

Financial Statements and
Independent Auditor's Report

Howard County Junior College District

August 31, 2013 and 2012

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Howard County Junior College District
 ORGANIZATIONAL DATA
 For the Fiscal Year 2013

Board of Trustees

Officers

Board Title

Dr. John E. Freeman

Chairman

Mr. Maxwell Barr

Vice Chairman

Mrs. Marie Ethridge

Secretary

Members

Address

Term Expires

Dr. John E. Freeman

Big Spring, Texas

May, 2014

Mr. Adrian Calvio

Big Spring, Texas

May, 2018

Mrs. Marie Ethridge

Coahoma, Texas

May, 2014

Mr. Maxwell Barr

Coahoma, Texas

May, 2018

Mr. Michael L. Flores

Big Spring, Texas

May, 2016

Mr. Murray Murphy

Big Spring, Texas

May, 2016

Dr. Charles O. Warren

Big Spring, Texas

May, 2014

Principal Administrative Officers and the Business and Financial Staff

Key Officers

Title

Dr. Cheryl T. Sparks

President

Mr. Terry Hansen

Executive Vice President

Dr. Amy Burchett

Vice President Academic and Student Affairs

Ms. LeAnne Byrd

Provost, San Angelo

Ms. Kinsey Hansen

Executive Dean, Big Spring Area

Mr. Danny Campbell

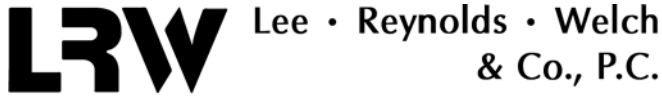
Co-Executive Dean, Southwest Collegiate Institute for the Deaf

Ms. Nancy Bonura

Co-Executive Dean, Southwest Collegiate Institute for the Deaf

Ms. Brenda Claxton

Controller



CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 3469 * Big Spring, Texas 79721 * 432-267-5293

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Howard County Junior College District
Big Spring, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Howard County Junior College District (the District) as of and for the years ended August 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 15 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.

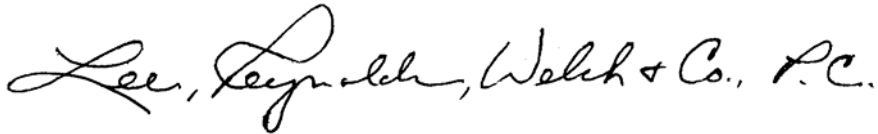
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and the schedule of expenditures of State of Texas awards are presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular, and are also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lee, Reynolds, Welch & Co., P.C.".

Big Spring, Texas
December 30, 2013

Howard County Junior College District
Management's Discussion and Analysis
August 31, 2013 and 2012

As management of the Howard County Junior College District, we offer this narrative overview and analysis of the college district's financial activities for the fiscal years ended August 31, 2013 and 2012. Since this management's discussion and analysis focuses on current activities, resulting changes, and currently known facts, we encourage readers to consider it in conjunction with the college district's financial statements and related notes.

Financial Highlights

FYE 2013

The college district's financial position, as a whole, improved during the fiscal years ended August 31, 2013 and 2012. Net position increased by \$2.3 million and \$2.7 million in 2013 and 2012, respectively.

The assets of the college district exceeded its liabilities (net position) by \$40.6 million and \$38.3 million, as of August 31, 2013 and 2012, respectively. Approximately \$9.5 million of the net position as of August 31, 2013 was available for spending at the college district's discretion (unrestricted net position). In comparison, as of August 31, 2012, \$8.9 million was classified as unrestricted net position.

FYE 2012

The college district's financial position, as a whole, improved during the fiscal years ended August 31, 2012 and 2011. Net position increased by \$2.7 million and \$2.5 million in 2012 and 2011, respectively.

The assets of the college district exceeded its liabilities (net position) by \$38.3 million and \$35.6 million, as of August 31, 2012 and 2011, respectively. Approximately \$8.9 million of the net position as of August 31, 2012 was available for spending at the college district's discretion (unrestricted net position). In comparison, as of August 31, 2011, \$7.8 million was classified as unrestricted net position.

