COLLEGE OF THE MAINLAND

ANNUAL FINANCIAL AND COMPLIANCE REPORT

Years Ended August 31, 2017 and 2016
with Independent Auditor's Report

COLLEGE OF THE MAINLAND

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COLLEGE OF THE MAINLAND

ORGANIZATIONAL DATA

For the Fiscal Year Ended August 31, 2017

BOARD OF TRUSTEES

OFFICERS AND MEMBERS

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

PRINCIPAL ADMINISTRATIVE OFFICERS

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

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
College of the Mainland
Texas City, Texas

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of College of the Mainland (the "College") as of and for the year ended August 31, 2017 and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of College of the Mainland as of August 31, 2017, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Trustees
College of the Mainland

Report on Summarized Comparative Information

We have previously audited the College of the Mainland's 2016 financial statements, and our report dated December 2, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information on pages 9 through 13 and 54 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Board of Trustees
College of the Mainland

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2017 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

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

Whitley Penn LLP

Texas City, Texas
December 6, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following analysis provides an overview of the College's financial activities for fiscal year 2017. The purpose of this overview is to present an "objective and easily readable analysis of the financial activities based on currently known facts, decisions, or conditions." The analysis conforms to topics covered in GASB Statement 34, paragraph 4, and reflects transactions, events, legislation and conditions that are presented in the College's financial report.

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

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

The Statement of Net Position

The statement of net position represents the financial position of the College and presents all assets, deferred outflows/inflows of resources and liabilities using the accrual basis of accounting. During 2017, total assets decreased by \$0.5 million. Cash and cash equivalents decreased by \$1.9 million, while capital assets increased by \$1.5 million.

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

In 2016, current liabilities increased by \$0.9 million, which was primarily due an increase in accrued liabilities of \$0.7 million. In 2015, current liabilities decreased by \$0.3 million, which was primarily due to a decrease in the current portion of the retirement incentive of approximately \$0.4 million.

In 2016, noncurrent liabilities increased by \$0.3 million, primarily due to the TRS net pension liability, which increased by \$0.7 million. The retirement incentive package decreased by \$0.4 million.

In 2017, noncurrent liabilities increased by \$0.7 million, primarily due to the addition of the tax refund payable (\$0.8 million) and the TRS net pension liability (\$0.2 million). The increase in liabilities was offset by the retirement incentive package of \$0.4 million.

Summary data for the Statement of Net Position is provided in the table below for fiscal years 2017, 2016, and 2015.

	2017	2016	2015
Current assets	$ 19,705,929	$ 21,613,397	$ 20,864,737
Capital assets (net)	13,440,062	11,902,951	12,422,988
Other non-current assets	2,801,901	2,865,489	3,008,445
Total Assets	35,947,892	36,381,837	36,296,170
Deferred Outflows of Resources	2,270,304	1,237,449	1,030,149
Current liabilities	7,268,176	7,649,337	6,752,142
Non-current liabilities	8,379,976	7,700,030	7,436,211
Total Liabilities	15,648,152	15,349,367	14,188,353
Deferred Inflows of Resources	2,106,480	1,305,884	1,819,432
Net investment in capital assets	13,440,062	11,902,951	12,422,988
Restricted net position	2,636,002	2,536,448	2,350,361
Unrestricted net position	4,387,500	6,524,636	6,545,185
Total net position	$ 20,463,564	$ 20,964,035	$ 21,318,534

Capital Assets and Long-Term Debt

The College's capital assets increased by $1.5 million. The College's capital asset additions totaled $2.9 million, while the accumulated depreciation increased by $1.4 million. Details about the College's capital assets can be found on pages 31 and 32.

In 2016, the College's capital assets decreased by $0.5 million. The College's capital asset additions totaled $0.7million, while the accumulated depreciation increased by $1.2 million.

Statement of Revenues, Expenses, and Changes in Net Position

This statement represents the operating activity of the College, which results from revenue, expenses, gains and losses during the year. In 2017, operating revenue decreased by $0.3 million. This was primarily due to the decrease in state and private grants and contracts, auxiliary enterprises and general operating revenues.

Operating Revenue

The decrease of $0.3 million was caused by several factors as described above. The total decrease of these items totaled $0.5 million but were offset but increases in tuition and fees of $0.1 million and federal grants and contracts of $0.05 million. Tuition and fees, makes up 47 percent of total operating revenues and totaled $4.7 million.

In 2016, operating revenues increased by $1.7 million from the prior year. The increase was mainly attributable to an increase in federal grants and contracts of $1.4 million. The College received new federal contracts such as the H-1B Ready to Work grant in the amount of $0.5 million and an additional $0.5 million for adult education. The College also spent $0.3 million in Title V funding.

Operating Expenses

In 2017, operating expenses decreased by $0.4 million compared to the prior year. Academic support decreased by $0.9 million. Scholarships and fellowships and auxiliary expenses each decreased by $0.2 million. These decreases were offset by increases in instruction ($0.2 million), student services ($0.2 million), operation and maintenance of plant ($0.3 million) and depreciation ($0.1 million).

In 2016, operating expenses of $42.8 million were $1.7 million higher than those of the prior year. Instructional and student services expenses increased by 0.9 million and $0.5 million, respectively. Academic support increased by $0.4 million and scholarships and fellowships decreased by $0.3 million.

Non-Operating Revenues (Expenses)

Non-operating revenues (expenses) decreased by $0.2 million primarily due to the recognition of the tax refund expense of $1.2 million. The tax refund was offset by increases in state appropriations of $0.3 million, and maintenance ad valorem taxes of $0.9 million.

In 2016, non-operating revenues (expenses) had decreased by $0.9 million primarily due to the decrease in Pell grant and property tax revenues.

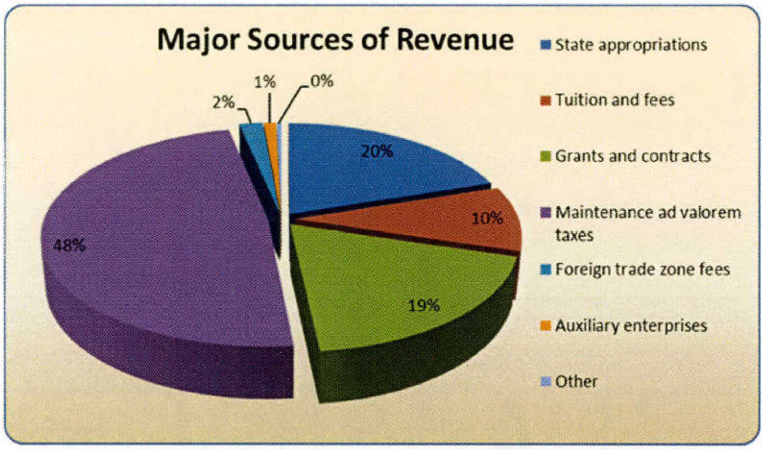
Please see below for the actual revenue and expense figures for fiscal year ending 2017, 2016, and 2015.

	2017	2016	2015
Operating revenues	$ 9,785,958	$ 10,111,675	$ 8,443,881
Operating expenses	(42,435,235)	(42,793,265)	(41,092,514)
Net operating income (loss)	(32,649,277)	(32,681,590)	(32,648,633)
Non-operating revenues (expenses)	32,148,806	32,327,091	33,251,266
Total increase (decrease) in net position	$ (500,471)	$ (354,499)	$ 602,633

The College's combined operating and non-operating revenues by major source for fiscal years 2017, 2016 and 2015 are shown in the table below.

