sources with information as to how the ability of a company to create a subzone for a Foreign Trade Zone is available. The City of Texas City will work with the company after an agreement is prepared. Local Ad Valorem taxes are still paid under the agreement, but all other benefits of the Foreign Trade Zone are provided to the business. A brief summary follows:

- **Duty Exemption on Re-exports**: If merchandise is re-exported after being placed in a FTZ or shipped to another FTZ and then re-exported, then no duty is ever paid.
- Relief from Inverted Tariffs: Generally, if foreign merchandise is brought into a FTZ or Subzone and manufactured into a product that carries a lower duty rate, then the lower rate applies.
- Duty Elimination on Waste and Scrap: No duty is charged on most waste and scrap from production in FTZs.
- No Duty on Rejected or Defective Parts: Merchandise found to be defective or faulty may be returned to the country of origin for repair or simply destroyed. Whichever choice is taken, no duty is paid. Many companies suffer from the "double duty crunch." That is, they pay duty on imported merchandise, find it to be faulty and return it to the country of origin for repair, and then pay duty again when the merchandise reenters the United States. If you are a FTZ user or Subzone, the "double duty crunch" is never a problem, because your merchandise never enters the commerce of the United States.
- Duty Deferral: No duty is ever charged on merchandise while it is in a FTZ, and there is no limit on the length of time merchandise may be kept in a FTZ. By deferring the duty, capital is freed for more important needs.
- No Duty on Domestic Content or Value Added: The "value added" to a product in a FTZ (including manufacture using domestic parts, cost of labor, overhead and profit) is not included in its dutiable value when the final product leaves the Zone. Final duties are assessed on foreign content only.
- No Duty on Sales to the U.S. Military or NASA: No duty is charged on merchandise sold from a FTZ to the U.S. Military or NASA, returned to the country of origin for repair or simply destroyed. Whichever choice is taken, no duty is paid.

During fiscal year 2018, inventory within the Foreign Trade Zone totaled $118.9 million. The College received a tax equivalency payment of $297,774.

Note 22 - Prior Period Adjustment

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

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

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

Net position as originally presented	$ 20,463,564
Prior period restatement:	
Net OPEB liability (measurement date as of August 31, 2016)	(44,671,239)
Deferred outflow - contributions made to TRS-Care	1,027,984
Net position as restated	$ (23,179,691)

Note 23 - Subsequent Events

Voters within the College of the Mainland Taxing District overwhelmingly approved a $162.5 million bond referendum on Tuesday, Nov. 6, 2018, paving the way for the construction of three new academic buildings on the Texas City campus.

Included in the bond package is:

- New, 160,000-square-foot STEAM/Allied Health Building
- New, 90,000-square-foot Industrial Careers Building
- New, 60,000-square-foot Student Success Building

The College’s operating account is subject to up to $3.9M of reimbursements for bond-related costs.

Note 24 - Disclosures Related to Discretely Presented Component Unit

A. Basis of Presentation and Summary of Significant Accounting Policies

The College of the Mainland Foundation (the "Foundation") was established in 1972 as a separate 501(c)(3), tax-exempt organization to provide funding for student and College needs. The mission of the COM Foundation is to support and encourage educational excellence through the College of the Mainland. The Foundation seeks to heighten community awareness of the mission and accomplishments of the College and to facilitate the creation of a student-centered learning community dedicated to excellence in education.

The Foundation provides student scholarships to the College's students based on financial need or academic merit.

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.

Basis of Presentation

The Foundation's financial statements are presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-205- 45-4, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205-45-4, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets - These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Foundation.

- Temporarily restricted net assets - These are net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Permanently restricted net assets - These are net assets that are required to be maintained in perpetuity with only the income to be used for operating activities due to donor-imposed restrictions.

Fair Value Considerations

The Foundation uses fair value to measure financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Foundation did not elect the fair value option for the measurement of any eligible assets or liabilities.

Note 24 - Disclosures Related to Discretely Presented Component Unit (continued)

A. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in demand deposits and certificates of deposit. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. The Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less at date of purchase to be cash equivalents.

At August 31, 2018 and 2017, cash and cash equivalents included $244,714 and $115,862, respectively, of permanently restricted contributions for endowment purposes.

Investments and Investment Return

In accordance with ASC 958-320, *"Accounting for Certain Investments Held by Not for Profit Organizations"* (formerly SFAS No. 124), investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the combining statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

At August 31, 2018 and 2017, investments included $3,081,066 and $2,920,676, respectively, of restricted assets.