Brief Overview of the Financial Statements

This annual financial report consists of four components: Management's Discussion and Analysis, the basic financial statements, the notes to the financial statements, and other supplementary information.

The Statements of Net Position present the current and long-term assets and liabilities separately with the difference in total assets and total liabilities reported as net position. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of the college district is improving or deteriorating. However, one may need to consider other non-financial factors to assess the overall health of the college district.

The Statements of Revenues, Expenses, and Changes in Net Position present the change in the college district's net position as a result of the fiscal year's operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transaction occurs. Thus, revenues and expenses may be reported for items that may not affect cash until future fiscal periods.

The Statements of Cash Flows present the operating cash inflows and outflows resulting in net cash flows from operations. These statements are prepared using the direct method as prescribed by the Governmental Accounting Standards Board (GASB) Statement 34.

The college district is reported as a special-purpose government engaged in business-type activities using the full accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they have been reduced to a legal or contractual obligation to pay.

The Notes to the Financial Statements provide additional information that is essential to a better understanding of the data provided in the financial statements.

Other Supplementary Information is provided in addition to the basic financial statements and accompanying notes.

Financial Analysis

Net Position

FYE 2013

The schedule below was prepared from the Statements of Net Position. Total net position, which is the difference in total assets and total liabilities, at August 31, 2013 and 2012 was \$40.6 million and \$38.3 million, respectively. This represents an overall increase of 6.10% from the prior fiscal year. The majority of the increase was in the category of net investment in capital assets, due to the various improvement and construction projects that continued to take place throughout the college district. Refer to the Capital Assets section for further details.

The college's unrestricted net position increased \$617 thousand for the fiscal year ended August 31, 2013. The increase was accomplished through conservative spending in response to continued reduced state funding for operations. Refer to the next section on Revenues, Expenses, and Changes in Net Position for further details.

FYE 2012

The schedule below was prepared from the Statements of Net Position. Total net position, which is the difference in total assets and total liabilities, at August 31, 2012 and 2011 was \$38.3 million and \$35.6 million, respectively. This represents an overall increase of 7.56% from the prior fiscal year. The majority of the increase was in the category of net investment in capital assets, due to the various improvement projects that continued to take place throughout the college district. Refer to the Capital Assets section for further details.

The college's unrestricted net position increased \$1.1 million for the fiscal year ended August 31, 2012. The increase was accomplished through conservative spending in response to reduced state

funding. Refer to the next section on Revenues, Expenses, and Changes in Net Position for further details.

STATEMENTS OF NET POSITION

ASSETS	2013	2012	2011
Total current assets	\$ 17,614,359	\$ 17,584,133	\$ 16,357,739
Restricted cash equivalents	10,500,949	-	497,150
Total capital assets, net	48,736,918	47,401,847	46,748,323
Total Assets	<u>76,852,226</u>	<u>64,985,980</u>	<u>63,603,212</u>
LIABILITIES			
Total current liabilities	5,697,393	5,687,406	6,156,634
Total noncurrent liabilities	30,527,058	21,005,550	21,845,294
Total Liabilities	<u>36,224,451</u>	<u>26,692,956</u>	<u>28,001,928</u>
NET POSITION			
Net investment in capital assets	28,053,346	25,695,916	23,786,191
Restricted			
Nonexpendable	1,217,695	1,217,687	1,177,680
Expendable	1,865,747	2,505,904	2,843,498
Unrestricted	9,490,987	8,873,517	7,793,915
TOTAL NET POSITION	<u>\$ 40,627,775</u>	<u>\$ 38,293,024</u>	<u>\$ 35,601,284</u>

Revenues, Expenses, and Changes in Net Position

FYE 2013

The change in net position is the result of operating and non-operating activities combined during the fiscal year. The college's net position increased \$2.3 million (6.10%) and \$2.7 million (7.56%) for the fiscal years ended August 31, 2013 and 2012, respectively.