	2017	2016	2015
State appropriations	$ 8,619,642	$ 8,351,206	$ 8,489,226
Tuition and fees (net of discounts)	4,686,816	4,560,455	3,996,658
Grants and contracts	8,056,045	8,495,611	8,199,442
Maintenance ad valorem taxes	20,903,680	19,954,036	19,989,908
Foreign trade zone fees	247,774	312,084	483,970
Auxiliary enterprises	343,851	452,645	360,940
Other	310,173	312,729	179,244
Total	$ 43,167,981	$ 42,438,766	$ 41,699,388

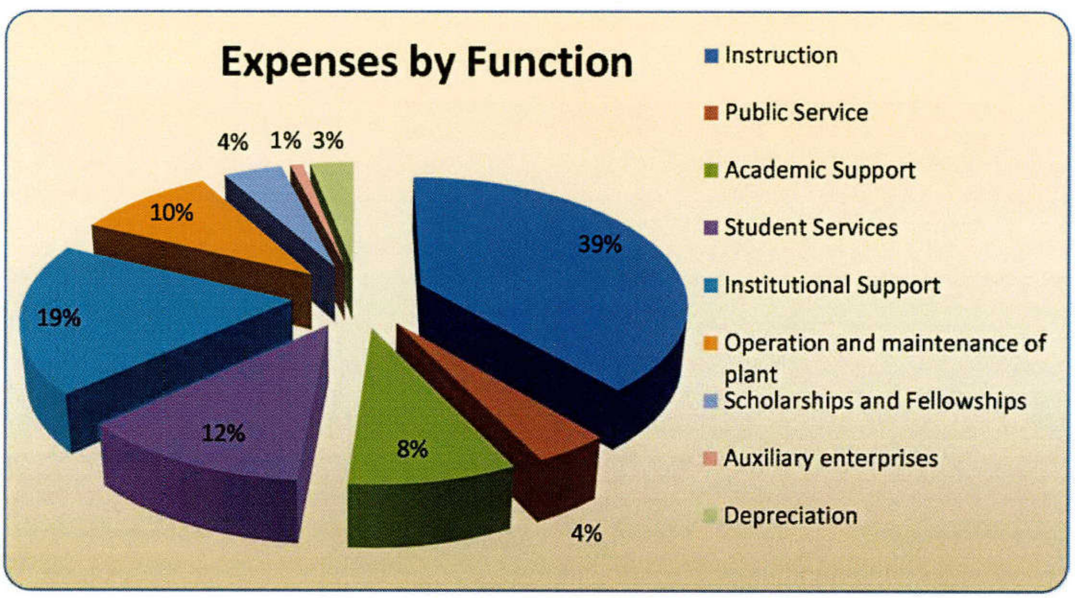
The table data for operating and non-operating for 2017 is shown graphically below.



Operating expenses are reported in the financial statement by functional classification and are presented below in the table for fiscal 2017, 2016, and 2015.

	2017	2016	2015
Instruction	$ 16,283,937	$ 16,133,400	$ 15,281,054
Public Service	1,308,643	1,353,238	1,288,767
Academic Support	5,083,350	6,049,695	5,650,283
Student Services	4,496,309	4,252,770	3,749,716
Institutional Support	7,368,303	7,166,650	7,328,549
Operation and maintenance of plant	4,305,783	4,004,141	3,869,654
Scholarships and Fellowships	1,755,654	1,965,617	2,277,298
Auxiliary enterprises	467,467	622,812	354,602
Depreciation	1,365,790	1,244,942	1,292,591
Total operating expenses	$ 42,435,235	$ 42,793,265	$ 41,092,514

Please see the graphical depiction for the table data above for fiscal year 2017.



Statement of Cash Flows

Cash flows from operating activities indicate the College spent $0.8 million more than the prior year. There were $0.4 million more in retirement incentive payments during 2017 than in 2016. In addition, accrued liabilities decreased by $0.5 million which indicates a decrease in cash as well. The increase in cash payments in these areas were offset by increases in cash receipts from customers and students as well as from grants and contracts.

Cash flows from noncapital financing for 2017 increased by $0.8 million compared to 2016. Property tax and receipts increased by $0.7 million. Cash used from capital and related financing activities increased by $2.2 million. In 2017, the College spent $2.9 million on capital assets compared to only $0.7 million in 2016.

Conclusion

The College is in fine financial health. Standard and Poor's Global rated the College as AA- or high grade investment caliber. The College has excess cash beyond the desired minimum balance. As of December 2017, our tuition revenues were 11% above the prior year and long-term liabilities are very manageable. The administration of the College of the Mainland has developed and is in the process of implementing a strategic plan for the next three-year cycle. This plan will focus on three key goals:

- Student success is our top priority. College of the Mainland will be the college of choice for our community.
- Create an environment that retains and attracts administrators, faculty, and staff committed to serving our students.
- Provide a safe, aesthetic environment conducive to learning, while addressing the workforce needs of local business and industry. Improve and expand existing facilities to enhance the learning environment. Develop next generation learning environments using the 2015 master facility plan as the foundation. The college will bring next generation learning to campus.

Within the framework of these goals, the College's administration has developed measurable outcomes. Every dollar allocated for the 2017-18 budget is focused on obtaining one or more of these outcomes and ultimately completing the three strategic goals: student success, employee opportunities, and improved facilities.

Specifically, the College will allocate resources to improve student success by funding specific strategies. These strategies include implementing the co-requisite model, the guided pathways model, and providing the resources necessary to increase course sections to meet student demand.

In order to address employee concerns, the College provided a three percent raise to all eligible employees, added twelve hours of vacation a year for new and recently hired employees, and has contracted with a firm to study employee compensation. To address facilities issues, the College issued $16 million in maintenance tax notes to improve and update infrastructure and renovate buildings on campus. These projects will address issues pointed out by our architect's facilities assessment plan.

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

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BASIC FINANCIAL STATEMENTS

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COLLEGE OF THE MAINLAND **Exhibit 1**

STATEMENT OF NET POSITION

August 31, 2017 and August 31, 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 15,347,819	$ 17,169,891
Accounts receivable (net)	4,051,446	4,038,580
Due from others	6,461	6,461
Prepaid expenses	300,203	398,465
Total current assets	19,705,929	21,613,397
Noncurrent assets:		
Restricted cash and cash equivalents	2,770,105	2,832,220
Loans receivable (net)	31,796	33,269
Capital assets (net), (see notes)	13,440,062	11,902,951
Total noncurrent assets	16,241,963	14,768,440
Total Assets	35,947,892	36,381,837
Deferred Outflows of Resources		
Deferred outflows related to pension activities	2,270,304	1,237,449
Total deferred outflows of resources	2,270,304	1,237,449
Liabilities		
Current liabilities:		
Accounts payable	1,620,236	1,749,377
Accrued liabilities	519,315	1,086,660
Compensated absences and severance payable - current	196,325	180,393
Retirement incentive payable - current	419,105	425,665
Funds held for others	105,818	127,356
Unearned income	3,996,305	4,079,886
Tax refund payable - current portion	411,072	-
Total current liabilities	7,268,176	7,649,337
Noncurrent liabilities:		
Compensated absences and severance payable - noncurrent	504,835	463,869
Retirement incentive payable - noncurrent	206,077	625,181
Net pension liability	6,846,919	6,610,980
Tax refund payable - noncurrent	822,145	-
Total noncurrent liabilities	8,379,976	7,700,030
Total Liabilities	15,648,152	15,349,367
Deferred Inflows of Resources		
Deferred inflows related to pension activities	2,106,480	1,305,884
Total deferred inflows of resources	2,106,480	1,305,884
Net Position		
Net Investment in capital assets	13,440,062	11,902,951
Restricted for:		
Expendable:		
Grants and donor restrictions	2,538,753	2,439,360
Loan funds	97,249	97,088
Unrestricted	4,387,500	6,524,636
Total Net Position (Schedule D)	$ 20,463,564	$ 20,964,035

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

COLLEGE OF THE MAINLAND

DISCRETELY PRESENTED COMPONENT UNIT

STATEMENTS OF FINANCIAL POSITION

College of the Mainland Foundation - Fiscal Years August 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 75,752	$ 104,026
Contributions receivable, net	-	10,050
Restricted assets:		
Cash and cash equivalents	115,862	162,340
Investments, at fair value	2,920,676	2,462,561
Prepaid expenses	0	13,759
Total Assets	$ 3,112,290	$ 2,752,736
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 194,000	$ 178,325
Unearned income	-	68,956
Total liabilities	194,000	247,281
Net Assets:		
Unrestricted	91,594	3,845
Temporarily restricted	744,092	565,191
Permanently restricted	2,082,604	1,936,419
Total Net Assets	2,918,290	2,505,455
Total Liabilities and Net Assets	$ 3,112,290	$ 2,752,736

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

COLLEGE OF THE MAINLAND **Exhibit 2**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended August 31, 2017 and August 31, 2016

