

South Plains College

Levelland, Texas

Annual Financial Report

For the Years ended August 31, 2019 and 2018

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SOUTH PLAINS COLLEGE
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

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INTRODUCTORY SECTION

**SOUTH PLAINS COLLEGE
CERTIFICATE OF BOARD OF REGENTS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018**

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

Approved

☒

Disapproved

☐

for the year ended August 31, 2019, at a meeting of the Board of Regents of South Plains College on the

21st

day of

November

, 2019



Signature Board of Regents President



Signature Board of Regents Secretary

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

**SOUTH PLAINS COLLEGE
ORGANIZATIONAL DATA
AUGUST 31, 2019**

Board of Regents

Officers

Mike Box
Bobby G. Neal
Linda Patton

Chairman
Vice-Chairman
Secretary

Members

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

Executive Administration

Dr. Robin Satterwhite
Teresa Green, CPA
Dr. Ryan Gibbs
Stephen John, MBA
Dr. Stanley DeMerritt

President
Vice-President for Business Affairs
Vice-President for Academic Affairs
Vice-President for Institutional Advancement
Vice-President for Student Affairs

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of South Plains College, ("the College") and the discretely presented component unit of the College, as of and for the years ended August 31, 2019, and August 31, 2018 and the related notes to the financial statements, which collectively comprise the College's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Plains College and the discretely presented component unit, of South Plains College, as of August 31, 2019 and August 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

As described in Note 2 to the financial statements, in 2019, South Plains College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, in 2019, South Plains College adopted new accounting guidance. Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement Obligations*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

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

In accordance with *Government Auditing Standards and the State of Texas Single Audit Circular*, we have also issued our report dated November 21, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards and the State of Texas Single Audit Circular* in considering South Plains College's internal control over financial reporting and compliance.

Respectfully submitted,

Pate, Downs & Pinkerton, LLP

Pate, Downs & Pinkerton, LLP

Levelland, Texas

November 21, 2019

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Plains College Annual Financial Report presents our discussion and analysis of the College's financial performance during the fiscal year ended August 31, 2019. This section should be read in conjunction with the College's financial statements presented in the tables that follow.

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

FINANCIAL HIGHLIGHTS 2017-2019					
	2019	2018	% CHANGE 2019	2017	% CHANGE 2019
REVENUES					
OPERATING REVENUES	\$ 21,609,312	\$ 21,380,120	1.1%	\$ 21,560,703	0.2%
NON-OPERATING REVENUES	\$ 48,440,431	\$ 53,519,852	-9.5%	\$ 44,694,712	8.4%
TOTAL	\$ 70,049,743	\$ 74,899,972	-6.5%	\$ 66,255,415	5.7%
EXPENSES					
OPERATING EXPENSES	\$ 69,829,292	\$ 67,753,689	3.1%	\$ 67,146,556	4.0%
NON-OPERATING EXPENSES	\$ 614,678	\$ 694,878	-11.5%	\$ 616,585	-0.3%
TOTAL	\$ 70,443,970	\$ 68,448,567	2.9%	\$ 67,763,141	4.0%
INCREASE IN NET POSITION	\$ (394,227)	\$ 6,451,405	-106.1%	\$ (1,507,726)	-73.9%
TOTAL NET POSITION	\$ 11,933,643	\$ 12,327,870	-3.2%	\$ 56,907,456	-79.0%
CURRENT ASSETS	\$ 40,830,405	\$ 39,118,684	4.4%	\$ 35,290,885	15.7%
CURRENT LIABILITIES	\$ 22,065,622	\$ 21,996,411	0.3%	\$ 19,154,993	15.2%
CURRENT RATIO	1.85	1.78	N/A	1.84	N/A

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

The College's combined net position was \$11.9 million at August 31, 2019. See Table A-1.

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

ASSETS	2019	2018	% CHANGE 2019	2017	% CHANGE 2019
CURRENT ASSETS	\$ 40.8	\$ 39.1	4.3%	\$ 35.3	15.6%
CAPITAL ASSETS	\$ 73.1	\$ 72.7	0.6%	\$ 70.5	3.7%
OTHER NON CURRENT ASSETS	\$ 0.2	\$ 0.3	N/A	\$ -	N/A
TOTAL	\$ 114.1	\$ 112.1	1.8%	\$ 105.8	7.8%
DEFERRED OUTFLOWS	\$ 20.0	\$ 3.5	471.4%	\$ 2.7	640.7%
LIABILITIES					
LONG TERM DEBT OUTSTANDING	\$ 79.4	\$ 69.1	14.9%	\$ 30.5	160.3%
OTHER LIABILITIES	\$ 22.1	\$ 22.0	0.5%	\$ 19.2	15.1%
TOTAL	\$ 101.5	\$ 91.1	11.4%	\$ 49.7	104.2%
DEFERRED INFLOWS	\$ 20.7	\$ 12.3	68.3%	\$ 1.9	989.5%
NET POSITION					
INVESTED IN CAPITAL ASSETS					
NET OF DEBT	\$ 54.7	\$ 52.9	3.4%	\$ 46.9	16.6%
RESTRICTED	\$ 2.3	\$ 2.5	-8.0%	\$ 2.5	-8.0%
UNRESTRICTED	\$ (45.1)	\$ (43.1)	4.6%	\$ 7.5	-701.3%
TOTAL NET POSITION	\$ 11.9	\$ 12.3	-3.3%	\$ 56.9	-79.1%

The negative \$45.1 million unrestricted fund balance is primarily due to Government Accounting Standards Board (GASB) Statement 68 and 75 requirements. GASB 68 requires the college to record long term obligations for pensions (TRS) and GASB 75 requires the college to record long term obligations for other post-employment benefits (insurance for retirees). GASB 68 was implemented in FY2015 and GASB 75 was implemented in FY2018. These statements require the posting of non-cash entries that have a negative effect on the unrestricted net position. Without these entries, the unrestricted net position would be \$17,861,470 on August 31, 2019.

Changes in net position. As Table A-1 illustrates, the College's net position for FY2019 decreased by 3.3% as compared to FY2018 and decreased by 79.1% compared to the balance reported in FY2017.

COLLEGE REVENUES AND EXPENSES

The College's total revenues for FY2019 were \$70 million. This represents a \$4.9 million decrease from FY2018. This is mostly from a decrease in gifts of \$4.6 million from 2018 to 2019. Approximately 26% of total revenues comes from State appropriations, 29% from Federal and State grants and contracts, 23% from tuition and fees, 16% from property taxes, and the remaining 6% from other sources. The College's total operating expenses were \$69.8 million. This represents a 2.9% increase from 2018 and a 4% increase from 2017. The following are financial highlights presented in Table A-2.

- Property tax revenues increased \$656,627 from FY2018 to FY2019 and increased \$748,541 from FY2017 to FY2018.
- State appropriations amounts decreased by \$1.5 million due primarily to a decrease in OPEB and TRS non-cash revenue. The appropriations for contact hour funding remained the same.
- The out-of-district and non-resident tuition amounts increased by \$5 per semester credit hour. Instructional support fee increased by \$10 per semester hour for Reese, Lubbock Center and Plainview Center.
- Gifts decreased by \$4.6 million from FY2018. There was a \$3 million decrease in gifts-in-aid of debt service and a \$1.5 million decrease in gifts-in-aid of construction.

**TABLE A-2
SOUTH PLAINS COLLEGE
SOURCES OF REVENUE
FY2019**

REVENUE SOURCES(millions)	2019		2018		2017	
STATE APPROPRIATIONS	\$ 18.2	26.0%	\$ 19.7	26.3%	\$ 18.4	27.8%
TUITION AND FEES	\$ 16.3	23.3%	\$ 16.3	21.8%	\$ 16.7	25.2%
PROPERTY TAXES	\$ 10.8	15.4%	\$ 10.2	13.6%	\$ 9.4	14.2%
FEDERAL AND STATE GRANTS	\$ 20.3	29.0%	\$ 19.9	26.2%	\$ 18.2	27.5%
OTHER	\$ 4.4	6.3%	\$ 8.8	11.7%	\$ 3.5	5.3%
TOTAL	\$ 70.0	100.0%	\$ 74.9	100.0%	\$ 66.2	100.0%

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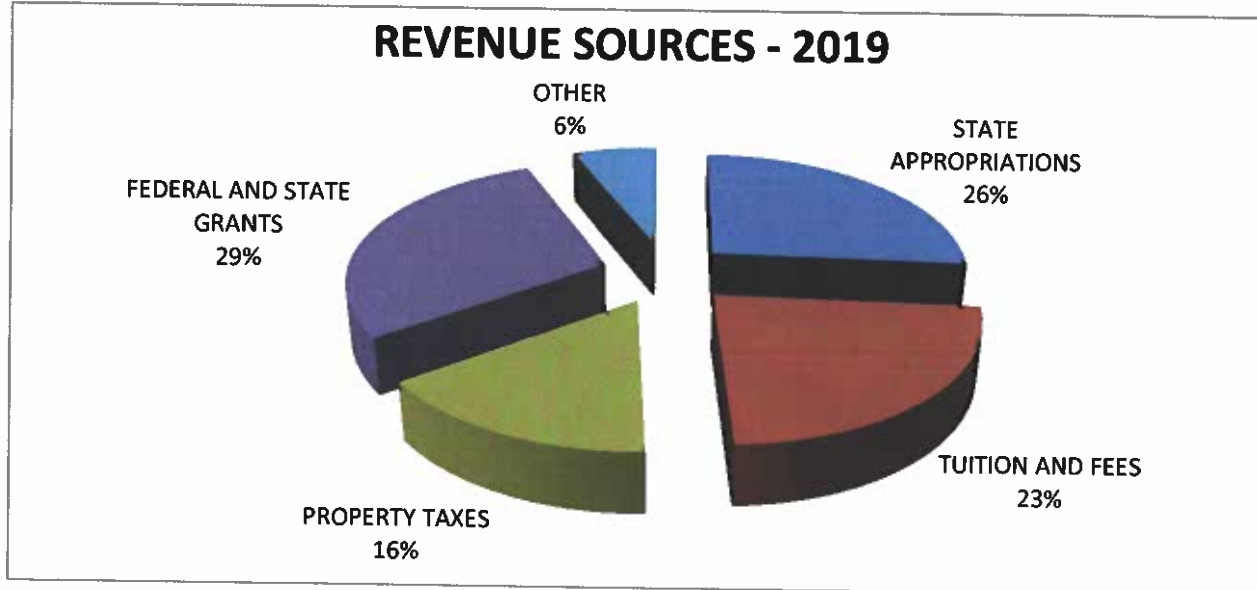