Total operating revenues increased \$381 thousand (3.77%) overall from the prior fiscal year, mainly due to the factor as outlined below:

- Federal grants and contracts increased \$537 thousand (18.79%) mainly due to continued Title V grants.

Operating expenses decreased \$623 thousand (1.86%) overall from the prior fiscal year. Per Schedule B, notable decreases were \$521 thousand in the unrestricted instructional area and \$782 thousand in restricted scholarships as well as slight changes in all other areas. However, there was an increase of \$657 thousand in restricted academic support mainly due to the Title V grants. The district continues to be very dedicated to controlling expenditures in all areas.

Net non-operating revenues decreased \$1.3 million mainly due to the continued decrease in state funding and a reduction in federal financial aid programs.

FYE 2012

The change in net position is the result of operating and non-operating activities combined during the fiscal year. The college's net position increased \$2.7 million (7.56%) and \$2.5 million (7.42%) for the fiscal years ended August 31, 2012 and 2011, respectively.

Total operating revenues increased \$700 thousand (7.45%) overall from the prior fiscal year, mainly due to the factors as outlined below:

- Tuition and fees, net of discounts, increased \$623 thousand (17.61%) primarily due to tuition rate increases.
- Federal grants and contracts increased \$452 thousand (18.79%) mainly due to new Title V grants.

However, there was a decrease in the following area:

- State grants and contracts decreased by \$447 thousand (37.11%) mainly due to the completion of a workforce education grant.

Operating expenses decreased \$1.7 million (4.87%) overall from the prior fiscal year. Of this amount, \$1.2 million was in the restricted instructional area, \$900 thousand in restricted scholarships, and slight changes in all other areas. The district continues to be very dedicated to controlling expenditures in all areas.

Net non-operating revenues decreased \$1.7 million mainly due to a decrease in state funding.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2013	2012	2011
REVENUES			
Operating revenues			
Tuition & fees (net of discounts)	\$ 4,183,889	\$ 4,163,082	\$ 3,539,834
Federal grants and contracts	3,394,294	2,857,420	2,405,435
State grants and contracts	755,728	756,890	1,203,469
Local grants and contracts	15,640	6,209	31,254
Nongovernmental grants and contracts	827,336	786,240	894,904
Sales and services of educational activities	321,156	349,216	338,381
Auxiliary enterprises (net of discounts)	390,461	366,615	423,853
Other operating revenues	585,193	807,062	556,058
Total operating revenues	<u>10,473,697</u>	<u>10,092,734</u>	<u>9,393,188</u>
EXPENSES			
Operating expenses			
Instruction	10,348,744	10,773,476	12,249,845
Public service	847,318	923,413	1,119,832
Academic support	3,042,472	2,434,859	1,590,954
Student services	2,162,027	2,303,594	2,685,368
Institutional support	6,667,071	6,505,326	6,151,810
Operation and maintenance of plant	2,934,716	3,090,782	3,527,994
Scholarships and fellowships	3,371,558	4,153,859	5,018,877
Auxiliary enterprises	1,770,572	1,588,690	1,555,125
Depreciation	1,772,697	1,765,896	1,357,850
Total operating expenses	<u>32,917,175</u>	<u>33,539,895</u>	<u>35,257,655</u>

Operating loss	(22,443,478)	(23,447,161)	(25,864,467)
NON-OPERATING REVENUES (EXPENSES)			
State appropriations	11,508,679	12,326,329	13,496,753
Property taxes for operations	4,586,829	4,258,586	4,388,681
Property taxes for debt service	1,718,328	1,773,050	1,724,889
Payments in lieu of taxes	141,651	138,196	134,825
Federal revenue, non-operating	6,277,122	7,145,347	7,291,166
Investment income (net of investment expenses)	39,105	33,473	16,493
Interest on capital related debt	(989,423)	(1,020,991)	(698,967)
Gain (Loss) on disposal of fixed assets	-	4,109	(594)
Other non-operating revenues	424,572	388,333	404,833
	<u>23,706,863</u>	<u>25,046,432</u>	<u>26,758,079</u>
Income before other revenue	1,263,385	1,599,271	893,612
Other revenue			
Capital contributions	<u>1,071,366</u>	<u>1,092,469</u>	<u>1,564,103</u>
Increase in net position	<u>2,334,751</u>	<u>2,691,740</u>	<u>2,457,715</u>
Net Position – beginning of year	<u>38,293,024</u>	<u>35,601,284</u>	<u>33,143,569</u>
Net Position – end of year	<u>\$ 40,627,775</u>	<u>\$ 38,293,024</u>	<u>\$ 35,601,284</u>