	2017	2016
Operating Revenues		
Tuition and fees (net of discounts of $3,656,418 and $3,528,211)	$ 4,686,816	$ 4,560,455
Federal grants and contracts	2,650,416	2,598,488
State grants and contracts	796,503	1,038,790
Private grants and contracts	1,126,298	1,205,579
Sales and services of educational activities	24,797	19,390
Auxiliary enterprises (net of discounts)	343,851	452,645
General operating revenues	157,277	236,328
Total operating revenues (Schedule A)	9,785,958	10,111,675
Operating Expenses		
Instruction	16,283,937	16,133,400
Public service	1,308,643	1,353,238
Academic support	5,083,350	6,049,695
Student services	4,496,309	4,252,770
Institutional support	7,368,303	7,166,650
Operation and maintenance of plant	4,305,783	4,004,141
Scholarships and fellowships	1,755,654	1,965,617
Auxiliary enterprises	467,467	622,812
Depreciation expense	1,365,790	1,244,942
Total operating expenses (Schedule B)	42,435,235	42,793,265
Operating income (loss)	(32,649,277)	(32,681,590)
Non-operating revenues (expenses)		
State appropriations	8,619,642	8,351,206
Maintenance ad valorem taxes	20,903,680	19,954,036
Federal revenue, non-operating	3,482,828	3,652,754
Investment income	128,099	57,011
Foreign trade zone fees	247,774	312,084
Property tax refund	(1,233,217)	-
Net non-operating revenues (expenses) (Schedule C)	32,148,806	32,327,091
Increase (decrease) in net position	(500,471)	(354,499)
Net position - beginning of year	20,964,035	21,318,534
Net position - end of year	$ 20,463,564	$ 20,964,035

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

College of the Mainland Foundation - Fiscal Year August 31, 2017 with Comparative Totals for 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended August 31, 2017	2016
Revenue and Support:					
Contributions	$ 136,295	$ 355,266	$ 39,981	$ 531,542	$ 279,809
Grants	-	25,000	-	25,000	26,032
In-kind contributions	245,593	-	-	245,593	82,838
Interest and investment income	-	6,681	12,673	19,354	46,059
Net realized and unrealized gains on investments	-	55,239	141,147	196,386	110,266
Net assets released from restrictions	310,901	(263,285)	(47,616)	-	-
Total Revenue and Support	692,789	178,901	146,185	1,017,875	545,004
Expenses:					
Program Expenses:					
Student Scholarships	224,819	-	-	224,819	226,948
Other Program Payments	103,011	-	-	103,011	30,350
Supporting services:					
In-kind personnel and benefits	219,668	-	-	219,668	65,131
In-kind general, facilities and equipment	25,925	-	-	25,925	17,707
Management and general:					
Bad debt	-	-	-	-	80
Fundraising	16,180	-	-	16,180	23,537
Other management and general	15,437	-	-	15,437	13,031
Total Expenses	605,040	-	-	605,040	376,784
Change in Net Assets	87,749	178,901	146,185	412,835	168,220
Net Assets, at beginning of year	3,845	565,191	1,936,419	2,505,455	2,337,235
Net Assets, at end of year	$ 91,594	$ 744,092	$ 2,082,604	$ 2,918,290	$ 2,505,455

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

COLLEGE OF THE MAINLAND **Exhibit 3**

STATEMENT OF CASH FLOWS

For the Years Ended August 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from students and other customers	$ 5,090,237	$ 5,012,959
Receipts from grants and contracts	4,558,845	4,430,350
Payments to suppliers for goods and services	(9,775,214)	(9,558,518)
Payments to or on behalf of employees	(28,065,099)	(27,007,187)
Payments for scholarships and fellowships	(1,755,654)	(1,965,617)
Other receipts	269,625	244,815
Net cash (used) by operating activities	(29,677,260)	(28,843,198)
Cash flows from non-capital financing activities:		
Receipts from state appropriations	6,108,832	5,793,286
Receipts from ad valorem taxes	20,728,168	19,955,512
Receipts from foreign trade zone participants	247,774	312,084
Receipts from Non Operating Federal Revenue	3,482,828	3,652,754
Receipts from student organizations and other agency transactions	105,818	127,356
Payments to student organization and other agency transactions	(105,818)	(127,356)
Receipts from loan receivable	1,473	1,327
Net cash provided by non-capital financing activities	30,569,075	29,714,963
Cash flows from capital and related financing activities:		
Purchases of capital assets	(2,904,101)	(724,905)
Net cash (used) by capital and related financing activities	(2,904,101)	(724,905)
Cash flows from investing activities:		
Investment income	128,099	57,011
Net cash provided by investing activities	128,099	57,011
Increase (decrease) in cash and cash equivalents	(1,884,187)	203,871
Cash and cash equivalents, beginning of year	20,002,111	19,798,240
Cash and cash equivalents, end of year	$ 18,117,924	$ 20,002,111
Components of cash and cash equivalents		
Cash and cash equivalents	$ 15,347,819	$ 17,169,891
Restricted cash and cash equivalents	2,770,105	2,832,220
	$ 18,117,924	$ 20,002,111
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (32,649,277)	$ (32,681,590)
Adjustments:		
Depreciation expense	1,365,790	1,244,942
Payments made directly by state for benefits	2,665,984	2,538,656
Changes in assets and liabilities:		
Receivables, net	(12,866)	(464,186)
Deferred outflows	(1,032,855)	(207,300)
Deferred inflows	800,596	(513,548)
Net pension liability	235,939	663,236
Prepaid expenses	98,262	61,026
Accounts payable	(129,141)	275,033
Accrued liabilities	(567,345)	738,805
Compensated absences/retirement incentive payable	(368,766)	(540,383)
Unearned income	(83,581)	42,111
Net cash (used) by operating activities	$ (29,677,260)	$ (28,843,198)

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

COLLEGE OF THE MAINLAND
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF CASH FLOWS

College of the Mainland Foundation - Fiscal Year August 31, 2017 with Comparative Totals for 2016

	Year Ended August 31,	
	2017	**2016**
Cash flows from operating activities:		
Cash received from contributions, grants and events	$ 497,636	$ 302,736
Cash received from interest earnings	19,354	46,059
Cash paid for scholarships and grants	(312,155)	(325,817)
Cash paid for management and general expenses	(17,858)	(36,654)
Net cash provided by operating activities	186,977	(13,676)
Cash flows from investing activities:		
Reinvestment income and fees in endowments	27,500	(38,160)
Proceeds from sales and maturities of investments	307,645	2,543,190
Purchases of investments	(596,874)	(2,478,267)
Net cash provide by (used in) investing activities	(261,729)	(26,763)
Net change in cash and cash equivalents	(74,752)	13,087
Cash and cash equivalents at beginning of year	266,366	253,279
Cash and cash equivalents at end of year	$ 191,614	$ 266,366
Presented on statement of financial position as follows:		
Cash and cash equivalents	$ 75,752	$ 104,026
Restricted Cash and Cash Equivalents	115,862	162,340
	$ 191,614	$ 266,366
Reconciliation of Increase in Net Assets to Cash flows from operating activities		
Increase (decrease) in net assets	$ 412,835	$ 168,220
Adjustments to reconcile increase (decrease) in net assets to net cash provided by:		
Net Unrealized and realized (gain) loss in investments	(196,386)	(110,266)
Bad debt expense	-	80
(Increase) decrease in contribution receivables	10,050	2,517
(Increase) decrease in prepaid expenses	13,759	(86)
Increase (decrease) in accounts payable	15,675	(68,519)
Increase (decrease) in unearned revenue	(68,956)	(5,622)
Net cash provided by operating activities	$ 186,977	$ (13,676)

See accompanying notes to the financial statements.

Note 1 - Reporting Entity

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

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

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

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

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

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

Texas Public Education Grants - certain tuition amounts are required to be set aside for the use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG) is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code Section 56.0333). When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

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

Basis of Accounting

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

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

Net Investment in Capital Assets
This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component net investment in capital assets.