TABLE A-3
CHANGES IN THE NET POSITION OF SOUTH PLAINS COLLEGE
(in millions)

	2019	2018	% CHANGE 2019	2017	% CHANGE 2019
<u>OPERATING REVENUES</u>					
TUITION AND FEES(NET OF DISCOUNTS)	\$ 16.3	\$ 16.3	0.0%	\$ 16.7	-2.4%
FEDERAL GRANTS AND CONTRACTS	\$ 2.1	\$ 2.0	5.0%	\$ 1.7	23.5%
STATE GRANTS AND CONTRACTS	\$ 0.8	\$ 0.8	0.0%	\$ 0.9	-11.1%
NON GOVERNMENTAL GRANTS AND CONTRACTS	\$ 0.1	\$ 0.1	0.0%	\$ 0.1	0.0%
SALES AND SERVICES EDUCATIONAL ACTIVITIES	\$ 0.1	\$ 0.1	0.0%	\$ 0.1	0.0%
AUXILIARY ENTERPRISES (NET OF DISCOUNTS)	\$ 2.0	\$ 1.9	5.3%	\$ 1.9	5.3%
GENERAL OPERATING REVENUES	\$ 0.2	\$ 0.2	0.0%	\$ 0.2	0.0%
TOTAL OPERATING REVENUES	\$ 21.6	\$ 21.4	0.9%	\$ 21.6	0.0%
<u>OPERATING EXPENSES</u>					
INSTRUCTION	\$ 29.8	\$ 29.3	1.7%	\$ 30.9	-3.6%
PUBLIC SERVICE	\$ 0.5	\$ 0.5	0.0%	\$ 0.8	-37.5%
ACADEMIC SUPPORT	\$ 3.5	\$ 3.1	12.9%	\$ 3.1	12.9%
STUDENT SERVICES	\$ 6.8	\$ 6.7	1.5%	\$ 6.7	1.5%
INSTITUTIONAL SUPPORT	\$ 10.7	\$ 10.5	1.9%	\$ 7.2	48.6%
OPERATING AND MAINTENANCE OF PLANT	\$ 6.3	\$ 6.3	0.0%	\$ 6.5	-3.1%
SCHOLARSHIPS AND FELLOWSHIPS	\$ 6.3	\$ 6.5	-3.1%	\$ 5.6	12.5%
AUXILIARY ENTERPRISES	\$ 3.3	\$ 2.2	50.0%	\$ 3.8	-13.2%
DEPRECIATION	\$ 2.6	\$ 2.7	-3.7%	\$ 2.5	4.0%
TOTAL OPERATING EXPENSES	\$ 69.8	\$ 67.8	2.9%	\$ 67.1	4.0%
<u>NON-OPERATING REVENUES(EXPENSES)</u>					
STATE APPROPRIATIONS	\$ 18.2	\$ 19.7	-7.6%	\$ 18.4	-1.1%
TAXES-MAINTENANCE AND OPERATIONS	\$ 10.8	\$ 10.2	5.9%	\$ 9.4	14.9%
FEDERAL REVENUE, NON-OPERATING	\$ 17.3	\$ 17.1	1.2%	\$ 15.6	10.9%
GIFTS	\$ 1.5	\$ 6.1	-75.4%	\$ 1.0	50.0%
INVESTMENT INCOME	\$ 0.6	\$ 0.4	50.0%	\$ 0.2	200.0%
INTEREST ON CAPITAL RELATED DEBT	\$ (0.6)	\$ (0.7)	-14.3%	\$ (0.6)	0.0%
TOTAL NON-OPERATING REVENUES(EXPENSES)	\$ 47.8	\$ 52.8	-9.5%	\$ 44.0	8.6%
INCREASE(DECREASE) IN NET ASSETS	\$ (0.4)	\$ 6.4	-106.3%	\$ (1.5)	-73.3%

Capital Assets

At the end of FY2019, the College had invested \$133.5 million (excluding accumulated depreciation) in a broad range of capital assets, including land, equipment, buildings, and vehicles. This amount represents a net increase (including additions and deductions) of \$3 million or 2.3% over last year. A detail listing of activity in the capital assets is presented in Table A-4.

TABLE A-4
Changes in Capital Assets
(in millions)

CHANGES IN CAPITAL ASSETS(millions)	2019	2018	% CHANGE 2019	2017	% CHANGE 2019
LAND	\$ 2.0	\$ 2.0	0.0%	\$ 2.0	0.0%
LIBRARY BOOKS	\$ 3.1	\$ 3.0	3.3%	\$ 2.9	6.9%
CONSTRUCTION IN PROGRESS	\$ 0.7	\$ 4.5	-84.4%	\$ 10.8	-93.5%
BUILDINGS	\$ 103.2	\$ 101.0	2.2%	\$ 90.6	13.9%
LAND IMPROVEMENTS	\$ 2.4	\$ 1.7	41.2%	\$ 1.7	41.2%
FURNITURE, MACHINERY, VEHICLES, OTHER EQUIP.	\$ 13.9	\$ 10.9	27.5%	\$ 10.7	29.9%
TELECOMMUNICATIONS AND PERIPHERAL EQUIPT.	\$ 8.2	\$ 7.4	10.8%	\$ 7.2	13.9%
TOTAL	\$ 133.5	\$ 130.5	2.3%	\$ 125.9	6.0%
LESS ACCUMULATED DEPRECIATION	\$ (60.3)	\$ (57.8)	4.3%	\$ (55.4)	8.8%
NET CAPITAL ASSETS	\$ 73.2	\$ 72.7	0.7%	\$ 70.5	3.8%

Long Term Debt

At year-end, the College had \$17.2 million in long-term bonds outstanding as shown in Table A-5 below. there is an increase in net pension liability associated with TRS of \$4.7 million from FY2018. This liability is recorded in order to comply with Governmental Accounting Standards Board (GASB) Statement 68. GASB 68 states that beginning in fiscal year 2015, participating employers must report their proportionate share of the unfunded net pension liability on the balance sheet. Additionally, OPEB liability has increased by \$6.9 million. This liability is recorded to comply with GASB 75. More detailed information about the College's debt is presented in the notes to the financial statements.

TABLE A-5
Long-Term Debt

	South Plains College Long Term Debt (in millions of dollars)		
	2019	2018	2017
Tuition Revenue Bonds Payable	\$ 17.2	\$ 18.5	\$ 22.4
Net Pension Liability (TRS)	\$ 11.6	\$ 6.9	\$ 8.1
Net OPEB Liability	\$ 50.6	\$ 43.7	\$ -
Total long term debt	\$ 79.4	\$ 69.1	\$ 30.5

POSSIBLE FUTURE FINANCIAL EFFECTS ON COLLEGE OPERATIONS

Enrollment levels directly affect tuition and fee revenues and auxiliary enterprise sales, services, and fee revenues. Population demographics (number of potential students) and the overall area economic condition also affect enrollment. South Plains College continues to experience a relatively stable enrollment. In the fall 2017 semester, the student enrollment was 9,283. This represented a decrease of about 1.9% in unduplicated headcount from previous fall. The fall 2018 enrollment was 9,279, which was a decrease of only four students from 2018. The unduplicated headcount in the fall 2019 semester was 9,196, which is less than a 1% decrease. Student enrollment needs to increase or at least stabilize in order for the College to sustain its present level of operations.

In addition to the opening of the Lubbock Center in August 2017 and the culinary arts addition in August 2018, South Plains College has continued to plan for the expansion of facilities. An agreement to purchase the current City Hall building in downtown Lubbock, Texas for \$2 million was finalized during FY2019. The College plans to renovate this facility to serve as a downtown

academic center. The renovations will be funded by \$16 million in grants. The Lubbock Economic Development Alliance (LEDA) has pledged \$10 million in grants and The CH Foundation has committed to \$6 million in grants. In addition, LEDA will also be providing six annual payments of \$500,000 for help with administrative costs during the first six years of operations. The new facility is projected to open in Fall 2021. The student population in Lubbock County will be better served with the addition of this facility.

The Board of Regents approved new construction and renovation of the Science Building on the Levelland campus during this fiscal year. The college has received a \$7 million pledge from The William R. & Sandra L. Wheeler Charitable Foundation to help with construction. In addition, The Helen Jones Foundation has committed \$5 million in grants toward this project. An additional grant of \$350,000 from the Montgomery Family Foundation has been pledged toward this project. A \$100 building use fee for every class taught in the Science Building was implemented during FY2019 to help with construction costs.

The State of Texas contributes a significant portion of the College's revenues through state appropriations for educational operations and employee benefits. There was a decrease in State Appropriations of \$1.5 million from FY2018 to FY2019. This was due to a non-cash decrease in OPEB and TRS revenue. The contact hour funding remained the same from FY2018 to FY2019. The judicious use of deferred maintenance funds for normal College operations, raising tuition/fee charges, and the stability of state appropriations has been successful in maintaining normal operations. In order to receive more state appropriations, the College must implement strategies to increase contact hours through higher enrollment in future semesters.

The implementation of GASB 68 to record the unfunded TRS liability has created a net pension liability of \$11.6 million as of FY2019, an increase of \$4.7 million from FY2018. The implementation of GASB 75 created a restatement of fund balance of (\$51,030,991) for FY2017. There is currently a liability of OPEB of \$50.6 million as of FY2019 – and increase of \$6.9 in FY2019.

Investment markets and the economy affect interest rates. Given the current state of the economy, markets, and interest rates, the outlook for the College's investment income is positive. Presently, returns continue to increase. Investment income increased from \$58,917 in FY2015 to \$366,429 in FY2018. The investment income increased again in FY2019 to \$575,128. The College will continue with the stated policy of preserving capital first and maximizing investment returns second.

The volatility of the oil and gas market will continue to affect the mineral tax base of the College. The taxable assessed value fell from \$4.7 billion in FY2015 to \$3.4 billion in FY2016. The values decreased again for FY2017 to \$2.3 billion. South Plains College reached the cap of \$0.40 per \$100 valuation in FY2017 causing the College to lose approximately \$3.3 million in revenue in FY2017. The taxable assessed value for FY2018 was \$2.5 billion, an increase of \$212 million from the previous year. This resulted in an increase of \$748,541 received in FY2018. The values increased again for FY2019 to \$3.1 billion. This increase represents an increase of \$656,627 received in FY2019. Mineral values increased again for FY2020 resulting in an \$800,000 increase in the operational budget for tax revenues for FY2020. It appears that mineral valuations may likely increase in the coming years, but the current volatile energy market is difficult to predict.