Cash Flows

FYE 2013

In addition to the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, presented below, are another way to assess the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments by the college district during the fiscal year. There was an increase in cash and cash equivalents of \$10 million for the year ended August 31, 2013. The increase was attributable mainly to the proceeds from debt issued by the college to finance construction projects at the San Angelo site.

FYE 2012

In addition to the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, presented below, are another way to assess the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments by the college district during the fiscal year. There was a decrease in cash and cash equivalents of \$119 thousand for the year ended August 31, 2012. The decrease was attributable mainly to the completion and continued progress of capital projects throughout the district.

STATEMENTS OF CASH FLOWS

Cash Provided (Used) by:	2013	2012	2011
Operating activities	\$ (19,938,635)	\$ (21,366,987)	\$ (21,599,784)
Noncapital financing activities	21,498,254	23,044,804	23,735,822
Capital and related financing activities	8,720,225	(1,830,026)	(6,600,148)
Investing activities	39,105	33,473	16,493
Net increase (decrease) in cash and cash equivalents	10,318,949	(118,736)	(4,447,617)
Cash and cash equivalents Sept 1	13,961,501	14,080,237	18,527,854
Cash and cash equivalents Aug 31	\$ 24,280,450	\$ 13,961,501	\$ 14,080,237

Overall Financial Position

FYE 2013

As reflected in the schedules and narrative, the college's financial position improved during the fiscal year ended August 31, 2013. Even though state appropriations, which includes base funding and employee benefits, decreased \$818 thousand (6.63%), the district's overall net position increased by approximately \$2.3 million with \$617 thousand of the total increase in unrestricted net position. A brief explanation for the significant changes is discussed in other sections of the Financial Analysis. Considering the fact that the cost of goods and services and the cost of delivering college programs continue to rise, the college's continued commitment to control expenditures has helped to maintain the stability of the college's financial position.

As in the past, the college continued to seek additional funding from outside sources such as federal, state, and non-governmental grants. In an effort to meet the needs of the college's thirteen county service area, the college continued to seek ways to enhance existing programs, pursue new course delivery methods, and to provide new services as needed or requested. Expenditures were controlled through conservative budgeting strategies, freezing the filling of some vacant positions, limiting or reducing staff in certain areas, as well as purchasing techniques and controls that reduced costs and maximized value.

FYE 2012

As reflected in the schedules and narrative, the college's financial position improved during the fiscal year ended August 31, 2012. Even though state appropriations, which includes base funding and employee benefits, decreased \$1.2 million (8.67%), the district's net position overall increased by approximately \$2.7 million with \$1.1 million of the total increase in unrestricted net position. A brief explanation for the significant changes is discussed in other sections of the Financial Analysis. Considering the fact that the cost of goods and services and the cost of delivering college programs continue to rise, the college's continued commitment to control expenditures has helped to maintain the stability of the college's financial position.

As in the past, the college continued to seek additional funding from outside sources such as from federal, state, and non-governmental grants. In an effort to meet the needs of the college's thirteen county service area, the college continued to seek ways to enhance existing programs, pursue new course delivery methods, and to provide new services as needed or requested. Expenditures were controlled through conservative budgeting strategies, freezing the filling of vacant positions,

limiting or reducing staff in certain areas, as well as purchasing techniques and controls that reduced costs and maximized value.