Restricted Net Position - Expendable
Restricted expendable net position includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Note 2 - Summary of Significant Accounting Policies (continued)

Unrestricted Net Position

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

Budgetary Data

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

Cash and Cash Equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

Investments

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

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

Capital Assets

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and 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. All community colleges will have amounts in Deferred Outflows of Resources called "Deferred outflows related to pensions". Changes in the net pension liability not included in pension expense in the current year are required to be reported as deferred outflows of resources or deferred inflows of resources related to pension. This deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Governments are only permitted to report deferred inflows in circumstances specifically authorized by the GASB. Typical deferred inflows for community colleges are deferred charges on refunding debt and related to pensions. All community colleges will have amounts in Deferred Inflows of Resources called "Deferred inflows related to pensions." Changes in the net pension liability not included in pension expense in the current year are required to be reported as deferred outflows of resources or deferred inflows of resources related to pension. These deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

Unearned Revenues

Tuition, fees, and other revenues received that are related to the period after August 31, 2017, are reported as unearned revenues. Those amounts are as follows:

	2017	2016
Tuition and fees	$ 3,116,417	$ 2,702,468
Season tickets - Theater	206,512	214,213
Federal, state and local grants	579,949	1,139,142
Other	93,427	24,063
	$ 3,996,305	$ 4,079,886

Note 2 - Summary of Significant Accounting Policies (continued)

Estimates

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

Application of Restricted and Unrestricted Resources

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

Operating and Non-Operating Revenue and Expense Policy

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

Presentation of State Benefit Payments on Cash Flow Statements

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

New Accounting Standards

In the current year, the College implemented the following new standards:

GASB Statement No. 82, Pension Issues-An amendment of GASB Statements No. 67, No. 68 and No. 73, addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

GASB Statement No. 77, Tax Abatement Disclosures, requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues.

Reclassifications

Certain amounts for 2016 have been reclassified to conform to current year reporting requirements.

Note 3 - Authorized Investments

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

Note 4 - Deposits and Investments

At August 31, 2017 and 2016, the carrying amounts of the bank balances exceeded the federal depository insurance of $250,000, but were properly covered by collateral pledged in the College's name for the years ended August 31, 2017 and 2016.

During the fiscal years 2017 and 2016, the College held investments in TexPool, a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (the "Trust Company") to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of or obligations guaranteed by the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; commercial paper and fully collateralized direct repurchase agreements secured by U.S. Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer upon authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep and invests public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters.

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

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

	2017	2016
Cash and Deposits:		
Bank Deposits:		
Demand deposits	$ 621,878	$ 1,034,157
Cash on cash equivalents:		
Petty cash on hand and change funds	3,070	3,070
Total Cash and Deposits	$ 624,948	$ 1,037,227

Note 4 - Deposits and Investments (continued)

Reconciliation of Deposits and Investments to Exhibit 1:

Type of Security	Fair Value 2017	Fair Value 2016
Investments:		
Government Investment Pools:		
TexPool	$ 17,492,976	$ 18,964,884
Total Investments	17,492,976	18,964,884
Total Cash and Deposits	624,948	1,037,227
Total Deposits and Investments	$ 18,117,924	$ 20,002,111
Cash and temporary investments (Exhibit 1):		
Cash and cash equivalents	$ 15,347,819	$ 17,169,891
Restricted cash and cash equivalents	2,770,105	2,832,220
Total Deposits and Investments	$ 18,117,924	$ 20,002,111

As of August 31, 2017, the College had the following investments and maturities:

	Carrying Value	Credit Quality Rating	Percentage of Investments
Investment Type:			
Local Government Investment Pools:			
TexPool	$ 17,492,976	AAAm	100.0%
Total Local Government Investment Pools	17,492,976		100.0%
Total investments	$ 17,492,976		100.0%

	Fair Value	Percentage of Investments	Weighted Average Maturity (Days)
Investments			
Local Government Investment Pools:			
TexPool	$ 17,492,976	100.0%	42
Total Local Government Investment Pools	17,492,976	100.0%	42
Total investments	$ 17,492,976	100.0%	42

Interest Rate Risk

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

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. As of August 31, 2017, the College's investment in TexPool (a public funds investment pool) was rated AAAm by Standard and Poor's.

Note 4 - Deposits and Investments (continued)

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

Concentration of Credit Risk
The College places no limit on the amount that may be invested in any one issuer. One hundred percent (100%) of the College's investments was in TexPool as of August 31, 2017.

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

Investment income for 2017 and 2016 was as follows:

	2017	2016
Interest income	$ 128,099	$ 57,011
Total Investment Earnings	$ 128,099	$ 57,011

As of August 31, 2017 and 2016, cash and cash equivalents was restricted for the following purposes:

	2017	2016
Grants and awards	$ 2,704,652	$ 2,832,220
Payment of long-term debt and capital purchases/improvements	$ 65,453	-
Total restricted cash and cash equivalents	$ 2,770,105	$ 2,832,220

Note 5 - Disaggregation of Receivables and Payables Balances

Accounts receivable at August 31, 2017 and 2016, consisted of the following:

	2017	2016
Property taxes receivable	$ 2,474,814	$ 2,404,010
Allowance for uncollectible property taxes	(1,306,197)	(1,464,589)
Property taxes receivable, net	1,168,617	939,421
Tuition and fees receivable	3,079,303	2,737,187
Allowance for uncollectible tuition and fees	(764,166)	(793,525)
Tuition and fees receivable, net	2,315,137	1,943,662
Due from tax collector	8,054	8,054
Due from other governments for grant awards	341,963	933,039
Due from grantors for private awards	131,310	85,055
Other receivables	86,365	129,349
Total receivables, net	$ 4,051,446	$ 4,038,580

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

Accrued liabilities at August 31, 2017 and 2016, consisted of the following:

	2017	2016
Accrued wages payable	$ 382,689	$ 931,498
Reserve for incurred but not reported worker's compensation benefits	116,286	122,349
Other accrued liabilities	20,340	32,813
Total accrued liabilities	$ 519,315	$ 1,086,660

Note 6 - Capital Assets

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

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

Commitments related to construction projects are as follows:

	Budget	Construction in Progress	Remaining Balance
Gym Roof Repair	$ 335,590	$ 272,615	$ 62,975
	$ 335,590	$ 272,615	$ 62,975

Note 6 - Capital Assets (continued)

Capital assets activity for the year ended August 31, 2016, was as follows:

	Balance 09/01/15	Additions	Retirements and Transfers	Balance 08/31/16
Not depreciated:				
Land	$ 372,145	$ -	$ -	$ 372,145
Construction in progress	1,165,634	169,584	(1,334,018)	1,200
Subtotal	1,537,779	169,584	(1,334,018)	373,345
Buildings and other capital assets:				
Buildings and building improvements	16,590,134	-	-	16,590,134
Improvements other than buildings	14,871,134	-	1,334,018	16,205,152
Total buildings and other real estate improvements	31,461,268	-	1,334,018	32,795,286
Furniture, equipment and vehicles	3,076,095	416,338	(28,626)	3,463,807
Telecommunication equipment	4,632,774	93,872	-	4,726,646
Library books	1,665,309	45,111	-	1,710,420
Total buildings and other capital assets	40,835,446	555,321	1,305,392	42,696,159
Accumulated depreciation:				
Buildings and building improvements	(12,416,401)	(331,795)	-	(12,748,196)
Improvements other than buildings	(9,589,700)	(519,499)	-	(10,109,199)
Total buildings and other real estate improvements	(22,006,101)	(851,294)	-	(22,857,395)
Furniture, equipment and vehicles	(2,298,178)	(190,193)	28,626	(2,459,745)
Telecommunication equipment	(4,345,111)	(155,164)	-	(4,500,275)
Library books	(1,300,847)	(48,291)	-	(1,349,138)
Total Accumulated depreciation	(29,950,237)	(1,244,942)	28,626	(31,166,553)
Net capital assets	$ 12,422,988	$ (520,037)	$ -	$ 11,902,951

There were no commitments in fiscal year 2016.