The College has several initiatives underway that will contribute to needed enrollment growth once fully implemented. New program development, such as the culinary arts program, will contribute to future enrollment growth. The College began expanding its career and technical education dual credit course offerings in the spring 2019 semester which increased dual credit student enrollment. South Plains College and Texas Tech University signed a memorandum of understanding on April 1, 2019 that provides a pathway for students who start at SPC with the intention of transferring to Texas Tech University. This program will provide a smooth transition for transfer students.

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

The South Plains College Foundation is governed by a 30-member Board of Directors that is committed to a long-standing tradition of service to the students of South Plains College. The purpose of the Foundation is to advance the College by raising and receiving funds to support the educational mission of the College through scholarships, program enrichment and capital improvements. To this end, the Foundation has traditionally focused its operations on maximizing efforts to grow scholarship endowments to support the educational dreams of SPC students. However, development efforts recently have been directed at securing private and public grants to support capital improvements, such as the Lubbock Center project and the culinary arts program start-up. The Foundation began receiving these grants for capital improvements during the 2018 fiscal year and will continue to receive grants for these two projects through Fiscal Year 2021. Additionally, the Foundation has secured capital improvement grants for the Science Building renovation project and the Lubbock Downtown Academic Center. The Foundation will begin receiving funds for these projects in FY 2020 and will continue to receive funds through FY 2026.

The South Plains College Foundation recorded a 2.5 percent increase in total net position over the prior period with total net assets of \$23,184,961 for FY 2019. This moderate increase was due to an estimated 3.7 percent average return on investment for the fiscal year resulting in \$881,291 of short-term investment revenue, as illustrated in the Financial Highlights Table. Return on investment for prior years was

FINANCIAL HIGHLIGHTS FY 2017 to FY 2019					
	FY 2019	FY 2018	Percent Change 2019	FY 2017	Percent Change 2019
REVENUES					
Gifts	\$551,228	\$503,749	9.4%	\$630,739	-12.6%
Grants for SPC	\$1,125,000	\$5,128,798	-78.1%	\$18,700	5916.0%
Fundraising	\$242,080	\$284,010	-14.8%	\$202,645	19.5%
Investments	\$881,291	\$2,113,148	-58.3%	\$2,200,682	-60.0%
Other	\$10,691	\$21,120	-49.5%	\$18,943	-43.6%
Total	\$2,810,290	\$8,050,825	-65.1%	\$3,071,709	-8.5%
EXPENSES					
Scholarships	\$953,095	\$909,844	4.8%	\$846,864	12.5%
Grants to SPC	\$1,127,345	\$5,134,798	-78.0%	\$20,070	5517.1%
Fundraising	\$42,042	\$44,851	-6.3%	\$37,837	11.1%
Operating	\$112,655	\$107,490	4.8%	\$92,902	21.3%
Total	\$2,235,137	\$6,196,983	-63.9%	\$997,673	124.0%
INCREASE IN NET POSITION	\$575,153	\$1,853,842	-69.0%	\$2,074,036	-72.3%
TOTAL NET POSITION	\$23,184,961	\$22,609,809	2.5%	\$20,755,967	11.7%

9.7 percent for FY 2018, and 11.5 percent for FY 2017. The Foundation's investment goal is twofold: 1) provide long-term growth of fund assets with preservation of capital and purchasing power; and 2) provide sufficient current income to support the activities of the Foundation.

In order to provide South Plains College with adequate annual scholarship funds, the South Plains College Foundation Board of Directors has set a target annual return on investment of 8.0 percent. This allows the Foundation to disburse on the average 5.0 percent annually from scholarship endowment funds, while hedging for inflation. Over the past three years, the Foundation Board of Directors, working with its investment managers, has met this benchmark with an average annual return on investment of 8.3 percent net of fees.

For fiscal year 2019, the Foundation recorded \$793,308 in gifts and fundraising, about 0.7 percent more than the prior year. The Foundation also received \$1,125,000 in non-scholarship restricted grant funds for the benefit of South Plains College. Total revenues for the fiscal year was \$2,810,209.

The Foundation distributed to the College a record \$953,095 in scholarship funds, providing financial assistance to 853 South Plains College students during the academic year. This was a 4.8 percent increase in scholarship spending. A major goal of the Foundation's Board of Directors has been to provide an increasing amount of scholarship funds annually. Over the past five years, the amount of Foundation Scholarship funds awarded has increased 42.0 percent. An additional \$1,127,345 in non-scholarship restricted and unrestricted grants were disbursed for total support of \$2,081,440 to the College.

The direct operating expenses of the Foundation grew by 4.8 percent to \$112,655. These expenses included investment expense (83 percent), planned gift expense (6 percent), liability insurance (5 percent), and other operational expense (6 percent). The College, through its partnership with the Foundation, contributes to the operations of the Foundation by providing in-kind support of personnel, office space, computer resources, travel, office supplies and other operational support estimated to be \$269,184 (unaudited).

ENDOWMENT GROWTH FY 2017 to FY 2019					
	FY 2019	FY 2018	Percent Change 2019	FY 2017	Percent Change 2019
Permanently Restricted	\$14,285,879	\$13,707,256	4.2%	\$12,974,004	10.1%
Temporarily Restricted	<u>\$6,744,203</u>	<u>\$6,738,116</u>	0.1%	<u>\$5,606,611</u>	20.3%
Total Endowment Value	\$21,030,082	\$20,445,372	2.9%	\$18,580,615	13.2%
% Permanent Endowment	68.0%	67.0%		69.8%	

The Foundation's permanent endowment increased 4.2 percent during the fiscal year to \$14,285,879 due to the establishment of new endowments and additions to existing funds. Overall, nine new scholarship endowments, totaling \$108,260, were established during the fiscal year and seven existing scholarship funds reached permanent endowment status. The total endowment increased in value by 2.9 percent to \$21,030,082 with 68.0 percent of funds permanently restricted. For FY 2019, the permanent endowment of the Foundation funded \$722,057 in scholarships, or 75.8 percent of the total scholarship disbursement.

The remaining \$231,038 or 24.2 percent of scholarships came from non-permanent funds and impact scholarship contributions from donors.

The future ability of the Foundation to grow endowments and sustain its current level of scholarship distributions is contingent upon a number of factors that include fundraising, investment market and economic conditions, and capital preservation strategies. Development efforts are focused on identifying new opportunities among SPC alumni and friends for establishing future scholarship endowments. The number of new endowments established on a yearly basis has been steadily increasing and has averaged 12 per year over the past five years. Additional efforts have been made to increase annual giving to provide for unrestricted scholarship funds that can be awarded annually on demand. Giving to the Foundation is always a product of economic conditions as well as the philanthropic spirit of current and new donors.

Given the current state of the economy, investment markets and interest rates, the outlook for Foundation investment income is stable and positive for the foreseeable future. Despite recent volatility in equity markets and low rates of return in fixed income markets, the Foundation's current investment policy and strategies are positioned to provide for an acceptable rate of return that will help fund future scholarships from endowments. However, in order to achieve its annual goal of 8.0 percent return on investment, the Foundation's invested asset distribution may need to encompass a greater percentage of alternative investments. These are strategies the Foundation Board of Directors will need to investigate and consider.

The temporarily restricted endowment funds reported in the Endowment Growth Table represent future scholarships that can be awarded. With all things being equal, these reserves are sufficient to fund scholarships at current disbursement levels for the next seven years. However, market conditions and returns are never certain, and the Foundation will continue with its policy of preserving capital, minimizing risk and providing sufficient income to support activities.

FINANCIAL STATEMENTS

SOUTH PLAINS COLLEGE

EXHIBIT 1

STATEMENT OF NET POSITION
AUGUST 31, 2019 AND AUGUST 31, 2018

ASSETS	2019	2018
Current Assets:		
Cash and Cash Equivalents	\$ 26,285,740	\$ 26,144,646
Accounts Receivable (net)	13,877,284	12,812,663
Other Receivables	645,106	135,000
Inventories	22,275	26,375
Total Current Assets	40,830,405	39,118,684
Noncurrent Assets:		
Capital Assets (net) (See Note 7)	73,163,725	72,728,456
Other Receivables	195,000	340,000
Total Noncurrent Assets	73,358,725	73,068,456
Total Assets	114,189,130	112,187,140
Deferred Outflows of Resources:		
Deferred Outflows Related to TRS	5,048,807	2,224,111
Deferred Outflows Related to OPEB	14,943,665	1,317,755
Other Deferred Outflows	-	-
Total Deferred Outflows	19,992,472	3,541,866
LIABILITIES		
Current Liabilities:		
Accounts Payable	686,293	926,650
Accrued Liabilities	3,377,818	4,040,807
Funds Held for Others	756,804	706,022
Unearned Revenues	15,994,707	15,072,932
Bonds Payable - Current Portion	1,250,000	1,250,000
Total Current Liabilities	22,065,622	21,996,411
Noncurrent Liabilities:		
Bonds Payable	17,250,000	18,500,000
Net TRS Pension Liability	11,593,747	6,920,283
Net OPEB Liability	50,589,495	43,723,593
Total Noncurrent Liabilities	79,433,242	69,143,876
Total Liabilities	101,498,864	91,140,287
Deferred Inflow of Resources:		
Deferred Inflows Related to TRS	1,167,717	2,593,353
Deferred Inflows Related to OPEB	19,581,378	9,667,496
Total Deferred Inflows	20,749,095	12,260,849
NET POSITION		
Invested in Capital Assets, Net of related Debt	54,663,725	52,978,456
Restricted for:		
Expendable		
Student Aid	436,169	373,894
Construction	41,490	
Debt Service	1,703,971	1,667,091
Nursing Program	166,683	416,622
Unrestricted	(45,078,395)	(43,108,193)
Total Net Position (Schedule D)	\$ 11,933,643	\$ 12,327,870

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

**SOUTH PLAINS COLLEGE
SOUTH PLAINS COLLEGE FOUNDATION
AFFILIATED ORGANIZATION
STATEMENT OF FINANCIAL POSITION
YEARS ENDED AUGUST 31, 2019 AND AUGUST 31, 2018**

EXHIBIT 1

	<u>2019</u>	<u>2018</u>
Assets		
Cash and Cash Equivalents	\$ 568,554	\$ 625,618
Accrued Interest Receivable	2,228	1,874
Investments	22,315,325	21,694,151
Planned Gift Cash Value	286,354	275,666
Vacation Time Share	12,500	12,500
Fall Semester Deferred Outflow Scholarships	<u>429,958</u>	<u>341,084</u>
Total Assets	<u>23,614,919</u>	<u>22,950,893</u>
Liabilities		
Fall 2018 Scholarships to South Plains College	<u>429,958</u>	<u>341,084</u>
Total Liabilities	<u>429,958</u>	<u>341,084</u>
Net Assets		
Unrestricted	287,832	265,426
Temporarily Restricted	8,524,720	8,530,021
Permanently Restricted	<u>14,372,409</u>	<u>13,814,362</u>
Total Net Assets	<u>\$ 23,184,961</u>	<u>\$ 22,609,809</u>