Contributions Receivable and Promises to Give

Contributions receivable are amounts recorded from unconditional promises to give by third parties. Unconditional promises to give are recorded at net realizable value if expected to be collected in one year. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Conditional promises to give are recorded as refundable advances when received, and are recognized as revenue when the conditions have been met.

If contributions receivable become doubtful of collection, allowances are made to the extent the amounts are determined to be doubtful, and are charged to expense. If doubtful amounts are subsequently determined to be uncollectible, they are written off against allowances in the period determined. As of August 31, 2018 and 2017, the Foundation has no allowance for doubtful accounts balances.

In-Kind Services

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

The Foundation recognizes donated services at their fair market value in the period received if the services received create or enhance nonfinancial assets or require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation receives donated services from unpaid volunteers who assist with program services and fundraising. The value of the contributed time is not reflected in the accompanying financial statements because it does not require a specialized skill or create or enhance a nonfinancial asset.

The College performs various administrative functions on behalf of the Foundation. The value of these services is recorded as in-kind revenue in the statements of activities (see Note F).

Note 24 - Disclosures Related to Discretely Presented Component Unit (continued)

A. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Federal Income Taxes

The Foundation is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of August 31, 2018, management believes there were no uncertain tax positions.

Use of Estimates

The Foundation uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the reported revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used. Estimates that have the most impact on financial position and results of operations primarily relate to collectability of receivables and the fair value of investments. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The reclassification had no effect on changes in net assets.

B. Fair Value Measurements

The Foundation has adopted the provisions of ASC 820, *"Fair Value Measurements and Disclosures"* (formerly SFAS 157), with respect to its investments. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, and establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level l - Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 - Inputs other than quoted prices included in Level l, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 - Significant unobservable inputs that are supported by little or no market activity.

Note 24 - Disclosures Related to Discretely Presented Component Unit (continued)

B. Fair Value Measurements (continued)

The Foundation utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Investments in corporate stocks, money market funds, and government and corporate bonds that are currently traded in active markets are classified as Level 2.

The value of assets measured at fair value on a recurring basis is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2018			
Equity index fund	$ -	$ 767,204	$ -
Core equity fund	-	872,448	-
High quality bond fund	-	1,441,414	-
Total	$ -	$ 3,081,066	$ -
August 31, 2017			
Equity index fund	$ -	$ 663,639	$ -
Core equity fund	-	719,430	-
High quality bond fund	-	1,537,607	-
Total	$ -	$ 2,920,676	$ -

The following summarizes the investment return in the statements of activities and changes in net assets:

	2018	**2017**
Dividends and interest income	$ 15,632	$ 19,354
Net realized and unrealized gain	244,653	196,386
Total investment income (loss)	$ 260,285	$ 215,740

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position and the statements of activities and changes in net assets.

The Foundation's remaining financial instruments (primarily cash and cash equivalents, receivables, and payables) are carried in the financial statements at amounts that reasonably approximate fair value.

Note 24 - Disclosures Related to Discretely Presented Component Unit (continued)

C. Contributions Receivable

Contributions are due to be collected as follows at August 31:

	2018	2017
Less than one year	$ 45,559	$ -
Total Contributions receivable	45,559	-
Less: Allowance for doubtful amounts	-	-
	$ 45,559	$ -

D. Temporary Restrictions on Net Assets

Temporarily restricted net assets include the following at August 31:

	2018	2017
Scholarships	$ 972,958	$ 744,092
Total	$ 972,958	$ 744,092

E. Endowments

The Foundation has donor-restricted endowment funds which are maintained in accordance with explicit donor stipulations. The Foundation is subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) which has been enacted by the state of Texas. The Board has interpreted TUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA.

In accordance with TUPMIFA, the Foundation considers the following factors in making determination to distribute accumulated donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the organization and the donor-restricted endowment fund
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
7) The investment policies and objectives of the Foundation

Note 24 - Disclosures Related to Discretely Presented Component Unit (continued)

E. Endowments (continued)

The Foundation has adopted investment and spending policies. The assets are managed in a manner that attempts 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 as well as capital appreciation, which exceeds the annual distributions with acceptable levels of risk. Endowment assets are investment 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 distributions as needed, while growing the funds if possible. There is not an established expectation of an average rate of return. Investment risk is measured in terms of total endowment funds; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. At August 31, 2018 and 2017, the endowments funds were held and managed by Commonfund. The objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

The Foundation has adopted a policy of appropriating distributions annually from its investments. The policy caps spending at 4.5% of a three year rolling average of the Foundation's portfolio as determined by the annual audits in December of each year. The investment committee will recommend a distribution from 0% to 4.5% depending on market conditions.