Note 7 - Noncurrent Liabilities

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

	Balance 09/01/16	Additions	Retirements	Balance 08/31/17	Current Portion
Other liabilities					
Compensated absences payable	$ 644,262	$ 97,527	$ (40,629)	$ 701,160	$ 196,325
Retirement incentive payable	1,050,846	-	(425,664)	625,182	419,105
	1,695,108	97,527	(466,293)	1,326,342	615,430
Total noncurrent liabilities	$ 1,695,108	$ 97,527	$ (466,293)	$ 1,326,342	$ 615,430

Noncurrent liabilities activity for the year ended August 31, 2016, was as follows:

	Balance 09/01/15	Additions	Retirements	Balance 08/31/16	Current Portion
Other liabilities					
Compensated absences payable	$ 616,917	$ 89,912	$ (62,567)	$ 644,262	$ 180,393
Retirement incentive payable	1,618,574	-	(567,728)	1,050,846	425,665
	2,235,491	89,912	(630,295)	1,695,108	606,058
Total noncurrent liabilities	$ 2,235,491	$ 89,912	$ (630,295)	$ 1,695,108	$ 606,058

Note 8 - Employees Retirement Plan

Defined Benefit Pension Plans

A. Plan Description

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

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

B. Pension Plan Fiduciary Net Position

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

C. Benefits Provided

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

Note 8 - Employees Retirement Plan (continued)

Defined Benefit Pension Plans (continued)

D. Contributions

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

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

	Contribution Rates Plan Fiscal Year	
	2016	**2017**
Member (Employee)	7.2%	7.7%
Non-employer contributing agency (State)	6.8%	6.8%
District	6.8%	6.8%

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

	Measurement Year (2016)	Fiscal Year (2017)
	Contributions Required and Made	**TRS Contributions Made During Fiscal Year**
Member (Employee)	$ 1,077,095	$ 1,235,655
Non-employer contributing agency (State)	449,805	471,780
College	574,687	634,852

Note 8 - Employees Retirement Plan (continued)

Defined Benefit Pension Plans (continued)

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

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

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

E. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

Note 8 - Employees Retirement Plan (continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

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

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

Note 8 - Employees Retirement Plan (continued)

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
College's proportional share of the net pension liability	$ 10,596,723	$ 6,846,918	$ 3,666,326

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

At August 31, 2017, the College reported a liability of $6,846,918 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 net pension liability	$ 6,846,918
State's proportionate share of the net pension liability associated with the College	5,279,379
Total	$ 12,126,297

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016, the employer's proportion of the collective net pension liability was 0.0181%, which was a decrease from its proportion measured as of August 31, 2015, of 0.0187%.

Changes since the Prior Actuarial Valuation

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

For the year ended August 31, 2017, the College recognized pension expense of $640,680 and revenue of $554,073 for support provided by the State.

Note 8 - Employees Retirement Plan (continued)

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

At August 31, 2017, the College reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 107,358	$ (204,445)
Changes in actuarial assumptions	208,682	(189,787)
Net difference between projected and actual investment earnings	1,319,412	(739,628)
Changes in proportion and differences between College contributions and proportionate share of contributions	-	(972,620)
Contributions paid to TRS subsequent to the measurement date	634,852	-
Total	$ 2,270,304	$ (2,106,480)

The $634,852 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2017. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31	Amount
2018	$ (135,597)
2019	(135,597)
2020	234,217
2021	(164,007)
2022	(238,306)
Thereafter	(31,738)
	$ (471,028)

In fiscal year, 2016 the College reported a net pension liability of $6,610,980 and deferred outflows and deferred inflows of resources of $1,237,449 and $1,305,884, respectively.

Optional Retirement Plan

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

Note 8 - Employees Retirement Plan (continued)

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

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

The retirement expense to the State for the College was $1,059,084 and $1,018,513 for the fiscal years ended August 31, 2017 and 2016, 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 $22,729,303 and $22,925,178 fiscal years 2017 and 2016, respectively. The total payroll of employees covered by the Teacher Retirement System was $16,048,298 and $14,959,646 for fiscal years 2017 and 2016, respectively. The total payroll of employees covered by the Optional Retirement System was $3,334,000 and $3,848,455 for fiscal years 2017 and 2016, respectively.

Note 9 - Deferred Compensation Program

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

Note 10 - Compensated Absences

Sick Leave - All 100 percent full-time equivalent employees of the College earn one day of sick leave for each month of service. Sick leave benefits are earned by benefit eligible employees that are less than 100 percent full-time equivalent on a pro-rata basis. The maximum amount employees that are 100 percent full-time equivalent are eligible to accrue is 960 hours.

Effective September 1, 2013, sick leave is no longer paid out when an employee separates their employment with the College.

Vacation Leave - Employees Hired After June 30, 2012 – All 100 percent full-time equivalent, non-faculty personnel employed on a 12-month basis shall earn vacation time at the rate of seven hours per calendar month of service and are entitled to 10.5 working days of vacation per year. Benefit eligible employees that are less than 100 percent full-time equivalent, non-faculty personnel employed on a 12-month basis shall earn vacation time on a pro-rata basis related to their full-time equivalency, Personnel that are eligible to earn vacation time but are employed for a period less than 12 months will earn vacation time on a pro-rata basis related to their full-time equivalency.

After seven years of continuous service with the College District, a 100 percent full-time equivalent employee working in a position requiring 12 months of services annually shall earn vacation time at the rate of ten hours per calendar month. For positions that are benefit eligible that are less that 100 percent full-time equivalent shall earn vacation time on a pro-rata basis as described above.

Note 10 - Compensated Absences (continued)

Vacation Leave - Employees Hired Before or by June 30, 2012 – All 100 percent full-time equivalent, non-faculty personnel employed on a 12-month basis shall earn vacation time at the rate of 13.33 hours per calendar month of service and are entitled to 20 working days of vacation per year. Benefit eligible employees that are less than 100 percent full-time equivalent, non-faculty personnel employed on a 12-month basis shall earn vacation time on a pro-rata basis related to their full-time equivalency, Personnel that are eligible to earn vacation time but are employed for a period less than 12 months will earn vacation time on a pro-rata basis related to their full-time equivalency.

All accrued vacation over 240 hours or 30 days must be taken or shall be lost by the employee's anniversary date of service each year unless the employee is prevented from taking vacation for the convenience of the College. The maximum accrual of 240 hours shall be adjusted pro-rata for benefit eligible employees, non-faculty employees that are less than 100 percent full-time equivalent.

The College's vacation leave payable at August 31, 2017 and 2016 was $701,160 and $644,262, respectively, and is included in accrued compensable absences on the balance sheet. The following is a summary of changes in vacation leave payable:

	2017	2016
Balance, September 1	$ 644,262	$ 616,917
Additions	97,527	89,912
Payments	(40,629)	(62,567)
Balance, August 31	$ 701,160	$ 644,262
Current	$ 196,325	$ 180,393
Noncurrent	504,835	463,869
	$ 701,160	$ 644,262

Note 11 - Pending Lawsuits and Claims

On August 31, 2017, various lawsuits and claims involving the College were pending. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

Note 12 - Operating Lease Commitments and Rental Agreements

Commitments under operating lease agreements for facilities and equipment are cancelable at any time. The College is therefore not obligated for minimum future rental payments at August 31, 2017. Rental expenditures were paid only from unrestricted current funds during 2017 and 2016, and were $736,226 and $544,545, respectively.

Note 13 - Property Tax Refund Liability

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

Note 14 - Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities.* Funds received, but not expended during the reporting period, are unearned. Revenues are recognized on Exhibit 2 as funds are actually expended. For federal and state contract and grant awards, funds expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements.

Note 15 - Self-Insured Plans

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2017, the Fund anticipates the College has no additional liability beyond the contractual obligations for payment of contributions.

During the year ended August 31, 2017, the College provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

For the year ended August 31, 2017, the College participated with other governments to form a Workers Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for the Texas Public Jr. and Community College Employee Benefits Consortium (the "Pool"). The agreement for formation of the Pool provides that the Pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $200,000 for each insured event and $5,000,000 in the aggregate.

The pooling agreement requires the Pool to be self-sustaining. The estimated range of losses to be borne by the College as of August 31, 2017 and 2016 amounted to $116,286 and $122,349, respectively.

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

Note 16 - Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee ranged from $617 to $1,208 per month depending upon coverage elected by the employee for the year ended August 31, 2017 and $577 to $1,128 per month for 2016, and totaled $2,215,605 for the year ended August 31, 2017 ($2,067,611 for the year ended August 31, 2016). The cost of providing those benefits for 228 retirees cost $875,588 for August 31, 2017 (benefits for 230 retirees cost $817,955 for August 31, 2016). The cost of providing those benefits for 305 active employees was $1,340,017 for August 31, 2017 (benefits for 316 employees cost $1,249,656 for August 31, 2016).

Note 17 - Related Parties

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

Note 18 - Property Tax

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

	2017	2016
Assessed Valuation of the College:	$ 11,518,038,433	$ 11,391,626,756
Less: Exemptions	(1,449,329,944)	(2,219,041,624)
Net Assessed Valuation of the College	$ 10,068,708,489	$ 9,172,585,132

	2017			2016		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized Tax Rate per $100 Valuation	$ 0.600000	$ 0.000000	$ 0.600000	$ 0.600000	$ 0.000000	$ 0.600000
Assessed Tax Rate per $100 Valuation	$ 0.208376	$ 0.000000	$ 0.208376	$ 0.202307	$ 0.000000	$ 0.202307

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

Note 18 - Property Tax (continued)

Taxes levied for the year ended August 31, 2017 and 2016 amounted to $20,980,772 and $19,720,440 respectively, including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Tax collections for the years ended August 31, 2017 and 2016 approximated 98.1% of the current year levy for 2017 and 98.3% for 2016. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted for the use of maintenance and/or general obligation debt service.