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED AUGUST 31, 2019 AND AUGUST 31, 2018

Operating Revenues	2019	2018
Tuition and Fees (net of discounts of \$15,334,918 and \$14,777,755 respectively)	\$ 16,312,605	\$ 16,300,832
Federal Grants and Contracts	2,115,336	1,974,669
State Grants and Contracts	830,248	795,983
Non-Governmental Grants and Contracts	3,597	43,894
Sales and Services of Educational Activities	179,436	180,557
Investment Income - Program Restricted	1,917	1,693
Auxiliary Enterprises (net of discounts of \$649,152 & \$741,390)	1,985,094	1,874,257
General Operating Revenues	181,079	208,235
Total Operating Revenues (Schedule A)	21,609,312	21,380,120
Operating Expenses		
Instruction	29,783,566	29,304,452
Public Service	464,061	454,098
Academic Support	3,533,972	3,140,110
Student Services	6,775,724	6,679,015
Institutional Support	10,653,678	10,478,703
Operation and Maintenance of Plant	6,266,106	6,276,791
Scholarships and Fellowships	6,397,886	6,560,270
Auxiliary Enterprises	3,380,866	2,191,800
Depreciation	2,573,433	2,668,450
Total Operating Expenses (Schedule B)	69,829,292	67,753,689
Operating Loss	(48,219,980)	(46,373,569)
Non-Operating Revenues (Expenses)		
State Appropriations	18,241,406	19,742,032
Maintenance Ad Valorem Taxes	10,813,210	10,156,583
Federal Revenue, Non Operating	17,297,998	17,132,884
Gifts	-	450
Gifts in Kind	4,500	13,915
Gifts in Aid of Debt Service	1,000,000	4,000,000.00
Gifts in Aid of Construction	510,106	2,100,000.00
Investment income	573,211	364,736
Interest on Capital Related Debt	(614,678)	(694,878)
Gain/(Loss) on Disposal of Fixed Assets	-	9,252
Net Non-Operating Revenues (Schedule C)	47,825,753	52,824,974

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED AUGUST 31, 2019 AND AUGUST 31, 2018

	<u>2019</u>	<u>2018</u>
Increase in Net Position	<u>\$ (394,227)</u>	<u>\$ 6,451,405</u>
Net Position		
Net Position - Beginning of Year	12,327,870	56,907,456
Prior Period Adjustment	-	(51,030,991)
Net Position - End of Year	<u><u>\$ 11,933,643</u></u>	<u><u>\$ 12,327,870</u></u>

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

**SOUTH PLAINS COLLEGE
SOUTH PLAINS COLLEGE FOUNDATION
AFFILIATED ORGANIZATION
STATEMENT OF ACTIVITIES
YEARS ENDED AUGUST 31, 2019 AND AUGUST 31, 2018**

EXHIBIT 2

	<u>2019</u>	<u>2018</u>
Revenue		
Cash Gifts	\$ 1,649,085	\$ 5,584,143
Non-Cash Gifts	27,143	48,404
Fund Raising Revenue	242,080	284,010
Investment Income	449,964	392,317
Realized Capital Gain/(Loss)	339,599	227,296
Planned Gift Change in Value	10,691	21,120
Unrealized Market Gain/(Loss)	91,728	1,493,535
Total Revenue	<u>2,810,290</u>	<u>8,050,825</u>
Expense		
Scholarships	953,095	909,844
Fund Raising Expenses	42,042	44,851
Planned Gift Expenses	6,711	6,711
Restricted Program Support	1,125,000	5,125,000
Unrestricted Program Support	2,345	9,798
Bank/Brokerage Fees	92,916	90,272
Other Expenses	13,029	10,507
Total Expenses	<u>2,235,138</u>	<u>6,196,983</u>
Change in Net Assets	575,152	1,853,842
Net Assets at beginning of year	22,609,809	20,755,967
Net Assets at end of year	<u><u>\$ 23,184,961</u></u>	<u><u>\$ 22,609,809</u></u>

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

STATEMENT OF CASH FLOWS
YEARS ENDED AUGUST 31, 2019 AND AUGUST 31, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 18,125,499	\$ 18,247,774
Receipts from grants and contracts	3,269,261	2,766,698
Payments to suppliers for goods and services	(12,525,303)	(12,000,865)
Payments to or on behalf of employees	(41,294,334)	(37,379,775)
Payments for scholarships and fellowships	(6,397,886)	(6,560,270)
Other receipts	182,996	209,928
Net cash used by operating activities	<u>(38,639,767)</u>	<u>(34,716,510)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from state appropriations	13,900,903	13,932,684
Receipts from ad valorem taxes	10,760,459	10,137,633
Receipts from Non Operating Federal Revenue	17,290,631	17,131,324
Receipts from Gifts	-	450
Net cash provided by noncapital financing activities	<u>41,951,993</u>	<u>41,202,091</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds on issuance of capital debt	-	390,642
Contributions received in aid of construction	145,000	1,125,000
Contributions received in aid of debt service	1,000,000	4,000,000
Purchases of capital assets	(3,008,702)	(5,290,930)
Proceeds from sale of capital assets	-	9,252
Payments on capital debt - principal	(1,250,000)	(4,000,000)
Payments on capital debt - interest	(630,252)	(708,299)
Net cash used by capital and related financing activities	<u>(3,743,954)</u>	<u>(4,474,335)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment earnings	<u>572,822</u>	<u>371,522</u>
Net cash provided by investing activities	<u>572,822</u>	<u>371,522</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>141,094</u>	<u>2,382,768</u>
CASH AND CASH EQUIVALENTS—September 1	<u>26,144,646</u>	<u>23,761,878</u>
CASH AND CASH EQUIVALENTS—August 31	<u><u>\$ 26,285,740</u></u>	<u><u>\$ 26,144,646</u></u>

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

STATEMENT OF CASH FLOWS

YEARS ENDED AUGUST 31, 2019 AND AUGUST 31, 2018

	2019	2018
RECONCILIATION OF NET OPERATING LOSS TO NET CASH		
PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (48,219,980)	\$ (46,373,569)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	2,573,433	2,668,449
Bad debt expense	-	109,160
Gift in kind expenditure	4,500	13,915
Payments made directly by state for benefits	4,340,503	5,809,352
TRS non cash items	423,132	(138,582)
ERS non cash items	3,153,874	1,042,343
Changes in assets and liabilities:		
Receivables (net)	(1,004,112)	(1,575,710)
Inventories	4,100	(26,375)
Other Deferred Outflows	-	93,893
Accounts payable	(240,357)	(24,407)
Accrued liabilities	(647,417)	2,353,506
Funds held for others	50,783	(26,527)
Unearned revenue	921,774	1,358,042
Net cash used by operating activities	<u>\$ (38,639,767)</u>	<u>\$ (34,716,510)</u>

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

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

1. Reporting Entity

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

2. Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants (TPEG)

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

Title IV, Higher Education Act Program Funds

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

Other Tuition Discounts

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

Basis of Accounting

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

Budgetary Data

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

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Cash and Cash Equivalents

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

Deferred Outflows

In addition to assets, the College is aware that the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are only permitted to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on refunding debt.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, the College reports investments at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of \$1,021,468 and \$4,889,199 at 2019 and 2018, respectively to be short-term investments. Long-term investments have an original maturity of greater than one year at time of purchase.

Inventories

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

Capital Assets

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

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

Other Post-Employment Benefits (OPEB)

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

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Pensions

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

Unearned Revenue

Tuition and fees of \$15,924,910 and \$15,022,844 and federal, state and local grants of \$69,797 and \$50,088 have been reported by the College as unearned revenue at August 31, 2019 and 2018, respectively.

Deferred Inflows

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

Estimates

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

Operating and Non-Operating Revenue and Expense Policy

The College distinguishes operating revenues and expenses from non-operating items. The College reports as a BTA and as a single proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The operation of the bookstore and the cafeteria are not performed by the College.

When the College incurs an expense for which both restricted and unrestricted resources may be used, it is the College's policy to use restricted resources first, then unrestricted resources.

Prior Year Restatement

The College makes a prior year restatement, as necessary, in accordance with APB 20.

GASB 75 Restatement

Restatement to Beginning Net Position

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

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

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

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

Restatement to Beginning Accounts Receivable (Net) and Unearned Revenue

Beginning net position as of September 1, 2017 has also been restated as follows. Accounts Receivable (Net) and Unearned Revenue have been restated due to a change in accounting software. In the past, fall tuition and fees were recorded as unearned only if cash payments were received in advance before year end. The new accounting system now records an account receivable for tuition and fees when the student registers for the Fall semester. Early registration begins in April. The change has no impact on net position and the changed accounts are as follows:

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

Implementation of New Accounting Standards

Governmental Accounting Standards Board (GASB) Statement No. 83 Certain Asset Retirement Obligations

This statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement.

The College does not currently have any ARO's and does not expect that implementation of the pronouncement will have an impact on the financial statements.

The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2018. The College has implemented the provisions of this Statement for the year ended August 31, 2019.

Governmental Accounting Standards Board (GASB) Statement No. 88 Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements

The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

This Statement is effective for financial statements for periods beginning after June 15, 2018. The College has implemented the provisions of this Statement for the year ended August 31, 2019.

3. Authorized Investments

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

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

We have performed tests designed to verify South Plains College's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2019, no instances of noncompliance were found.

4. Deposits and Investments

At August 31, 2019 and 2018, South Plains College's deposits were covered by federal depository insurance or by collateral pledged in South Plains College's name. The collateral was held by the College's agent.