Capital Assets

FYE 2013

As of August 31, 2013 and 2012, the college district had invested \$68.9 million and \$66.1 million, respectively, in capital assets. Net of accumulated depreciation, the college district's net capital assets at August 31, 2013 totaled \$48.7 million and totaled \$47.4 million at August 31, 2012. The approximate \$1.3 million increase in net capital assets was mainly due to the following:

- The completion of the last two phases of the agriculture complex which was funded by a local private foundation.
- The continuation of the expansion and construction projects at the San Angelo site. The total construction commitment totals approximately \$11.7 million.

FYE 2012

As of August 31, 2012 and 2011, the college district had invested \$66.1 million and \$63.8 million, respectively, in capital assets. Net of accumulated depreciation, the college district's net capital assets at August 31, 2012 totaled \$47.4 million and totaled \$46.7 million at August 31, 2011. The approximate \$700 thousand increase was largely due to the following:

- The completion of the many projects funded by the \$21,550,000 General Obligation Bond, Series 2007.
- The beginning of the next two phases of the agriculture complex which is funded by a local private foundation.

Debt Administration

FYE 2013

The college district's long-term debt was comprised of capital lease agreements, notes payable, the general obligation bond issued August 2007, a consolidated revenue bond issued November 2009, and a \$10.6 million consolidated revenue bond issued June 2013. The current portion was \$1,037,516 and the non-current portion was \$30,527,058 for a total of \$31,564,574 at August 31, 2013. The college entered into operating lease agreements beginning September 1, 2008 for two facilities in San Angelo with the lease with Shannon Medical Center being amended twice for additional space effective July 2009 and July 2011. The college also entered into operating leases beginning September 2009, September 2010, and October 2010 for copiers with various terms under long-term, non-cancelable agreements. See Notes 6, 7, 8, 9, 10 and 11 to the financial statements for detailed information.

The college district continues to maintain a bond rating of "AA-" with Standard and Poor's and Fitch Ratings on the General Obligation Bond, Series 2007.

FYE 2012

The college district’s long-term debt was comprised of capital lease agreements, notes payable, the general obligation bond issued August 2007, and a consolidated revenue bond issued November 2009. The current portion was \$998,422 and the non-current portion was \$21,005,550 for a total of \$22,003,972 at August 31, 2012. The college entered into operating lease agreements beginning September 1, 2008 for two facilities in San Angelo with the lease with Shannon Medical Center being amended twice for additional space effective July 2009 and July 2011. The college also entered into operating leases beginning September 2009, September 2010, and October 2010 for copiers with various terms under long-term, non-cancelable agreements. See Notes 6, 7, 8, 9, 10 and 11 to the financial statements for detailed information.

The college district continues to maintain a bond rating of “AA-” with Standard and Poor’s and Fitch Ratings on the General Obligation Bond, Series 2007.

Currently Known Facts, Decisions, or Conditions

In 2000, the Texas Higher Education Coordinating Board (THECB) adopted *Closing the Gaps by 2015*. This initiative seeks to increase enrollment in Texas’ higher education institutions by 500,000 students by 2015. The following information has been reported for Howard College to the THECB:

<u>Category</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Unduplicated Credit Enrollment	5,894	6,207	6,494	5,761	5,073	4,457	4,457	4,191
Associate Degrees & Certificates	788	775	645	629	443	420	455	407
Targeted Technical Degrees & Certificates	66	55	55	49	24	37	36	40
Allied Health/Nursing Degrees & Certificates	141	135	146	139	129	118	115	113

As illustrated by the table above, the college has generally experienced an increase in credit enrollment and in total degrees and certificates awarded. Credit enrollment has increased by approximately 41% since 2006, and the total number of degrees and certificates awarded has increased by approximately 94% since 2006. This upward trend reflects the college’s commitment and efforts in meeting the Closing the Gaps initiative and will have a positive impact on the college in the future.

Contacting the District’s Financial Management

This financial report is designed to provide a general overview of the Howard County Junior College District’s finances for all those with an interest in the college’s finances.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Financial Officer, Howard College, 1001 Birdwell Lane, Big Spring, TX 79720.