Note 19 - Retirement Incentive Packages

During fiscal years 2011 and 2010, the College offered retirement incentive packages in the amount of $873,187 and $1,953,066, respectively. During fiscal year 2013, the College offered an incentive package in the amount of $651,584. During fiscal year 2014, the College offered an incentive package in the amount of $1,522,850. During fiscal year 2015, the College offered an incentive package in the amount of $1,618,574. As of August 31, 2017, the combined liability for those retirement incentive packages is $625,182 of which $419,105 is considered current.

Retirement incentives payable were as follows as of August 31, 2017 and 2016.

	2017	2016
Balance, September 1	$ 1,044,287	$ 1,618,574
Additions	-	-
Payments	(419,105)	(574,287)
Balance, August 31	$ 625,182	$ 1,044,287

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

Year Ending August 31,	Retirement Incentives
2018	$ 419,105
2019	206,077
	$ 625,182

Note 20 - Income Taxes

The College is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the years ended August 31, 2017 and 2016.

Note 21 - Postemployment Benefits Other than Pensions

Plan Description. The College contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postemployment healthcare plan administered by the Employees Retirement System of Texas (ERS). SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by State law and may be amended by the Texas Legislature.

ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at http://www.ers.state.tx.us/.

Funding Policy. 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. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution.

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB statement 45. The employer contribution rate represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years.

The College's contributions to SRHP for the years ended August 31, 2017, 2016, and 2015 were $937,467, $939,429 and $864,552, respectively, which equaled the required contributions each year.

Note 22 - Tax Abatements

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

- **Duty Exemption on Re-exports**: If merchandise is re-exported after being placed in a FTZ or shipped to another FTZ and then re-exported, then no duty is ever paid.

Note 22 - Tax Abatements (continued)

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

During fiscal year 2017, inventory within the Foreign Trade Zone totaled $118.9 million. The College received a tax equivalency payment of $247,774.

Note 23 - Hurricane Harvey

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall in the Texas coast before stalling over the Houston-Galveston region (the "Region") and producing significant flooding. Many residences and commercial and industrial properties in the Region sustained damage. While the College experienced damage to some facilities such damage will not have a substantial negative affect on the operation of the facilities. On August 25, 2017, the President of the United States issued a major disaster declaration, which was amended on August 27, 2017 to include Galveston County, where the College is located. The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the Public Assistance Program. The College expects to utilize the College's unrestricted funds to initially cover Hurricane Harvey related expenses and to seek reimbursement from the Federal Emergency Management Agency for eligible disaster-related expenses. The College has filed insurance claims to cover eligible losses at sites that sustained damage. Each site's deductible is 1 percent of building value, with some sites having additional flood-related deductibles.

Note 24 - Subsequent Events

On October 31, 2017, the College issued Maintenance Tax Notes, Series 2017 (the "Notes") with a principal amount of $15,130,000 and a premium of $1,283,914. Proceeds from the notes will be used for the purpose of renovating and equipping various existing College facilities and paying all costs associated with the issuance of the Notes.

Note 25 - Disclosures Related to Discretely Presented Component Unit

A. Basis of Presentation and Summary of Significant Accounting Policies

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

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

Basis of Accounting

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

Net Assets Presentation

The Foundation's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted net assets - These are net assets that are not subject to donor-imposed stipulations.

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

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

Fair Value Considerations

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

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

Note 25 - Disclosures Related to Discretely Presented Component Unit (continued)

A. Organization and Summary of Significant Accounting Policies (continued)

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

At August 31, 2017 and 2016, cash and cash equivalents included $115,862 and $162,340, respectively, of permanently restricted contributions for endowment purposes.

Investments and Investment Return

Investments are recorded at fair value. Investment return includes interest, dividends, capital gain distributions and realized and unrealized gains and losses. Investment return is reported in the statements of activities and changes in net assets as a change in unrestricted net assets unless the use of the income is limited by donor imposed restrictions. Investment return whose use is restricted by the donor is reported as a change in temporarily restricted net assets until expended in accordance with donor imposed restrictions.

At August 31, 2017 and 2016, investments included $2,920,676 and $2,462,561, respectively, of restricted assets.

Contributions Receivable and Promises to Give

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

If contributions receivable become doubtful of collection, allowances are made to the extent the amounts are determined to be doubtful, and are charged to expense. If doubtful amounts are subsequently determined to be uncollectible, they are written off against allowances in the period determined. As of August 31, 2017 and 2016, allowance for doubtful accounts totaled $0 and $220, respectively.

In-Kind Services

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

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

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

Note 25 - Disclosures Related to Discretely Presented Component Unit (continued)

A. Organization and Summary of Significant Accounting Policies (continued)

Federal Income Taxes

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

The Foundation accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of August 31, 2017**August 31, 2017** management believes there were no uncertain tax positions.

Use of Estimates

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

Reclassifications

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

B. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value three tier hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level I inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity.

Note 25 - Disclosures Related to Discretely Presented Component Unit (continued)

B. Fair Value Measurements (continued)

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

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2017			
Equity index fund	$ -	$ 663,639	$ -
Core equity fund	-	719,430	-
High quality bond fund	-	1,537,607	-
Total	$ -	$ 2,920,676	$ -
August 31, 2016			
Equity index fund	$ -	$ 624,482	$ -
Core equity fund	-	611,085	-
High quality bond fund	-	1,226,994	-
Total	$ -	$ 2,462,561	$ -

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

	2017	2016
Dividends and interest income	$ 19,354	$ 46,059
Net realized and unrealized gain (loss)	196,386	110,266
Total investment income (loss)	$ 215,740	$ 156,325

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

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

Note 25 - Disclosures Related to Discretely Presented Component Unit (continued)

C. Contributions Receivable

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

	2017	2016
Less than one year	$ -	$ 10,270
Total Contributions receivable	-	10,270
Less: Allowance for doubtful amounts	-	(220)
	$ -	$ 10,050

D. Temporary Restrictions on Net Assets

Temporarily restricted net assets include the following at August 31:

	2017	2016
Scholarships	$ 744,092	$ 565,191
Total	$ 744,092	$ 565,191

E. Endowments

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

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

1) The duration and preservation of the fund
2) The purposes of the organization and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Foundation
7) The investment policies and objectives of the Foundation

Note 25 - Disclosures Related to Discretely Presented Component Unit (continued)

E. Endowments (continued)

The Foundation has adopted investment and spending policies. The assets are managed in a manner that attempts to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment as well as capital appreciation, which exceeds the annual distributions with acceptable levels of risk. Endowment assets are investment in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make distributions as needed, while growing the funds if possible. There is not an established expectation of an average rate of return. Investment risk is measured in terms of total endowment funds; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. At August 31, 2017 and 2016, the endowments funds were held and managed by Commonfund. The objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

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

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

Changes in endowment net assets are as follows:

	Permanently Restricted
Endowment net assets, August 31, 2015	$ 1,829,757
Contributions	1,500
Investment return:	
Investment income	35,884
Net change in value of investments	86,401
Transfer of scholarship funds	(9,171)
Other changes	(7,952)
Endowment net assets, August 31, 2016	1,936,419
Contributions	39,981
Investment return:	
Investment income	12,673
Net change in value of investments	141,147
Transfer of scholarship funds	(47,616)
Endowment net assets, August 31, 2017	$ 2,082,604

Note 25 - Disclosures Related to Discretely Presented Component Unit (continued)

F. Related Party Transactions

The College provides office space to the Foundation at no cost. In addition, the Foundation's payroll expenses, all employee benefits, and certain supplies are paid for by the College. The Foundation does not reimburse the College for these costs. As such, in-kind revenue and expense are recorded in the statement of activities for these costs. For the years ended August 31, 2017 and 2016, in-kind revenue and expense totaled $245,593 and $82,838, respectively.

All student scholarship expenditures are disbursed to the College. These expenses totaled $224,819 and $226,948, for the years ended August 31, 2017 and 2016, respectively.