The endowment funds consist of a multitude of named endowments. The principal balance of the permanently restricted endowments will remain in perpetuity and all earnings will be distributed as scholarships.

Changes in endowment net assets are as follows:

	Permanently Restricted
Endowment net assets, August 31, 2016	$ 1,936,419
Contributions	39,981
Investment return:	
Investment income	12,673
Net change in value of investments	141,147
Transfer of scholarship funds	(47,616)
Endowment net assets, August 31, 2017	2,082,604
Investment return:	
Investment income	11,097
Net change in value of investments	175,198
Transfer of scholarship funds	(33,342)
Endowment net assets, August 31, 2018	$ 2,235,557

Note 24 - Disclosures Related to Discretely Presented Component Unit (continued)

F. Related Party Transactions

The College provides office space to the Foundation at no cost. In addition, the Foundation's payroll expenses, all employee benefits, and certain supplies are paid for by the College. The Foundation does not reimburse the College for these costs. As such, in-kind revenue and expense are recorded in the statement of activities for these costs. For the years ended August 31, 2018 and 2017, in-kind revenue and expense totaled $255,646 and $245,593, respectively.

All student scholarship expenditures are disbursed to the College. These expenses totaled $297,112 and $224,819, for the years ended August 31, 2018 and 2017, respectively.

As discussed in Note A, the Foundation operates as a separate organization for the purpose of assisting in and contributing to the academic and physical growth and development of the College. Presently, two (2) Directors of the Foundation Board serve by virtue of their status as a Trustee of the College. In addition, the College President serves as a Director of the Foundation. These positions are non-voting.

G. Concentration of Credit Risk

The Foundation maintains its cash balances in one financial institution. At various times during the years, the Foundation may have bank deposits in excess of FDIC insurance limits. Management believes the credit risk is low due to the overall financial strength of the financial institution.

H. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through December 6, 2018, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

(RSI) SCHEDULES

COLLEGE OF THE MAINLAND
Schedules of Required Supplementary Information
SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -TRS
Last Four Measurement Years

	2017	2016	2015	2014
College's proportion of the net pension liability	0.0194%	0.0181%	0.0187%	0.0223%
College's proportionate share of the net pension liability	$ 6,198,638	$ 6,846,918	$ 6,610,980	$ 5,947,744
State's proportionate share of the net pension liability associated with the College	4,624,171	5,339,118	5,279,379	4,705,933
Total	$ 10,822,809	$ 12,186,036	$ 11,890,359	$ 10,653,677
College's covered payroll (for Measurement Year)	$ 16,048,298	$ 14,959,647	$ 14,576,449	$ 14,570,113
College's proportionate share of the net pension liability as a percentage of it's covered payroll	38.62%	45.8%	45.4%	40.8%
Plan fiduciary net position as a percentage of the total pension liability *	82.17%	78.00%	78.43%	83.25%
Plan's net pension liability as a percentage of covered payroll *	75.93%	92.75%	91.94%	72.89%

The amounts presented for each Plan year which ends the preceding August 31 of the District's fiscal year.

Net pension liability is calculated using an new methodology and will be presented prospectively in accordance with GASB 68.

Note: Five years of data should be presented in this schedule but data is unavailable prior to 2014. Net pension liability and related ratios will be presented prospectively as data becomes available.

* Per TRS' CAFR

COLLEGE OF THE MAINLAND
Schedules of Required Supplementary Information
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS

Teacher Retirement System of Texas
Last Four Fiscal Years

	2018	2017	2016	2015
Contractually required contributions	$ 693,320	$ 635,854	$ 574,687	$ 551,555
Contributions in relation to the contractual required contributions	693,320	635,854	574,687	551,555
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
College's covered payroll	$ 16,914,824	$ 16,048,298	$ 14,959,647	$14,576,449
Contributions as a percentage of covered payroll	4.10%	3.96%	3.84%	3.78%

Changes of Assumptions

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

COLLEGE OF THE MAINLAND

SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY EMPLOYEES RETIREMENT SYSTEM OF TEXAS

For the Last Measurement Year ended August 31 (1)

	2017
College's proportion of the net OPEB liability	0.1097%
College's proportionate share of the net OPEB liability	$ 37,388,442
State's proportionate share of the net OPEB liability associated with the College	1,637,246,083
Total	$1,674,634,525
College's covered-employee payroll (for Measurement Year)	$ 16,683,458
College's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	224.10%
Plan fiduciary net position as a percentage of the total OPEB liability *	2.04%
Plan's net OPEB liability as a percentage of covered-employee payroll *	290.10%

The amounts presented for each Plan year which ends the preceding August 31 of the College's fiscal year.