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

	Cash and Deposits			
	Primary Institution		Component Unit	
	2019	2018	2019	2018
Bank Deposits				
Demand Deposits	\$ 7,959,330	\$ 7,979,607	\$ 362,044	\$ 409,487
Savings and Money Market Accounts	17,298,954	13,268,541	206,510	216,131
Certificates of Deposit	-	-	-	-

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Total Bank Deposits	\$ 25,258,284	\$ 21,248,148	\$568,554	\$ 625,618
Cash and Cash Equivalents				
Petty Cash on Hand	5,988	7,299	-	-
Investment Pool	1,021,468	4,889,199	-	-
Total (Exhibit 1)	\$ 26,285,740	\$ 26,144,646	\$568,554	\$ 625,618

Reconciliation of Deposits and Investments to Exhibit 1:

<u>Type of Security</u>	<u>Primary Institution</u>		<u>Component Unit</u>	
	<u>Market Value August 31, 2019</u>	<u>Market Value August 31, 2018</u>	<u>Market Value August 31, 2019</u>	<u>Market Value August 31, 2018</u>
Preferred Securities	\$ -	\$ -	\$ -	\$ -
Corporate Equities	-	-	1,609,255	2,240,512
U.S. Government Agencies	-	-	200,427	318,683
Corporate Bonds and Notes	-	-	-	-
Mutual Funds	-	-	19,841,578	18,405,548
Other	-	-	965,147	1,017,574
Totals	\$ -	\$ -	\$ 22,616,407	\$ 21,982,317
Total Cash and Deposits	\$ 26,285,740	\$ 26,144,646	\$ 568,554	\$ 625,618
Total Investments	-	-	22,616,407	21,982,317
Total Deposits and Investments	\$ 26,285,740	\$ 26,144,646	\$ 23,184,961	\$ 22,607,935
Cash and Cash Equivalents (Exhibit 1)	\$ 26,285,740	\$ 26,144,646	\$ 568,554	\$ 625,618
Investments (Exhibit 1)	-	-	22,616,407	21,982,317
Total Deposits and Investments	\$ 26,285,740	\$ 26,144,646	\$ 23,184,961	\$ 22,607,935

As of August 31, 2019, the College had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weight Average Maturity (Years)</u>
None	\$ N/A	N/A
<u>Component Unit</u>		
Corporate Equities	\$ 1,609,255	N/A
U.S. Government Agencies	200,427	Undeterminable
Mutual Funds	19,841,578	N/A
Other	965,147	N/A
Total Fair Value	\$ 22,616,407	N/A

Portfolio Weighted Average Maturity – N/A

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

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

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

<u>Type of Investment</u>	<u>Rating</u>
Money Market Accounts	Unrated
Investment Pools	AAA

Concentration of Credit Risk - The College does not place a limit on the amount the College may invest in any one issuer. More than 5% of the Component Unit's investments are in CFI Multi-Strategy Equity Fund, LLC (50.8%), CFI Multi-Strategy Bond Fund, LLC (30.6%), and CF Global Multi-Asset Portfolio, LLC (18.6%).

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

5. Fair Value of Financial Instruments

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

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

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

The fair value hierarchy of investments for the component unit at August 31, 2019 follows:

	2019				2018
	Level 1	Level 2	Level 3	Total	Total
Fixed income securities	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual Funds	19,841,578	-	-	19,841,578	18,405,548
Marketable Securities	1,609,255	-	-	1,609,255	2,240,512
U.S. government securities	200,427	-	-	200,427	318,683
Municipal bonds	-	-	-	-	-
Other Investments	666,293	-	298,854	965,147	1,017,574
Total	\$ 22,317,553	\$ -	\$ 298,854	\$22,616,407	\$21,982,317

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

6. Derivatives

South Plains College did not investment in derivatives during the years ended August 31, 2019 and 2018.

7. Capital Assets

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

	Balance September 1, 2018	Increases	Decreases	Balance August 31, 2019
<u>Not Depreciated:</u>				
Land	\$ 2,013,473	\$ -	\$ -	\$ 2,013,473
Construction in Process	4,414,780	576,104	4,270,362	720,522
Subtotal	6,428,253	576,104	4,270,362	2,733,995
<u>Buildings and Other Capital Assets:</u>				
Buildings and Improvements	100,992,869	2,123,401	-	103,116,270
Other Real Estate Improvements	1,731,684	689,049	-	2,420,733
Furniture, Machinery, Vehicles, and Other Equipment	10,897,829	3,047,002	-	13,944,831
Telecommunications and Peripheral Equipment	7,417,281	792,809	-	8,210,090
Library Books	3,040,735	50,699	-	3,091,434
Total Buildings and Other Capital Assets	124,080,398	6,702,960	-	130,783,358
<u>Accumulated Depreciation:</u>				
Buildings and Improvements	39,866,551	1,431,618	-	41,298,169
Other Real Estate Improvements	751,332	80,797	-	832,129
Furniture, Machinery, Vehicles, and Other Equipment	7,653,799	664,334	-	8,318,133
Telecommunications and Peripheral Equipment	6,490,809	346,389	-	6,837,198
Library Books	3,017,704	50,295	-	3,067,999
Total Accumulated Depreciation	57,780,195	2,573,433	-	60,353,628
Net Buildings and Other Capital Assets	66,300,203	4,129,527	-	70,429,730
Net Capital Assets	\$ 72,728,456	\$ 4,705,631	\$4,270,362	\$ 73,163,725

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Capital Assets Comparative

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

	Balance September 1, 2017	Increases	Decreases	Balance August 31, 2018
<u>Not Depreciated:</u>				
Land	\$ 2,013,473	\$ -	\$ -	\$ 2,013,473
Construction in Process	10,843,300	3,185,576	9,614,096	4,414,780
Subtotal	12,856,773	3,185,576	9,614,096	6,428,253
<u>Buildings and Other Capital Assets:</u>				
Buildings and Improvements	90,564,041	10,428,828	-	100,992,869
Other Real Estate Improvements	1,682,859	48,825	-	1,731,684
Furniture, Machinery, Vehicles, and Other Equipment	10,653,029	374,168	129,368	10,897,829
Telecommunications and Peripheral Equipment	7,180,809	236,472	-	7,417,281
Library Books	2,941,808	98,928	-	3,040,735
Total Buildings and Other Capital Assets	113,022,547	11,187,221	129,368	124,080,398
<u>Accumulated Depreciation:</u>				
Buildings and Improvements	38,449,873	1,416,678	-	39,866,551
Other Real Estate Improvements	675,054	76,278	-	751,332
Furniture, Machinery, Vehicles, and Other Equipment	7,162,895	620,272	129,368	7,653,799
Telecommunications and Peripheral Equipment	6,138,303	352,506	-	6,490,809
Library Books	2,932,280	202,717	117,291	3,017,704
Total Accumulated Depreciation	55,358,405	2,668,449	117,291	57,780,195
Net Buildings and Other Capital Assets	57,664,140	8,518,772	-117,291	66,300,203
Net Capital Assets	\$ 70,520,913	\$ 11,704,348	\$ 9,496,805	\$ 72,728,456

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

8. Non-Current Liabilities

Non- Current liability activity for the year ended August 31, 2019, was as follows:

	Balance September 1, 2018	Additions	Reductions	Balance August 31, 2019	Current Portion
<u>Leases, Bonds and Notes</u>					
Revenue Bonds	\$ 19,750,000	\$ -	\$ 1,250,000	\$18,500,000	\$1,250,000
Net Pension Liability	6,920,283	5,383,033	709,569	11,593,747	N/A
Net OPEB Liability	43,723,593	4,103,016	-2,762,886	50,589,495	N/A
Total Long-term Liabilities	\$70,393,876	\$ 9,486,049	\$ -803,317	\$80,683,242	\$1,250,000

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

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

9. Debt and Lease Obligations

Debt service requirements at August 31, 2019, were as follows:

For the Year Ended August 31,	Bonds		Notes from Direct Borrowings and Direct Placements		Total
	Principal	Interest	Principal	Interest	
2020	\$ -	\$ -	\$ 1,250,000	\$ 580,938	\$ 1,830,938
2021	-	-	1,250,000	540,312	1,790,312
2022	-	-	1,250,000	499,688	1,749,688
2023	-	-	1,250,000	459,062	1,709,062
2024	-	-	1,250,000	418,438	1,668,438
2025-2029	-	-	6,250,000	1,482,812	7,732,812
2030-2034	-	-	6,000,000	471,250	6,471,250
2035-2037	-	-	-	-	-
TOTAL	\$ -	\$ -	\$ 18,500,000	\$4,452,500	\$ 22,952,500

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

10. Bonds Payable

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

Issued for the purpose of providing funds to (i) acquire, purchase, construct, improve, renovate, enlarge, equip, operate, and/or maintain any property, buildings, structures, activities, operations, of any nature, for and on behalf of the Junior College owned and operated by the College, (ii) refund of the Refunded Bonds, and (iii) pay the costs related thereto. Authorized 6/09/2016 and maturing 10/15/2035 in the original amount of \$25,000,000. The source of revenues shall be no less than an amount equal to \$3.00 per semester hour for each enrolled student in both regular and summer semesters. If the College does need additional revenue, tuition will be pledged not to exceed 25% of the tuition charges collected from each enrolled student. Events of default include the failure to make payment of the principal or interest on any of the Bonds when they become due and payable or the default in the performance or observance of any other covenant, agreement or obligation of the College in relation to the Bonds. The Bonds have been issued as a private placement. The amount of Bonds outstanding at 8/31/19 is \$18,500,000. The interest rate on the Bonds is 3.25%.

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

11. Advance Refunding Bonds

None

12. Defeased Bonds Outstanding

None

13. Short-term Debt

The College had no short-term debt at August 31, 2019.

14. Employees Retirement Plan

Teacher Retirement System of Texas – Defined Benefit Pension Plan

Plan Description

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

Contributions

Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution, which requires the Texas Legislature to establish a member contribution rate of not less than 6.0 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10 percent of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

	Contribution Rates	2019	2018
Member		7.7%	7.7%
Non-Employer Contributing Entity (State)		6.8%	6.8%
Employers		6.8%	6.8%
2018 Member Contributions		\$ 1,282,952	
2018 State of Texas On-Behalf Contributions		\$ 536,121	
2018 College Contributions		\$ 707,964	

The College's contributions to the TRS pension plan in 2019 were \$770,990 as reported in the Schedule of College Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2019 were \$509,003.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

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

Public junior colleges are required to pay the employer contribution rate in the following instances:

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

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

Actuarial Assumptions

The total pension liability in the August 31, 2018 actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	6.907%
Long-term Expected Investment Rate of Return*	7.25%
Municipal Bond Rate*	3.69%*
Last year ending August 31 in the 2016 to 2115 projection period (100 years)	2116
Inflation	2.30%
Payroll Growth Rate	X.X%
Salary Increases including inflation	3.50% to 9.50%
Benefit changes during the year	
Post-employment benefit changes	None

**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."*

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

The actuarial methods and assumptions were selected by the board of trustees based upon analysis and recommendations by the system's actuary. The board of trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2017 and were adopted in July, 2018. There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period. Assumptions, methods, and plan changes were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including postretirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8 percent to 7.25 percent
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

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

Discount Rate

The discount rate used to measure the total pension liability was 6.907 percent. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. 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 these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term rate of return on pension plan investments is 7.25 percent. The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in TRS' target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns *
Global Equity			
U.S.	18.0%	5.7%	1.0%
Non-U.S. Developed	13.0%	6.9%	0.9%
Emerging Markets	9.0%	8.9%	0.8%
Directional Hedge Funds	4.0%	3.5%	0.1%
Private Equity	13.0%	10.2%	1.3%