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

G. Concentration of Credit Risk

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

H. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through December 6, 2017, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

(RSI) SCHEDULES

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

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

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

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

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

* Per TRS' CAFR

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

Teacher Retirement System of Texas
Last Three Fiscal Years

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

Changes of Assumptions

New actuarial assumptions were adopted by the Teacher Retirement System of Texas' Board of Trustees on September 24, 2015 and are effective with the valuation as of August 31, 2015. The major assumptions changes were the adoption of the use of generational mortality for the purpose of predicting future mortality improvement and the reduction in the inflation rate from 3.00% to 2.50%.

Changes of Benefit Terms

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

SUPPLEMENTAL SCHEDULES

COLLEGE OF THE MAINLAND

Schedule A

SCHEDULE OF OPERATING REVENUES

For the Year Ended August 31, 2017

With Memorandum Totals for the Year Ended August 31, 2016

	Educational Activities				Total	
	Unrestricted	Restricted	Total	Auxiliary Enterprises	2017	2016
Tuition						
State funded credit courses:						
In-district resident tuition	$ 2,492,477	$ -	$ 2,492,477	$ -	$ 2,492,477	$ 2,501,574
Out-of-district resident tuition	2,062,946	-	2,062,946	-	2,062,946	1,942,912
Non-resident tuition	154,053	-	154,053	-	154,053	146,250
TPEG- credit (set aside)*	207,301	-	207,301	-	207,301	205,279
State funded continuing education	401,494	139,630	541,124	-	541,124	650,976
TPEG- noncredit (set aside)*	-	-	-	-	-	-
Non-state funded educational programs	282,626	124,272	406,898	-	406,898	245,944
Total tuition	5,600,897	263,902	5,864,799	-	5,864,799	5,692,935
Fees						
Campus fees	167,338	-	167,338	-	167,338	164,803
Facility fees	846,943	-	846,943	-	846,943	843,152
Laboratory fees	194,725	-	194,725	-	194,725	73,298
Processing fees	532,569	-	532,569	-	532,569	518,228
Student service fees	-	-	-	160,519	160,519	161,790
Other fees	736,860	-	736,860	-	736,860	796,250
Total fees	2,478,435	-	2,478,435	160,519	2,638,954	2,557,521
Scholarship allowances and discounts						
Remissions and exemptions - state	(89,817)	-	(89,817)	-	(89,817)	(98,428)
Remissions and exemptions - local	(1,181,278)	-	(1,181,278)	-	(1,181,278)	(1,151,220)
Title IV federal grants remissions	(2,109,175)	-	(2,109,175)	-	(2,109,175)	(1,999,974)
TPEG awards	(276,148)	-	(276,148)	-	(276,148)	(278,589)
Total scholarship allowances and discounts	(3,656,418)	-	(3,656,418)	-	(3,656,418)	(3,528,211)
Total net tuition and fees	4,422,914	263,902	4,686,816	160,519	4,847,335	4,722,245
Additional operating revenues						
Federal grants and contracts	112,591	2,537,825	2,650,416	-	2,650,416	2,598,488
State grants and contracts	16,984	779,519	796,503	-	796,503	1,038,790
Local grants and contracts	-	-	-	-	-	-
Private grants and contracts	-	1,126,298	1,126,298	-	1,126,298	1,205,579
Sales and services of educational activities	24,797	-	24,797	-	24,797	19,390
General operating revenues	152,157	5,120	157,277	-	157,277	236,328
Total additional operating revenues	306,529	4,448,762	4,755,291	-	4,755,291	5,098,575
Auxiliary Enterprises						
Bookstore	-	-	-	56,138	56,138	157,334
Other auxiliary	-	-	-	127,194	127,194	133,521
Total net auxiliary	-	-	-	183,332	183,332	290,855
Total operating revenues	$ 4,729,443	$ 4,712,664	$ 9,442,107	$ 343,851	$ 9,785,958	$ 10,111,675

*In accordance with Education Code 56.033, $276,148 and $278,589 of tuition was set aside for Texas Public Education Grants (TPEG) for the current and prior year, respectively.

COLLEGE OF THE MAINLAND
SCHEDULE OF OPERATING EXPENSES BY OBJECT
For the Year Ended August 31, 2017
With Memorandum Totals for the Year Ended August 31, 2016

Schedule B

	Operating Expenses				Total	
		Benefits				
	Salaries and Wages	State	Local	Other expenses	2017	2016
Unrestricted - Educational Activities						
Instruction	$ 10,259,927	$ -	$ 1,782,873	$ 945,426	$ 12,988,226	$ 12,518,806
Public service	522,854	-	100,668	75,243	698,765	654,051
Academic support	2,826,969	-	580,930	1,245,989	4,653,888	5,451,536
Student services	2,380,587	-	499,976	257,888	3,138,451	2,940,508
Institutional support	3,787,264	-	762,279	2,284,727	6,834,270	6,658,976
Operation and maintenance of plant	663,035	-	168,554	3,347,392	4,178,981	3,828,425
Scholarships and fellowships	-	-	-	-	-	-
Total Unrestricted Educational Activities	20,440,636	-	3,895,280	8,156,665	32,492,581	32,052,302
Restricted - Educational Activities						
Instruction	1,094,732	1,293,573	15,229	892,176	3,295,710	3,614,594
Public service	371,714	106,630	-	131,534	609,878	699,187
Academic support	-	423,873	-	5,589	429,462	598,159
Student services	636,493	435,994	11,989	273,382	1,357,858	1,312,262
Institutional support	-	533,533	-	500	534,033	507,674
Operation and maintenance of plant	-	124,811	-	1,991	126,802	175,716
Scholarships and fellowships	78,751	-	-	1,676,903	1,755,654	1,965,617
Total Restricted Educational Activities	2,181,690	2,918,414	27,218	2,982,075	8,109,397	8,873,209
Total Educational Activities	22,622,326	2,918,414	3,922,498	11,138,740	40,601,978	40,925,511
Auxiliary Enterprises	113,675	66,565	-	287,227	467,467	622,812
Depreciation Expense:						
Building and other real estate improvements	-	-	-	952,465	952,465	851,294
Equipment and furniture	-	-	-	364,779	364,779	345,357
Library books	-	-	-	48,546	48,546	48,291
Total Depreciation Expense	-	-	-	1,365,790	1,365,790	1,244,942
Total Operating Expenses	$ 22,736,001	$ 2,984,979	$ 3,922,498	$ 12,791,757	$ 42,435,235	$ 42,793,265
					(Exhibit 2)	(Exhibit 2)

COLLEGE OF THE MAINLAND **Schedule C**

SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES

For the Year Ended August 31, 2017

With Memorandum Totals for the Year Ended August 31, 2016

	Unrestricted	Restricted	Total	Auxiliary Enterprises	Total 2017	Total 2016
Non-operating revenues						
State appropriations:						
Academic appropriation	$ 5,953,658	$ -	$ 5,953,658	$ -	$ 5,953,658	$ 5,812,550
Workforce appropriation	-	-	-	-	-	-
Hold harmless	-	-	-	-	-	-
State group insurance	-	2,215,605	2,215,605	-	2,215,605	2,067,610
State retirement matching	-	450,379	450,379	-	450,379	471,046
Total state appropriations	5,953,658	2,665,984	8,619,642	-	8,619,642	8,351,206
Maintenance and ad valorem taxes	20,903,680	-	20,903,680	-	20,903,680	19,954,036
Federal revenue, non-operating	5,120	3,477,708	3,482,828	-	3,482,828	3,652,754
Investment income	128,099	-	128,099	-	128,099	57,011
Foreign trade zone fees	247,774	-	247,774	-	247,774	312,084
Total non-operating revenues	21,284,673	3,477,708	24,762,381	-	24,762,381	23,975,885
Non-operating expenses						
Property tax refund	(1,233,217)	-	(1,233,217)	-	(1,233,217)	-
Total non-operating expenses	(1,233,217)	-	(1,233,217)	-	(1,233,217)	-
Net non-operating revenues (expenses)	$ 26,005,114	$ 6,143,692	$ 32,148,806	$ -	$ 32,148,806	$ 32,327,091
					(Exhibit 2)	(Exhibit 2)