* Per Employees Retirement System of Texas' comprehensive annual financial report.

(1) Ten year of data should be presented in this schedule, but data was unavailable prior to 2017
Net OPEB liability and related ratios will be presented as data becomes available.

COLLEGE OF THE MAINLAND

SCHEDULE OF THE COLLEGE'S OPEB CONTRIBUTIONS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
For the Last Three Fiscal Years

	2018	2017	2016
Contractually required contributions	$ 1,049,808	$ 1,029,156	$ 939,421
Contributions in relation to the contractual required	1,049,808	1,029,156	939,421
Contribution deficiency (excess)	$ -	$ -	$ -
College's covered-employee payroll	$ 17,111,319	$ 16,683,458	$ 16,899,962
Contributions as a percentage of covered-employee payroll	6.14%	6.17%	5.56%

Changes in Benefit Terms

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

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

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

Changes in Assumptions

Demographic Assumptions

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

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

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

Economic Assumptions

- The assumed rate of general inflation has been updated since the previous valuation to remain consistent with the ERS retirement plan assumption previously adopted by the ERS Trustees.
- Assumptions for Expenses, Assumed Per Capita Health Benefit Costs and Health Benefit Cost, Retiree Contribution and Expense trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations and the revised assumed rate of general inflation.
- The discount rate was lowered as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation bonds rated AA/Aa (or equivalent) or higher.
- Minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs.

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SUPPLEMENTAL SCHEDULES

COLLEGE OF THE MAINLAND **Schedule A**

SCHEDULE OF OPERATING REVENUES

For the Year Ended August 31, 2018

With Memorandum Totals for the Year Ended August 31, 2017

	Educational Activities				Total	
	Unrestricted	**Restricted**	**Total**	**Auxiliary Enterprises**	**2018**	**2017**
Tuition						
State funded credit courses:						
In-district resident tuition	$ 2,427,201	$ -	$ 2,427,201	$ -	$ 2,427,201	$ 2,492,477
Out-of-district resident tuition	2,218,641	-	2,218,641	-	2,218,641	2,062,946
Non-resident tuition	119,176	-	119,176	-	119,176	154,053
TPEG- credit (set aside)*	220,467	-	220,467	-	220,467	207,301
State funded continuing education	573,544	128,375	701,919	-	701,919	541,124
Non-state funded educational programs	106,909	73,363	180,272	-	180,272	406,898
Total tuition	5,665,938	201,738	5,867,676	-	5,867,676	5,864,799
Fees						
Campus fees	168,655	-	168,655	-	168,655	167,338
Facility fees	865,695	-	865,695	-	865,695	846,943
Laboratory fees	188,878	-	188,878	-	188,878	194,725
Processing fees	479,518	-	479,518	-	479,518	532,569
Student service fees	-	-	-	171,251	171,251	160,519
Other fees	810,304	-	810,304	-	810,304	736,860
Total fees	2,513,050	-	2,513,050	171,251	2,684,301	2,638,954
Scholarship allowances and discounts						
Remissions and exemptions - state	(96,820)	-	(96,820)	-	(96,820)	(89,817)
Remissions and exemptions - local	(1,265,180)	-	(1,265,180)	-	(1,265,180)	(1,181,278)
Title IV federal grants remissions	(2,293,804)	-	(2,293,804)	-	(2,293,804)	(2,109,175)
TPEG awards	(229,165)	-	(229,165)	-	(229,165)	(276,148)
Total scholarship allowances and discounts	(3,884,969)	-	(3,884,969)	-	(3,884,969)	(3,656,418)
Total net tuition and fees	4,294,019	201,738	4,495,757	171,251	4,667,008	4,847,335
Additional operating revenues						
Federal grants and contracts	152,453	2,563,032	2,715,485	-	2,715,485	2,650,416
State grants and contracts	17,040	623,530	640,570	-	640,570	796,503
Private grants and contracts	-	923,017	923,017	-	923,017	1,126,298
Sales and services of educational activities	28,470	-	28,470	-	28,470	24,797
General operating revenues	529,070	-	529,070	-	529,070	157,277
Total additional operating revenues	727,033	4,109,579	4,836,612	-	4,836,612	4,755,291
Auxiliary Enterprises						
Bookstore	-	-	-	118,578	118,578	56,138
Other auxiliary	-	-	-	147,502	147,502	127,194
Total net auxiliary	-	-	-	266,080	266,080	183,332
Total operating revenues	$ 5,021,052	$ 4,311,317	$ 9,332,369	$ 437,331	$ 9,769,700	$ 9,785,958