Howard County Junior College District
STATEMENTS OF NET POSITION

Exhibit 1
August 31,

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,779,501	\$ 13,961,501
Accounts receivable, net	2,750,418	2,529,793
Prepaid expenses	1,067,365	1,067,099
Inventories for resale	17,075	25,740
Total current assets	17,614,359	17,584,133
Noncurrent Assets		
Restricted cash equivalents	10,500,949	-
Capital assets, net of accumulated depreciation	48,736,918	47,401,847
Total noncurrent assets	59,237,867	47,401,847
TOTAL ASSETS	76,852,226	64,985,980
LIABILITIES		
Current liabilities		
Accounts payable	1,635,046	1,449,157
Accrued liabilities	1,556,654	1,469,694
Deposits payable	42,469	44,614
Deferred revenue	1,209,395	1,536,244
Accrued compensable absences	216,313	189,275
Bonds and notes payable – current portion	1,025,481	981,873
Capital lease agreements – current portion	12,035	16,549
Total current liabilities	5,697,393	5,687,406
Noncurrent liabilities		
Bonds and notes payable, noncurrent portion	30,493,958	20,960,417
Capital lease agreements, noncurrent portion	33,100	45,133
Total noncurrent liabilities	30,527,058	21,005,550
TOTAL LIABILITIES	36,224,451	26,692,956
NET POSITION		
Net investment in capital assets	28,053,346	25,695,916
Restricted for:		
Nonexpendable		
Student aid	1,217,695	1,217,687
Expendable		
Student aid	578,183	500,842
Instructional programs	100,254	91,455
Capital projects	118,670	936,404
Debt service	956,320	856,970
Other	112,320	120,233
Unrestricted	9,490,987	8,873,517
TOTAL NET POSITION (Schedule D)	\$ 40,627,775	\$ 38,293,024

The accompanying notes are an integral part of these statements.

Howard County Junior College District
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Exhibit 2
Year Ended August 31,

	2013	2012
REVENUES		
Operating revenues		
Tuition and fees (net of discounts of \$5,001,087 and \$4,946,746)	\$ 4,183,889	\$ 4,163,082
Federal grants and contracts	3,394,294	2,857,420
State grants and contracts	755,728	756,890
Local grants and contracts	15,640	6,209
Nongovernmental grants and contracts	827,336	786,240
Sales and services of educational activities	321,156	349,216
Auxiliary enterprises (net of discounts of \$1,171,850 and \$1,093,951)	390,461	366,615
Other operating revenues	585,193	807,062
Total operating revenues (Schedule A)	10,473,697	10,092,734
EXPENSES		
Operating expenses		
Instruction	10,348,744	10,773,476
Public service	847,318	923,413
Academic support	3,042,472	2,434,859
Student services	2,162,027	2,303,594
Institutional support	6,667,071	6,505,326
Operation and maintenance of plant	2,934,716	3,090,782
Scholarships and fellowships	3,371,558	4,153,859
Auxiliary enterprises	1,770,572	1,588,690
Depreciation	1,772,697	1,765,896
Total operating expenses (Schedule B)	32,917,175	33,539,895
Operating loss	(22,443,478)	(23,447,161)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	11,508,679	12,326,329
Property taxes for operations	4,586,829	4,258,586
Property taxes for debt service	1,718,328	1,773,050
Payments in lieu of taxes	141,651	138,196
Federal revenue, non operating	6,277,122	7,145,347
Investment income (net of investment expenses)	39,105	33,473
Interest on capital related debt	(989,423)	(1,020,991)
Gain (loss) on disposal of fixed assets	-	4,109
Other non-operating revenues	424,572	388,333
Net non-operating revenues (Schedule C)	23,706,863	25,046,432
Income before other revenue	1,263,385	1,599,271
Other revenue		
Capital contributions	1,071,366	1,092,469
Increase in net position	2,334,751	2,691,740
Net position – beginning of year	38,293,024	35,601,284
Net position – end of year	\$ 40,627,775	\$ 38,293,024

The accompanying notes are an integral part of these statements.