COLLEGE OF THE MAINLAND

Schedule D

SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY

For the Year Ended August 31, 2017

	Detail by Source				Available for Current	
	Unrestricted	Restricted Expendable	Net Investment in Capital Assets	Total	Yes	No
Current						
Unrestricted		$ -	$ -	$ -	$ -	$ -
Net Pension Obligation	(6,683,095)	-	-	(6,683,095)		(6,683,095)
Other	9,580,703			9,580,703	9,580,703	
Auxiliary enterprises	1,489,892			1,489,892	1,489,892	
Grants and donor restrictions	-	2,538,753	-	2,538,753	2,538,753	-
Loan funds	-	97,249	-	97,249		97,249
Plant:						
Renewals and replacements	-	-	-	-	-	
Investment in plant	-	-	13,440,062	13,440,062	-	13,440,062
Total Net Position, end of year	4,387,500	2,636,002	13,440,062	20,463,564 (Exhibit 1)	13,609,348	6,854,216
Total Net Position, beginning of the year	6,524,636	2,536,448	11,902,951	20,964,035 (Exhibit 1)	15,643,411	5,320,624
Net increase (decrease) in net position	$ (2,137,136)	$ 99,554	$ 1,537,111	$ (500,471) (Exhibit 2)	$ (2,034,063)	$ 1,533,592

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OVERALL COMPLIANCE, INTERNAL CONTROLS AND FEDERAL AND STATE AWARDS SECTION

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

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

We have audited the financial statements of the business-type activities, and the discretely presented component unit of the of College of the Mainland (the "College"), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise of the College's basic financial statements, and have issued our report thereon dated December 6, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing* Standards issued by the Comptroller General of the United States. The financial statements of College of the Mainland Foundation were not audited in accordance with *Government Auditing* Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with College of the Mainland Foundation.

Internal Control over Financial Reporting

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

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

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

To the Board of Trustees
College of the Mainland

Compliance and Other Matters

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

Purpose of this Report

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

Whitley Penn LLP

Texas City, Texas
December 6, 2017

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

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

Report on Compliance for Each Major Federal and State Program

We have audited College of the Mainland's (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and *State of Texas Single Audit Circular* that could have a direct and material effect on each of the College's major federal and state programs for the year ended August 31, 2017. The 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 and state awards applicable to its federal and state programs

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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; 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, Uniform Guidance, and 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 or state program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Board of Trustees
College of the Mainland

Opinion on Each Major Federal and State Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2017.

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with Uniform Guidance and 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 the College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. 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 Uniform Guidance and State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

Whitley Penn LLP

Texas City, Texas
December 6, 2017

I. Summary of Auditors' Results

Financial Statements

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

Federal and State Awards

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

Identification of major programs:

Name of Federal Program or Cluster	CFDA Numbers
US Department of Education	
Student Financial Assistance Programs Cluster:	
Supplemental Education Opportunity Grant	84.007
Federal College Work-Study Program	84.033
Federal Pell Grant	84.063
Federal Direct Loan Program	84.268
Title V – Pathway to Student Success	84.031S
Name of State Program	
Jobs and Education for Texans Grant Program - Nursing	N/A
Texas Education Opportunity Grant	N/A

Dollar Threshold Considered Between Type A and B:	
Federal	$750,000
State	$300,000
Auditee qualified as low risk auditee?	
Federal	Yes
State	Yes

II. Financial Statement Findings

None reported.

III. Federal Award Findings and Questioned Costs

None reported.

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
U.S. Department of Agriculture			
Pass-Through From:			
Texas Department of Agriculture:			
USDA Food Program	10.558	02108	$ 14,641
Total Department of Agriculture			14,641
U.S. Department of Labor			
Pass-Through From:			
Texas Workforce Commission:			
Electric Apprenticeship	17.278	2816ATP000	20,871
San Jacinto Community College:			
H-1B Ready to Work	17.268	DOL531713002	575,025
Total Department of Labor			595,896
U.S. Institute of Museum and Library Services			
Pass-Through From:			
Texas State Library and Archives Commission			
Texas State Library Impact Grant	45.310	LS-00-13-0044-13	10,000
			10,000
U.S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster:			
Supplemental Educational Opportunity Grant	84.007	P007A153984	73,879
Federal College Work Study Program	84.033	P033A153984	78,751
Federal Pell Grant	84.063	P063P152888	3,330,198
Federal Direct Loan Program	84.268	P268K162888	1,227,035
Total Student Financial Aid Cluster			4,709,863
TRIO Cluster:			
TRIO - Student Support Services	84.042A	P042A150335	227,677
TRIO - Student Support Services - Upward Bound	84.047A	P047A120113	263,760
Total TRIO Cluster			491,437
Title V - A Pathway to Student Success	84.031S	P031S150040	580,932
Pass-Through From:			
Texas Workforce Commission:			
Houston-Galveston Area Council:			
Adult Education and Family Literacy	84.002	AEL 211-16	498,708
Adult Education English Literacy & Civics Ed.	84.002	AEL 211-16	17,000
Adult Education Corrections Institute	84.002	AEL 211-16	17,250
Adult Education - Federal Workforce	84.002	AEL 211-16	23,219
Adult Education - ELC Workforce	84.002	AEL 211-16	33,391
Adult Education - Accelerate Texas	84.002	02-S140284	147,133
Distance Learning Mentor Initiative	84.002	2915AEL002	24,770
Texas Higher Education Coordinating Board:			
Carl Perkins Vocational Education	84.048	164224	146,039
Total Department of Education			6,689,742

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
U.S. Department of Health and Human Services			
Pass-Through From:			
Texas Workforce Commission:			
Houston-Galveston Area Council:			
TANF Cluster			
Adult Education Temporary Assistance for Needy Families	93.558	AEL 211-16	$ 50,000
Total Department of Health and Human Services			50,000
Total Expenditures of Federal Awards			$ 7,360,279

Note 1 - Federal Assistance Reconciliation

Note 1: Federal Assistance Reconciliation		
Federal Grants and Contracts revenue - Per Schedule A	$	2,650,416
Add: Non Operating Federal Revenue From Schedule C		3,482,828
Total Federal Revenues per Statement of Revenues, Expenses and Changes and Net Position		6,133,244
Reconciling Item:		
Add: Direct Students Loans		1,227,035
Total Federal Revenues per Schedule of Expenditures of Federal Awards	$	7,360,279

Note 2 - Significant accounting policies used in preparing the schedule

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

Note 3 - Expenditures not subject to Federal Single Audit

N/A

Note 4 - Student Loans Processed and Administrative Costs Recovered

N/A

Note 5 - Nonmonetary federal assistance received

N/A

Note 6 - Amounts passed through by the College

N/A

COLLEGE OF THE MAINLAND *Schedule F*

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended August 31, 2017

Grantor Agency / Program Title	Grantor / Project Number	Expenditures
Texas Comptroller of Public Accounts		
LEOSE	N/A	$ 500
Total Texas Comptroller of Public Accounts		500
Texas Higher Education Coordinating Board		
Texas Education Opportunity Grant	N/A	188,884
Educational Aide	N/A	419
Nursing Innovation Grant	14115	5,589
Accelerate TX Initiative - Adult Basic Education Innovative Grant (ABEIG)	10787	16,022
Coastal Communities Accelerate Texas (CCATX) Consortium	14161	164,655
Accelerate TX Mentor 15130	15130	49,753
Total Texas Higher Education Coordinating Board		425,322
TXWorkforce Solutions		
Texas Rising Star Child Care		2,786
Texas Rising Star Incentive Grants		2,100
Total TXWorkforce Solutions		4,886
Texas Workforce Commission		
Direct Programs:		
Electric Apprenticeship	2816ATP000	31,306
Jobs and Education for Texans Grant Program - Nursing	2816JET001	209,500
Pass-Through From:		
Houston-Galveston Area Council:		
Adult Education	AEL 211-16	124,989
Total Texas Workforce Commission		365,795
Total Expenditures of State Awards		$ 796,503

COLLEGE OF THE MAINLAND

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

Note 1 -State Assistance Reconciliation

State Revenues - Per Schedule A	$	796,503
Add State Revenues not reported on Schedule A		-
Total State Revenues per Schedule of Expenditures of State Awards	$	796,503

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

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

The Summary Schedule of Prior Audit Findings for the year ended August 31, 2017 has been prepared to address these requirements.

I. Prior Audit Findings

None Noted

COLLEGE OF THE MAINLAND
CORRECTIVE ACTION PLAN
For the Year Ended August 31, 2017

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

The Corrective Action Plan for the year ended August 31, 2017 has been prepared to address these requirements.

I. Corrective Action Plan

Not Applicable

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