*In accordance with Education Code 56.033, $229,165 and $276,148of tuition was set aside for Texas Public Education Grants (TPEG) for the current and prior year, respectively.

COLLEGE OF THE MAINLAND **Schedule B**

SCHEDULE OF OPERATING EXPENSES BY OBJECT

For the Year Ended August 31, 2018

With Memorandum Totals for the Year Ended August 31, 2017

	Operating Expenses				Total	
		Benefits				
	Salaries and Wages	State	Local	Other expenses	2018	2017
Unrestricted - Educational Activities						
Instruction	$ 11,001,738	$ -	$ 3,777,329	$ 1,041,023	$ 15,820,090	$ 12,988,226
Public service	619,106	-	76,440	91,544	787,090	698,765
Academic support	2,724,005	-	888,028	1,003,662	4,615,695	4,653,888
Student services	2,431,017	-	598,691	282,537	3,312,245	3,138,451
Institutional support	4,260,087	-	1,046,682	2,250,997	7,557,766	6,834,270
Operation and maintenance of plant	663,944	-	247,809	3,607,461	4,519,214	4,178,981
Total Unrestricted Educational Activities	21,699,897	-	6,634,979	8,277,224	36,612,100	32,492,581
Restricted - Educational Activities						
Instruction	1,276,035	169,230	9,698	566,832	2,021,795	3,295,710
Public service	398,710	122,024	-	341,950	862,684	609,878
Academic support	-	436,860	-	1,088	437,948	429,462
Student services	616,362	456,396	-	331,458	1,404,216	1,357,858
Institutional support	-	595,338	-	32,271	627,609	534,033
Operation and maintenance of plant	-	126,120	-	669,581	795,701	126,802
Scholarships and fellowships	51,110	-	-	2,214,552	2,265,662	1,755,654
Total Restricted Educational Activities	2,342,217	1,905,968	9,698	4,157,732	8,415,615	8,109,397
Total Educational Activities	24,042,114	1,905,968	6,644,677	12,434,956	45,027,715	40,601,978
Auxiliary Enterprises	126,538	96,009	-	212,156	434,703	467,467
Depreciation Expense:						
Building and other real estate improvements	-	-	-	957,235	957,235	952,465
Equipment and furniture	-	-	-	454,309	454,309	364,779
Library books	-	-	-	49,397	49,397	48,546
Total Depreciation Expense	-	-	-	1,460,941	1,460,941	1,365,790
Total Operating Expenses	$ 24,168,652	$ 2,001,977	$ 6,644,677	$ 14,108,053	$ 46,923,359	$ 42,435,235
					(Exhibit 2)	(Exhibit 2)