Howard County Junior College District
STATEMENTS OF CASH FLOWS

Exhibit 3

Year ended August 31,

	2013	2012
Cash flows from operating activities		
Receipts from students and other customers	\$ 4,599,140	\$ 4,022,931
Receipts of grants and contracts	4,829,555	4,611,685
Other receipts	1,009,765	1,195,395
Payments to or on behalf of employees	(18,503,657)	(18,518,202)
Payments to suppliers for goods and services	(8,544,652)	(8,524,937)
Payments of scholarships	(3,328,786)	(4,153,859)
Net cash used by operating activities	(19,938,635)	(21,366,987)
Cash flows from noncapital financing activities		
Property tax receipts and payments in lieu of taxes	4,726,235	4,405,078
Receipts of state appropriations	10,553,766	11,420,498
Receipts of non-operating federal revenue	6,218,253	7,219,228
Net cash provided by noncapital financing activities	21,498,254	23,044,804
Cash flows from capital and related financing activities		
Property tax receipts	1,718,588	1,773,722
Capital contracts, grants, and gifts	1,071,366	1,092,469
Proceeds on issuance of capital debt	10,500,000	176,000
Payments from accounts payable related to fixed asset additions	-	(504,914)
Purchases of capital assets	(2,555,533)	(2,364,488)
Payments on capital debt and leases	(998,370)	(948,295)
Interest payments on capital debt and leases	(1,015,826)	(1,054,520)
Net cash provided by (used by) capital and related financing activities	8,720,225	(1,830,026)
Cash flows from investing activities		
Investment earnings	39,105	33,473
Increase (decrease) in cash and cash equivalents	10,318,949	(118,736)
Cash and cash equivalents – September 1	13,961,501	14,080,237
Cash and cash equivalents – August 31	\$ 24,280,450	\$ 13,961,501
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (22,443,478)	\$ (23,447,161)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	1,772,697	1,765,896
Other revenue	424,572	388,333
Payments made directly by state for benefits	954,913	905,831
Changes in assets and liabilities:		
Receivables, net	(159,771)	(348,882)
Inventories	8,665	(11,440)
Other assets	80,322	(589,508)
Accounts payable	(310,313)	(372,653)
Accrued liabilities	35,714	153,590
Deferred revenue	(326,849)	203,863
Deposits payable	(2,145)	(3,954)
Accrued compensable absences	27,038	(10,902)
Net cash used by operating activities	\$ (19,938,635)	\$ (21,366,987)
Noncash investing, capital, and financing activities:		
Acquisition of capital assets through accounts payable	\$ 496,202	\$ -
Acquisition of capital assets through capital leases	-	60,527
Gain on cancellation of capital leases	-	(9,704)
Acquisition of capital assets through capitalized interest	56,033	-
Amortization of bond issuance costs and bond premium	21,616	29,815
Net effect of noncash transactions	\$ 573,851	\$ 80,638

The accompanying notes are an integral part of these statements.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 1 – REPORTING ENTITY

The Howard County Junior College District (District) was created by a county-wide vote on November 17, 1945. The District is located in Howard County, Texas, and operates as a county-wide Junior College District under the laws of the State of Texas, to serve the educational needs of Howard County and the surrounding communities. The District is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*. The District also operates extension campuses, some of which are located outside of Howard County. The District also operates the Southwest Collegiate Institute for the Deaf (SWCID), located in Big Spring, which was established as part of the District by the Board on November 6, 1979. All of the extension campuses' financial activity is included in the District's financial statements. While the District receives funding from local, state and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The District offers course work designed to prepare students to continue their education at senior institutions or to enter specific occupational areas at the end of a one- or two-year period of specialized training in occupational education. Arts and Sciences programs are designed for transfer to baccalaureate degree-granting institutions. Associate in Arts and Associate in Science degrees are available to students completing a two-year curriculum. Vocational/Technical Education programs seek to develop intellectual abilities and skills that will enable the student to enter a technical or semi-professional occupation. It is the purpose of these programs to prepare the student for jobs in industry.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting guidelines*

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

B. *Tuition discounting*

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code Sec. 56.033). 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.