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Stable Value			
U.S. Treasuries	11.0%	1.1%	0.1%
Absolute Return	0.0%	0.0%	0.0%
Stable Value Hedge Funds	4.0%	3.1%	0.1%
Cash	1.0%	-0.3%	0.0%
Real Return			
Global Inflat. Linked Bonds	3.0%	0.7%	0.0%
Real Assets	14.0%	5.2%	0.7%
Energy & Natural Resources	5.0%	7.5%	0.4%
Commodities	0.0%	0.0%	0.0%
Risk Parity			
Risk Parity	5.0%	3.7%	0.2%
Inflation Expectation			2.3%
Alpha			-0.8%
Total	100.0%		7.2%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns. Source: Teacher Retirement System of Texas 2018 Comprehensive Annual Financial Report.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1 percent less and 1 percent greater than the discount rate that was used (8%) in measuring the 2019 net pension liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
College's proportionate share of the net pension liability	\$ 17,497,744	\$ 11,593,747	\$ 6,814,111

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

At August 31, 2019, the College reported a liability of \$11,593,747 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the College were as follows:

College's proportionate share of the collective net pension liability	\$ 11,593,747
State's proportionate share of the net pension liability associated with the College	8,321,857
Total	\$ 19,915,604

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

The net pension liability was measured as of August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The College's proportion of the net pension liability was based on the College's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At the measure date of August 31, 2018, the employer's proportion of the collective net pension liability was 0.0210632914% which was a decrease of 0.0005797624% from its proportion measured as of August 31, 2017.

For the year ended August 31, 2019, the College recognized pension expense of \$1,248,041 and revenue of \$823,642 for support provided by the State. Refer to the 2019 Schedule of On-Behalf Contributions for this information posted on the TRS website under GASB Statements 67 and 68.

At August 31, 2019, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 72,266	\$ 284,465
Changes in actuarial assumptions	4,180,104	130,628
Difference between projected and actual investment earnings	--	219,983
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	24,180	532,641
District contributions paid to TRS subsequent to the measurement date	<u>772,257</u>	<u>--</u>
Total	<u>\$ 5,048,807</u>	<u>\$ 1,167,717</u>

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

Year Ended August 31	Pension Exp. Amount
2020	\$ 785,924
2021	\$ 322,991
2022	\$ 229,028
2023	\$ 666,519
2024	\$ 666,151
Thereafter	\$ 438,220

Optional Retirement Plan – Defined Contribution Plan

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

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas Legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.60% and 6.65%, respectively. The college contributes 1.31 percent for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. Senate Bill (SB) 1812, 83rd Texas Legislature, Regular Session, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense to the State for the College was \$1,112,722 and \$687,118 for the fiscal years ended August 31, 2019 and 2018, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for all College employees was \$29,185,078 and \$29,289,414 for fiscal years 2019 and 2018, respectively. The total payroll of employees covered by the Teacher Retirement System was \$18,642,785 and \$17,207,261, and the total payroll of employees covered by the Optional Retirement System was \$9,252,946 and \$10,411,134 for fiscal years 2019 and 2018, respectively.

15. Deferred Compensation Program

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

As of August 31, 2019, the College had 344 employees participating in the program. 212 employees were vested as of August 31, 2019. A total of \$102,900 in contributions were invested in the plan during the fiscal year, bringing the total of deferred salaries and accumulated earnings of current employees to \$1,836,440 and creating a payable to the vested employee of \$1,836,440.

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

16. Compensated Absences

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

17. Health Care and Life Insurance Benefits

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's monthly contribution per full-time employee varied depending on coverage for the years ended August 31, 2019 and 2018. Total contributions for August 31, 2019 and 2018 were \$3,516,861 and \$5,422,955, respectively. The cost of providing those benefits for retirees is not separable from the cost of providing benefits for the active employees. SB 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

18. Other Post-Employment Benefits (OPEB)

(In accordance with GASB Statement 75)

Plan Description.

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

OPEB Plan Fiduciary Net Position.

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

Benefits Provided.

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

Contributions.

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

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

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Maximum Monthly Employer Contribution Retiree Health and Basic Life Premium Fiscal Years August 31, 2019 and 2018

	2019	2018
Retiree only	\$621.90	\$617.30
Retiree & Spouse	\$1,334.54	\$970.98
Retiree & Children	\$1,099.06	\$854.10
Retiree & Family	\$1,811.70	\$1,207.78

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

Premium Contributions by Source Group Benefits Program Plan For the Years Ended August 31, 2019 and 2018

	2019	2018
Employers	\$ 442,595	\$ 1,304,810
Members (Employees)	\$ -	\$ -
Nonemployer Contributing Entity (State of Texas)	\$ 3,558,556	\$ 958,286

Source: ERS 2018 Comprehensive Annual Financial Report

Actuarial Assumptions.

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

Actuarial Assumptions ERS Group Benefits Program Plan	
Valuation date	August 31, 2018
Actuarial cost method	Entry age
Amortization method	Level percent of payroll, open
Remaining amortization period	30 years
Asset valuation method	N/A
Discount rate	3.96%
Projected annual salary increase (includes inflation)	2.50% to 9.50%
Annual healthcare trend rates: HealthSelect	7.30% for FY20, 7.40% for FY21, 7.00% for FY22, decreasing 0.5% per year to an ultimate rate of 4.50% for FY27 and later years.
HealthSelect Medicare Advantage	11.80% for FY20, 13.40% for FY21, 7.00% for FY22, decreasing 0.5% per year to an ultimate rate of 4.50% for FY27 and later years.
Inflation assumption rate	2.50%
Ad hoc post-employment benefit changes	None
Mortality assumptions:	
Service retirees, survivors and other inactive members	Tables based on TRS experience with Ultimate MP Projection Scale from the

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	Year 2018.
Disability retirees	Tables based on TRS experience with Ultimate MP Projection Scale from the Year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members)
Active members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the Year 2014.

Source: FY 2018 ERS CAFR except for mortality assumptions obtained from ERS FY 2018 GASB 74 Actuarial Valuation

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

Investment Policy.

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

Discount Rate.

Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the beginning of the measurement year was 3.51%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 3.96%, which amounted to an increase of 0.45%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp's AA rating. Projected cash flows into the plan are equal to projected benefit payments out of the plan. Because the plan operates on a pay-as-you-go (PAYGO) basis and is not intended to accumulate assets, there is no long-term expected rate of return on plan assets and therefore the years of projected benefit payments to which the long-term expected rate of return is applicable is zero years.

Discount Rate Sensitivity Analysis.

The following schedule shows the impact on the College's proportionate share of the collective net OPEB Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate of 3.96% used in measuring the net OPEB Liability.

	1% Decrease in Discount Rate (2.96%)	Discount Rate (3.96%)	1% Increase in Discount Rate (4.96%)
College's proportionate share of the net OPEB liability:	\$60,061,508	\$50,589,495	\$43,420,257

Healthcare Trend Rate Sensitivity Analysis.

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

The healthcare trend rate is 7.3% 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 (7.30%) in measuring the net OPEB liability.

	1% Decrease in Healthcare Cost Trend Rates (6.3% decreasing to 3.5%)	Current Healthcare Cost Trend Rates (7.3% decreasing to 4.5%)	1% Increase in Healthcare Cost Trend Rates (8.3% decreasing to 5.5%)
College's proportionate share of the net OPEB liability:	\$42,842,769	\$50,589,495	\$60,582,804

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

At August 31, 2019, the College reported a liability of \$50,589,495 for its proportionate share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to the College for OPEB. The amount recognized by the College as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

College's Proportionate share of the collective net OPEB liability	\$ 50,589,495
State's proportionate share that is associated with College	\$ 36,306,041
Total	<u>\$ 86,895,536</u>

The net OPEB liability was measured as of August 31, 2018, 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, 2017 thru August 31, 2018.

At the measurement date of August 31, 2018, the College's proportion of the collective net OPEB liability was 0.17069281%, which was an increase of .04236957% from its proportion measured as of August 31, 2017.

For the year ended August 31, 2019, the College recognized OPEB expense of \$2,938,049 and revenue of \$(215,825) for support provided by the State.

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

- Demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increase) for higher education members have been updated to reflect assumptions recently adopted by the trustees from the Teachers Retirement System of Texas.
- Assumed expenses, assumed per capita health benefit costs, and assumed health benefit cost, retiree contribution, and expense trends have been updated to reflect recent experience and its effects on our short-term expectations.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate at the earliest date at which coverage can commence.
- The percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

- The discount rate assumption was increased from 3.51% to 3.96% to utilize the updated yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

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

Benefit revisions have been adopted since the prior valuation. The only benefit change for HealthSelect retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect (CDHP) from \$6,550 to \$6,650 for individuals and from \$13,100 to \$13,300 for families in order to remain consistent with Internal Revenue Service maximums. This benefit change is provided for in the FY 2019 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is Primary

These benefit changes have been reflected in the fiscal year 2019 Assumed Per Capita Health Benefit Costs.

At August 31, 2019, the College reported its proportionate share of the ERS plan's collective deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,853,436
Changes in actuarial assumptions	-	17,727,942
Difference between projected and actual investment earnings	23,957	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	14,477,113	-
Contributions paid to ERS subsequent to the measurement date [to be calculated by employer]	442,595	-
Total	\$ 14,943,665	\$ 19,581,378

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

Year Ended August 31:	OPEB Expense Amount
2020	\$ (1,832,924)
2021	\$ (1,832,924)
2022	\$ (1,832,924)
2023	\$ (215,310)
2024	\$ 633,774
Thereafter	-

SOUTH PLAINS COLLEGE**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018****19. Certain Asset Retirement Obligations (AROs)**

An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance of GASB Statement No. 83.

The College does not currently have any AROs.

20. Pending Lawsuits and Claims

None as of report date.

21. Disaggregation of Receivables and Payables Balances**Receivables**

Receivables at August 31, 2019 and 2018, were as follows:

	2019	2018
Student Receivables (Net of Allowance 3,674,401 and 3,594,654)	\$ 12,741,687	\$ 11,471,504
Taxes Receivable (Net of Allowance 58,830 and 58,253)	414,598	361,847
Bond Issue Receivable	-	-
Federal Receivable	229,237	194,881
State Receivable	43,060	48,016
Interest Receivable	2,947	2,557
Other Receivable	445,755	733,858
Total	<u>\$ 13,877,284</u>	<u>\$ 12,812,663</u>

Payables

Payables at August 31, 2019 and 2018 were as follows:

	2019	2018
Vendors Payable	\$ 686,292	\$ 926,523
Salaries & Benefits Payable	3,147,339	3,760,546
Students Payable	756,805	706,022
Accrued Interest	230,479	246,052
Other Payable	-	34,336
Total	<u>\$ 4,820,915</u>	<u>\$ 5,673,479</u>

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

22. Funds Held in Trust by Others

Not applicable.

23. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants (AICPA audit and accounting guide, *State and Local Governments*, 8.99). For federal contract and grant awards, funds expended but not collected are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services, are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2019 and 2018 for which monies have not been received nor funds expended totaled \$2,714,810 and \$3,328,399. Of these amounts, \$2,208,091 and \$3,328,399 were from Federal Contract and Grant Awards; \$506,719 and \$0.00 were from State Contract and Grant Awards; \$0.00 and \$0.00 from Local Contract and Grant Awards; and \$0.00 and \$0.00 were from Private Contract and Grant Awards for the fiscal years ended 2019 and 2018 respectively.

24. Self-Insured Plans

The College does not participate in self-insurance arrangements. The College has various commercial insurance policies to cover the various risks of loss.

25. Ad Valorem Tax

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

At August 31:

	2019	2018
Assessed Valuation of the College	\$ 3,121,849,543	\$ 2,941,111,285
Less: Exemptions	-409,298,729	-393,989,260
Add: Values Under Review	-	-
Net Assessed Valuation of the College	\$ 2,712,550,814	\$ 2,547,122,025

	2019			2018		
	Current	Debt		Current	Debt	
	<u>Operations</u>	<u>Service</u>	<u>Total</u>	<u>Operations</u>	<u>Service</u>	<u>Total</u>
Authorized Tax Rate per \$100 Valuation	0.400000	0.100000	0.500000	0.400000	0.100000	0.500000
Maximum per enabling legislation						
Assessed Tax Rate per \$100 valuation	0.395731	0.000000	0.395731	0.395731	0.000000	0.395731

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Taxes levied for the years ended August 31, 2019 and 2018, amounted to \$10,734,404 and \$10,079,751 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.

	2019			2018		
	Current	Debt		Current	Debt	
	<u>Operations</u>	<u>Service</u>	<u>Total</u>	<u>Operations</u>	<u>Service</u>	<u>Total</u>
Current Taxes Collected	\$ 10,622,185	\$ -	\$ 10,622,185	\$ 9,941,428	\$ -	\$ 9,941,428
Delinquent Taxes Collected	95,176	-	95,176	129,923	-	129,923
Penalties and Interest Collected	97,004	-	97,004	90,032	-	90,032
Total Gross Collections	\$ 10,814,365	-	\$ 10,814,365	\$10,161,383	-	\$10,161,383
Tax Appraisal & Collection Fees	-147,959	-	-147,959	-179,132	-	-179,132
Bad Debt Expense	-577	-	-577	-4,800	-	-4,800
Total Net Collections	\$ 10,665,829	\$ -	\$ 10,665,829	\$ 9,977,451	\$ -	\$ 9,977,451

Tax collections for the years ended August 31, 2019 and 2018, were 98.3% and 98.4%, respectively of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted for the use of maintenance and/or general obligation debt service.

26. Tax Abatements

None

27. Branch Campus Maintenance Tax

Not applicable.

28. 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, 2019 and 2018.

SOUTH PLAINS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

29. Component Unit

South Plains College Foundation - Discrete Component Unit

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

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

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

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

30. Related Parties

The College was not involved with any related parties nor have any transactions with such.

31. Subsequent Events

As of November 21, 2019 there were no reportable subsequent events.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH PLAINS COLLEGE
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019

	Measurement Year Ended August 31,			
	2018	2017	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.0210632914%	0.0216430538%	0.0215355517%	0.0219025000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 11,593,747	\$ 6,920,283	\$ 8,137,965	\$ 7,742,242
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	8,321,857	5,065,774	5,863,387	5,595,333
Total	<u>\$ 19,915,604</u>	<u>\$ 11,986,057</u>	<u>\$ 14,001,352</u>	<u>\$ 13,337,575</u>
District's Covered Payroll	\$ 18,062,784	\$ 18,022,687	\$ 17,207,261	\$ 16,361,175
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	64.19%	38.40%	47.29%	47.32%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	73.74%	82.17%	78.00%	78.43%
				83.25%

Note: Only five years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**SOUTH PLAINS COLLEGE
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019**

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 770,990	\$ 707,964	\$ 684,239	\$ 679,003	\$ 653,502
Contribution in Relation to the Contractually Required Contribution	(770,990)	(707,964)	(684,239)	(679,003)	(653,502)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 19,113,504	\$ 18,062,494	\$ 17,889,774	\$ 17,207,261	\$ 16,361,175
Contributions as a percentage of Covered Payroll	4.03%	3.92%	3.82%	3.95%	3.99%

Note: Only five years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

SOUTH PLAINS COLLEGE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR PENSIONS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Defined Benefit Pension Plan

Changes Since the Prior Actuarial Valuation –

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

- The Total Pension Liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0% to 7.25%.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the Net Pension Liability.

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

Changes of assumptions

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

SOUTH PLAINS COLLEGE
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019

	Measurement Year Ended	
	2018	August 31, 2017
District's Proportion of the Net OPEB Liability (Asset)	0.1706928100%	0.1283232400%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 50,589,495	\$ 43,723,593
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	36,306,041	34,838,121
Total	<u>\$ 86,895,536</u>	<u>\$ 78,561,714</u>
District's Covered Employee Payroll	\$ 24,329,118	\$ 24,896,761
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Employee Payroll	207.94%	175.62%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	1.27%	2.04%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**SOUTH PLAINS COLLEGE
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019**

	Fiscal Year Ended August 31,	
	2019	2018
Contractually Required Contribution	\$ 442,595	\$ 1,304,810
Contribution in Relation to the Contractually Required Contribution	<u>(442,595)</u>	<u>(1,304,810)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 25,106,985	\$ 24,329,118
Contributions as a percentage of Covered Employee Payroll	1.76%	5.36%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

SOUTH PLAINS COLLEGE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR OPEB FOR THE YEAR ENDED AUGUST 31, 2019

Defined Other Post-Employment Benefit Plans

Changes Since the Prior Actuarial Valuation

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

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the Total OPEB Liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the Total OPEB Liability \$2.3 billion.
- Change of Benefit Terms Since the Prior Measurement Date - Please see the 2018 TRS CAFR, page 68, section B. for a list of changes made effective September 1, 2017 by the 85th Texas Legislature.

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850 / \$2,292 were indexed annually by 2.50%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis-point addition to the long term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provision or applicable law.

Changes of benefit terms that affected measurement of the total OPEB liability during the measurement period are listed below:

The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 which became effective on September 1, 2017:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.

SOUTH PLAINS COLLEGE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR OPEB FOR THE YEAR ENDED AUGUST 31, 2019

- Allowed the System to provide other appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

OTHER SUPPLEMENTARY INFORMATION

SOUTH PLAINS COLLEGE

SCHEDULE A

SCHEDULE OF OPERATING REVENUES

YEAR ENDED AUGUST 31, 2019 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2018)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2019 Total	2018 Total
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 450,498	\$ -	\$ 450,498	\$ -	\$ 450,498	\$ 470,331
Out-of-district resident tuition	13,194,522	-	13,194,522	-	13,194,522	12,884,908
Non-resident tuition	989,488	-	989,488	-	989,488	1,175,737
TPEG - credit (set aside) *	282,276	-	282,276	-	282,276	298,196
State-funded continuing education	202,510	-	202,510	-	202,510	145,355
Non-state funded educational programs	189,476	-	189,476	-	189,476	193,343
Total Tuition	15,308,770	-	15,308,770	-	15,308,770	15,167,870
Fees:						
General	12,748,968	-	12,748,968	-	12,748,968	12,902,047
Student service fee	1,780,722	-	1,780,722	-	1,780,722	1,592,029
Special course Fees	932,147	-	932,147	-	932,147	954,077
Installment plan fees	171,180	-	171,180	-	171,180	87,545
Continuing education fees	417,444	-	417,444	-	417,444	85,820
Three part fee	111,832	-	111,832	-	111,832	176,756
Testing fee	134,130	-	134,130	-	134,130	111,393
Reinstatement fee	850	-	850	-	850	1,050
Building Use Fee	41,480	-	41,480	-	41,480	-
Total Fees	16,338,753	-	16,338,753	-	16,338,753	15,910,717
Scholarship allowances and discounts:						
Bad debt allowances	(90,946)	-	(90,946)	-	(90,946)	(99,299)
Remissions and exemptions - state	(2,945,921)	-	(2,945,921)	-	(2,945,921)	(2,717,498)
Title IV federal grants	(11,452,782)	-	(11,452,782)	-	(11,452,782)	(11,219,145)
TPEG awards	(50,310)	-	(50,310)	-	(50,310)	(124,367)
Scholarship allowances	(794,959)	-	(794,959)	-	(794,959)	(617,446)
Total Scholarship Allowances	(15,334,918)	-	(15,334,918)	-	(15,334,918)	(14,777,755)
Total net tuition and fees	16,312,605	-	16,312,605	-	16,312,605	16,300,832
Additional operating revenues:						
Federal grants and contracts	108,836	2,006,500	2,115,336	-	2,115,336	1,974,669
State grants and contracts	-	830,248	830,248	-	830,248	795,983
Non-governmental grants and contracts	-	3,597	3,597	-	3,597	43,894
Sales and services of educational activities	179,436	-	179,436	-	179,436	180,557
Investment income (program restricted)	-	1,917	1,917	-	1,917	1,693
General operating revenues	181,079	-	181,079	-	181,079	208,235
Total additional operating revenues	469,351	2,842,262	3,311,613	-	3,311,613	3,205,031
Auxiliary Enterprises:						
Residential life	-	-	-	2,191,178	2,191,178	2,126,894
Scholarship allowances	-	-	-	(72,332)	(72,332)	(192,170)
TPEG awards	-	-	-	(5,049)	(5,049)	(21,863)
Title IV federal grants	-	-	-	(571,771)	(571,771)	(527,357)
Commissions	-	-	-	273,566	273,566	330,373
Student Programs	-	-	-	169,502	169,502	158,380
Total net auxiliary enterprises	-	-	-	1,985,094	1,985,094	1,874,257
Total Operating Revenues	\$ 16,781,956	\$ 2,842,262	\$ 19,624,218	\$ 1,985,094	\$ 21,609,312	\$ 21,380,120
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.033, \$282,276 and \$298,196 for years August 31, 2019 and 2018, respectively, of tuition was set aside for Texas Public Education grants (TPEG)