COLLEGE OF THE MAINLAND **Schedule C**

SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES

For the Year Ended August 31, 2018

With Memorandum Totals for the Year Ended August 31, 2017

					Total	
	Unrestricted	**Restricted**	**Total**	**Auxiliary Enterprises**	**2018**	**2017**
Non-operating revenues						
State appropriations:						
Academic appropriation	$ 6,844,969	$ -	$ 6,844,969	$ -	$ 6,844,969	$ 5,953,658
State group insurance	-	2,377,430	2,377,430	-	2,377,430	2,215,605
State retirement matching	-	489,342	489,342	-	489,342	450,379
Total state appropriations	6,844,969	2,866,772	9,711,741	-	9,711,741	8,619,642
Maintenance and ad valorem taxes	22,328,742	-	22,328,742	-	22,328,742	20,903,680
Federal revenue, non-operating	6,190	4,141,166	4,147,356	-	4,147,356	3,482,828
Investment income	490,381	-	490,381	-	490,381	128,099
Foreign trade zone fees	297,608	-	297,608	-	297,608	247,774
Other	-	-	-	10,000	10,000	
Total non-operating revenues	23,122,921	4,141,166	27,264,087	10,000	27,274,087	24,762,381
Non-operating expenses						
Interest and fees on capital-related debt	(532,956)	-	(532,956)	-	(532,956)	-
Property tax refund	-	-	-	-	-	(1,233,217)
Total non-operating expenses	(532,956)	-	(532,956)	-	(532,956)	(1,233,217)
Net non-operating revenues (expenses)	$ 29,434,934	$ 7,007,938	$ 36,442,872	$ 10,000	$ 36,452,872	$ 32,148,806
					(Exhibit 2)	(Exhibit 2)

COLLEGE OF THE MAINLAND **Schedule D**

SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY

For the Year Ended August 31, 2018

	Detail by Source				Available for Current	
	Unrestricted	**Restricted Expendable**	**Net Investment in Capital Assets**	**Total**	**Yes**	**No**
Current						
Unrestricted						
Net Pension Obligation	$ (6,487,311)	$ -	$ -	$ (6,487,311)	$ -	$ (6,487,311)
Net OPEB Obligation	(44,594,329)	-	-	(44,594,329)	-	(44,594,329)
Other	8,651,576	-	-	8,651,576	8,651,576	-
Auxiliary enterprises	1,624,865	-	-	1,624,865	1,624,865	-
Grants and donor restrictions	-	2,057,500	-	2,057,500	2,057,500	-
Plant:						
Investment in plant	-	-	14,867,221	14,867,221	-	14,867,221
Total Net Position, end of year	(40,805,199)	2,057,500	14,867,221	(23,880,478) (Exhibit 1)	12,333,941	(36,214,419)
Total Net Position, beginning of the year	4,387,500	2,636,002	13,440,062	20,463,564 (Exhibit 1)	15,643,411	5,320,624
Prior period adjustments	(43,643,255)	-	-	(43,643,255)	-	-
Net increase (decrease) in net position	$ (1,549,444)	$ (578,502)	$ 1,427,159	$ (700,787) (Exhibit 2)	$ (3,309,470)	$ (41,535,043)

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
U.S. Department of Agriculture			
Pass-Through From:			
Texas Department of Agriculture:			
USDA Food Program	10.558	02108	$ 13,758
Total Department of Agriculture			13,758
U.S. Department of Labor			
Pass-Through From:			
Texas Workforce Commission:			
Electric Apprenticeship	17.278	2817ATP000	20,845
San Jacinto Community College:			
H-1B Ready to Work	17.268	DOL531713002	376,096
Total Department of Labor			396,941
U.S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster:			
Supplemental Educational Opportunity Grant	84.007	P007A173984	75,395
Federal College Work-Study Program	84.033	P033A173984	57,300
Federal Pell Grant	84.063	P063P172888	4,014,661
Federal Direct Loan Program	84.268	P268K182888	1,200,625
Total Student Financial Aid Cluster			5,347,981
TRIO Cluster:			
TRIO - Student Support Services	84.042A	P042A150335	266,256
TRIO - Student Support Services - Upward Bound	84.047A	P047A170441	269,137
Total TRIO Cluster			535,393
Title V - A Pathway to Student Success	84.031S	P031S150040	508,294
Pass-Through From:			
Texas Workforce Commission:			
Houston-Galveston Area Council:			
Adult Education and Family Literacy	84.002A	AEL 211-18	745,086
Adult Education English Literacy & Civics Ed.	84.002A	AEL 211-18	62,149
Adult Education Corrections Institute	84.002A	AEL 211-18	21,238
Adult Education - Federal Workforce	84.002A	AEL 211-18	141,339
Adult Education - ELC Workforce	84.002A	AEL 211-18	45,585
Adult Education - Workforce	84.002A	AEL 211-17	24,939
Adult Education - Workforce	84.002A	AEL 211-17	2,579
Texas Higher Education Coordinating Board:			
Carl Perkins Vocational Education	84.048	17652	145,796
Total Department of Education			7,580,379

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
U.S. Department of Health and Human Services			
Pass-Through From:			
Texas Workforce Commission:			
Houston-Galveston Area Council:			
TANF Cluster:			
Adult Education Temporary Assistance			
for Needy Families	93.558	AEL 211-18	$ 72,388
Total TANF Cluster			72,388
Total Department of Health and Human Services			72,388
Total Expenditures of Federal Awards			$ 8,063,466

COLLEGE OF THE MAINLAND

Schedule F

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended August 31, 2018

Grantor Agency / Program Title	Grantor / Project Number	Expenditures
Texas Comptroller of Public Accounts		
LEOSE	N/A	$ 1,108
Total Texas Comptroller of Public Accounts		1,108
Texas Higher Education Coordinating Board		
Texas Education Opportunity Grant	N/A	189,791
Accelerate TX Initiative - Adult Basic Education		
Innovative Grant (ABEIG)	10787	75
Coastal Communities Accelerate Texas (CCATX) Consortium	14161	37,818
Accelerate TX Mentor 15130/16639	15130/16639	33,800
Total Texas Higher Education Coordinating Board		261,484
TXWorkforce Solutions		
Texas Rising Star Child Care		12,471
Total TXWorkforce Solutions		12,471
Texas Workforce Commission		
Direct Programs:		
Electric Apprenticeship	2817ATP000	31,268
College Credit for Heroes	2818WOS001	36,084
Hurricane Harvey	2818NDW006	170,801
Pass-Through From:		
Houston-Galveston Area Council:		
Adult Education	AEL 211-18	127,354
Total Texas Workforce Commission		365,507
Total Expenditures of State Awards		$ 640,570

OVERALL COMPLIANCE, INTERNAL CONTROLS AND FEDERAL AWARDS SECTION

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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*

To the Board of Trustees
College of the Mainland
Texas City, Texas

We have audited the financial statements of the business-type activities, and the discretely presented component unit of the of College of the Mainland (the "College"), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise of the College's basic financial statements, and have issued our report thereon dated December 6, 2018. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing* Standards issued by the Comptroller General of the United States. The financial statements of College of the Mainland Foundation were not audited in accordance with *Government Auditing* Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with College of the Mainland Foundation.

Internal Control over Financial Reporting

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

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

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

To the Board of Trustees
College of the Mainland

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the *Public Funds Investment Act (*Chapter 2256, Texas Government Code), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Whitley Penn LLP

Texas City, Texas
December 6, 2018

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*

To the Board of Trustees
College of the Mainland
Texas City, Texas

Report on Compliance for Each Major Federal Program

We have audited College of the Mainland's (the "College") 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 College's major federal programs for the year ended August 31, 2018. The College'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 College'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; audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Board of Trustees
College of the Mainland

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Whitley Penn LLP

Texas City, Texas
December 6, 2018

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	None

Identification of major programs:

Name of Federal Program or Cluster	CFDA Numbers
US Department of Education	
Student Financial Aid Cluster:	
Supplemental Education Opportunity Grant	84.007
Federal College Work-Study Program	84.033
Federal Pell Grant	84.063
Federal Direct Loan Program	84.268
Federal Adult Education	84.002A

Dollar Threshold Considered Between Type A and B: $750,000

Auditee qualified as low risk auditee? Yes

II. Financial Statement Findings

None reported.

III. Federal Award Findings and Questioned Costs

None reported.

Note 1 - Federal Assistance Reconciliation

Note 1: Federal Assistance Reconciliation		
Federal Grants and Contracts revenue - Per Schedule A	$	2,715,485
Add: Non Operating Federal Revenue Per Schedule C		4,147,356
Total Federal Revenues per Statement of Revenues, Expenses and Changes and Net Position		6,862,841
Reconciling Item:		
Add: Direct Students Loans		1,200,625
Total Federal Revenues per Schedule of Expenditures of Federal Awards	$	8,063,466

Note 2 - Significant accounting policies used in preparing the schedule

The expenditures included in Schedule E are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported on Schedule E represent funds that have been expended by the College for the purposes of the award. The expenditures reported on Schedule E may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The College has followed all applicable guidelines issued by various entities in the preparation of the schedule. The College did not use the 10 percent de Minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - Expenditures not subject to Federal Single Audit

N/A

Note 4 - Student Loans Processed and Administrative Costs Recovered

N/A

Note 5 - Nonmonetary federal assistance received

N/A

Note 6 - Amounts passed through by the College

N/A

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings." The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit's schedule of findings and questioned costs and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

I. Prior Audit Findings

None Noted

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports."

I. Corrective Action Plan

Not Applicable

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