SOUTH PLAINS COLLEGE

SCHEDULE B

SCHEDULE OF OPERATING EXPENSES BY OBJECT
YEAR ENDED AUGUST 31, 2019 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2018)

	Operating Expenses				2019 Total	2018 Total
	Salaries and Wages	State	Benefits	Local	Other Expenses	
Unrestricted - Educational Activities						
Instruction	\$ 18,056,387	\$ -	\$ -	\$ 4,898,189	\$ 2,560,282	\$ 25,338,520
Public Service	220,168	-	-	52,008	166,732	429,894
Academic Support	1,863,639	-	-	670,584	673,222	2,858,572
Student Services	2,636,251	-	-	959,302	1,736,217	5,331,770
Institutional Support	3,212,668	-	-	5,404,121	1,647,396	10,264,185
Operation and Maintenance of Plant	2,047,765	-	-	1,347,160	2,871,181	6,276,791
Scholarships and Fellowships	-	-	-	-	25,266	49,843
Total Unrestricted Educational Activities	28,036,878	-	-	13,331,364	9,680,296	48,496,668
Restricted - Educational Activities						
Instruction	469,429	3,312,010	-	124,410	362,859	3,965,932
Public Service	-	25,153	-	-	-	24,204
Academic Support	-	326,527	-	-	-	281,538
Student Services	479,018	578,210	-	191,407	195,319	1,221,913
Institutional Support	-	387,683	-	-	1,810	2,392,757
Operation and Maintenance of Plant	-	-	-	-	-	-
Scholarships and Fellowships	-	-	-	-	6,372,620	6,510,427
Total Restricted Educational Activities	948,447	4,629,583	-	315,817	6,932,608	14,396,771
Total Educational Activities	28,985,325	4,629,583	-	13,647,181	16,612,904	62,893,439
Auxiliary Enterprises	964,026	-	-	338,311	2,078,529	2,191,800
Depreciation Expense - Buildings and other real estate improvements	-	-	-	-	1,512,415	1,492,956
Depreciation Expense - Equipment and furniture	-	-	-	-	1,010,723	972,778
Depreciation Expense - Library books	-	-	-	-	50,295	202,716
Total Operating Expenses	\$ 29,949,351	\$ 4,629,583	\$ -	\$ 13,985,492	\$ 21,264,866	\$ 67,753,689
				(Exhibit 2)		(Exhibit 2)

SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES

YEAR ENDED AUGUST 31, 2019 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2018)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2019 Total</u>	<u>2018 Total</u>
NON-OPERATING REVENUES:					
State appropriations:					
Education and general state support	\$ 13,611,823	\$ -	\$ -	\$ 13,611,823	\$ 13,612,134
State group insurance	-	3,516,861	-	3,516,861	5,422,955
State retirement matching	-	1,112,722	-	1,112,722	687,118
Hazlewood appropriation	-	-	-	-	-
Professional nursing shortage reduction	-	-	-	-	19,825
Total state appropriations	13,611,823	4,629,583	-	18,241,406	19,742,032
Maintenance ad valorem taxes	10,813,210	-	-	10,813,210	10,156,583
Federal Revenue, Non-Operating	-	17,297,998	-	17,297,998	17,132,884
Gifts	-	-	-	-	450
Gifts in kind	4,500	-	-	4,500	13,915
Gifts in aid of debt service	1,000,000	-	-	1,000,000	4,000,000
Gifts in aid of construction	-	510,106	-	510,106	2,100,000
Gain on disposal of capital assets	-	-	-	-	9,252
Investment income	490,453	36,890	45,868	573,211	364,736
Total non-operating revenues	25,919,986	22,474,577	45,868	48,440,431	53,519,852
NON-OPERATING EXPENSES:					
Interest on capital related debt	-	(614,678)	-	(614,678)	(694,878)
Total non-operating expenses	-	(614,678)	-	(614,678)	(694,878)
Net non-operating revenues	\$ 25,919,986	\$ 21,859,899	\$ 45,868	\$ 47,825,753	\$ 52,824,974
				(Exhibit 2)	(Exhibit 2)

SOUTH PLAINS COLLEGE

SCHEDULE D

SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
YEAR ENDED AUGUST 31, 2019 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2018)

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets	Total	Yes	No
		Expendable	Non-Expendable	Net of Depreciation & Related Debt			
Current:							
Unrestricted	\$ (47,827,501)	\$ -	\$ -	\$ -	\$ (47,827,501)	\$ (47,827,501)	\$ -
Restricted	-	602,852	-	-	602,852	-	602,852
Auxiliary enterprises	2,749,106	-	-	-	2,749,106	2,749,106	-
Plant:							
Construction	-	-	-	41,490	41,490	-	41,490
Debt Service	-	-	-	1,703,971	1,703,971	-	1,703,971
Investment in Plant	-	-	-	54,663,725	54,663,725	-	54,663,725
Total Net Position, August 31, 2019	\$ (45,078,395)	\$ 602,852	\$ -	\$ 56,409,186	\$ 11,933,643 (Exhibit 1)	\$ (45,078,395)	\$ 57,012,038
Total Net Position, August 31, 2018	(43,108,193)	790,516	-	54,645,547	12,327,870 (Exhibit 1)	(43,108,193)	55,436,063
Net Increase (Decrease) in Net Position	\$ (1,970,202)	\$ (187,664)	\$ -	\$ 1,763,639	\$ (394,227) (Exhibit 2)	\$ (1,970,202)	\$ 1,575,975

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2019 AND 2018**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Pass-Through Disbursements and Expenditures</u>
U.S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster			
Federal SEOG	84.007 *		\$ 340,065
Federal Work Study	84.033 *		228,593
Federal Pell Grant (BEOG)	84.063 *		17,036,483
Direct Loans	84.268 *		11,417,939
Sub-Total Student Financial Aid Cluster			<u>29,023,080</u>
TRIO Cluster			
TRIO-Student Support Services	84.042 *	P042A150439-18	278,343
TRIO-Upward Bound program	84.047 *	P047A170162-18	355,292
Sub-Total TRIO Cluster			<u>633,635</u>
Strengthening High-Demand Technical/Health Occupations	84.031S	P031S150116-17	555,117
Pass-Through From:			
Texas Higher Education Coordinating Board			
Career & Technical Education-Basic Grants	84.048	194253	<u>619,441</u>
Total U.S. Department of Education			30,831,273
Total Federal Financial Assistance			<u>\$ 30,831,273</u>
* Cluster Program			

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Federal Assistance Reconciliation

Federal Revenues - per Schedule A	\$ 2,115,336
Add: Non Operating Federal Revenue from Schedule C	<u>17,297,998</u>
Total Federal Financial Assistance-per Schedule A and C	19,413,334
Reconciling Item:	
Add: Direct Loans	11,417,939
Total Federal Revenues - per Schedule of Expenditures of Federal Awards	<u>\$ 30,831,273</u>

Note 2. Significant Accounting Policies Used in Preparing the Schedule

The expenditures included in the schedule are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the College for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2019 AND 2018**

the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The College has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 3. Student Loans Processed and Administrative Costs Recovered

Federal Grantor <u>CFDA Number/Program Name</u>	<u>Total Loans Processed</u>
U.S. Department of Education	
84.268 Direct Loans	\$ 11,417,939
Total U.S. Department of Education	<u>\$ 11,417,939</u>

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

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2019 AND 2018**

Grantor Agency/ Program Title	Grantor Contract Number	Expenditures
Texas Higher Education Coordinating Board		
Texas Educational Opportunity Grant	13399	\$ 795,380
TEA Education Aide	36010	10,729
Texas Regional Alignment Networks	18247	20,311
Nursing Shortage Reduction Program	13129	249,940
Total Texas Higher Education Coordinating Board		<u>1,076,360</u>
State of Texas Interagency Cooperation Contract		
Math Pathways	2019-12	2,018
Texas Comptroller of Public Accounts		
Peace Officer Allocation		1,810
Total State Financial Assistance		<u>\$ 1,080,188</u>

Notes to the Schedule of Expenditures of State Awards

Note 1. <u>State Assistance Reconciliation</u>	
State Revenues - per Schedule A	\$ 830,248
Total State Financial Assistance - per Schedule of Expenditures of State Awards	<u>1,080,188</u>
Difference (Nursing Shortage Reduction Program Expenditures \$249,940)	<u>\$ (249,940)</u>

Note 2. Significant Accounting Policies Used in Preparing the Schedule

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

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



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CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*, the financial statements of South Plains College and the discretely presented component unit of South Plains College, as of and for the years ended August 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise South Plains College's financial statements, and have issued our report thereon dated November 21, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

Pate, Downs & Pinkerton, LLP

Pate, Downs & Pinkerton, LLP

Levelland, Texas

November 21, 2019

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



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE
STATE OF TEXAS SINGLE AUDIT CIRCULAR**

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

Report on Compliance for Each Major Federal and State Program

We have audited South Plains College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of South Plains College's major federal and state programs for the years ended August 31, 2019 and 2018. South Plains College's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, South Plains College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2019 and 2018.

Report on Internal Control over Compliance

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

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

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

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

Respectfully submitted,

Pate, Downs & Pinkerton, LLP

Pate, Downs & Pinkerton, LLP

Levelland, Texas

November 21, 2019

SOUTH PLAINS COLLEGE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019**

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

____ Yes X No

Significant deficiency (ies) identified that are
not considered to be material weaknesses?

____ Yes X None Reported

Noncompliance material to financial statements noted?

____ Yes X No

2. Federal Awards

Type of auditors' report issued on compliance for major programs:

Unqualified

Internal control over major programs:

Material weakness(es) identified?

____ Yes X No

Significant deficiency (ies) identified that are
not considered to be material weaknesses?

____ Yes X None Reported

Any audit findings disclosed that are required to be reported
in accordance with section 510(a) of OMB Circular A-133 or section
510(a) of Uniform Grant Management Standards?

____ Yes X No

Identification of major programs:

<u>Federal Programs</u>	<u>Federal CFDA Number</u>	<u>State Programs</u>
Federal SEOG	84.007*	Texas Educational
Federal Work Study	84.033*	Opportunity Grant
Federal Pell Grant	84.063*	
Direct Loans	84.268*	

Dollar threshold used to distinguish between type A and
type B programs: \$750,000

\$750,000

Auditee qualified as low-risk auditee?

X Yes ____ No

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

None

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

<u>Program</u>	<u>Finding/noncompliance</u>	<u>Questioned Costs</u>
None		

* Cluster Program

SOUTH PLAINS COLLEGE

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2019**

Findings - Financial Statement Audit

NONE

Findings - Federal Award Programs Audits

NONE

SOUTH PLAINS COLLEGE

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2019**

NONE