Title IV, Higher Education Act Program Funds

Certain Title IV HEA Program funds are received by the District to pass through to the student. These funds are initially received by the District and recorded as 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.

Other tuition discounts

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

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. *Basis of accounting*

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

During the year ended August 31, 2013, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement is intended to address the accounting and financial reporting disclosure requirements surrounding service concession agreements. During the year ended August 31, 2013, the District adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement replaces all applicable pre-November 30, 1989 FASB and AICPA pronouncements within the authoritative GASB literature. During the year ended August 31, 2013, the District also adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement changes the organization of the statement of net position, formerly the statement of net assets. Under this new standard, the statement of net position includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities and will report net position instead of net assets. The adoption of the GASB 60, 62, and 63 had no material impact on the financial statements.

D. *Budgetary data*

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

E. *Cash and cash equivalents*

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

F. *Investments*

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. The governing board has designated public funds investment pools comprised of \$517,787 and \$517,246 as of August 31, 2013 and 2012, respectively, to be cash equivalents.

G. *Inventories*

Inventories consist of livestock. Inventories are stated at the lower of cost or market on a first-in, first-out basis and are charged to expense as consumed.

H. *Restricted cash equivalents*

Restricted cash equivalents consist of bond proceeds and earnings thereon that are required to be spent for construction and for debt service payments by the bond order.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. *Capital assets*

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The District's capitalization policy includes real or personal property with a value equal to or greater than \$5,000 and has an estimated life of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred. The District reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

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

J. *Capitalization of interest costs on borrowings*

The District capitalizes interest costs on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the years ended August 31, 2013 and 2012, the District capitalized \$56,033 and \$0 of interest, respectively, in connection with various capital expansion projects. The total amount of interest cost incurred for the year ended August 31, 2013 and 2012 was \$1,045,456 and \$1,020,991, respectively.

K. *Deferred revenues*

Tuition and fees of \$940,397 and \$1,076,816, federal grants of \$47,774 and \$87,698, state grants of \$53,474 and \$203,582, and private grants of \$167,750 and \$168,148 have been reported as deferred revenues at August 31, 2013 and 2012, respectively.

L. *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.

M. *Operating and non-operating revenue and expense policy*

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

It is the District's policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

N. *Reclassifications*

Certain financial information as of and for the year ended August 31, 2012 has been reclassified to conform with the presentation for the current year.

NOTE 3 – AUTHORIZED INVESTMENTS

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) local government investment pools continuously rated no lower than AAA or AAAM or equivalent by a nationally recognized rating service, (4) certificates of deposit and (5) other instruments and obligations authorized by statute and approved by Board policy.

NOTE 4 – DEPOSITS AND INVESTMENTS

Cash and Deposits as reported on Exhibit 1, Statements of Net Position, consist of the items reported below, as of August 31,:

	<u>2013</u>	<u>2012</u>
Bank Deposits		
Demand deposits	\$ 23,756,003	\$ 13,434,295
Cash on hand	<u>6,660</u>	<u>9,960</u>
Total Cash and Deposits	<u>\$ 23,762,663</u>	<u>\$ 13,444,255</u>
 <u>Reconciliation of deposits and investments to Exhibit 1, as of August 31,</u>		
<u>Total deposits and investments:</u>	<u>2013</u>	<u>2012</u>
Per Exhibit 1:		
Cash and cash equivalents	\$ 13,779,501	\$ 13,961,501
Restricted cash equivalents	<u>10,500,949</u>	<u>-</u>
Total deposits and investments	<u>\$ 24,280,450</u>	<u>\$ 13,961,501</u>
Per Note 4:		
Deposits and cash on hand	\$ 23,762,663	\$ 13,444,255
Investments	<u>517,787</u>	<u>517,246</u>
Total	<u>\$ 24,280,450</u>	<u>\$ 13,961,501</u>

As of August 31, 2013, the District had the following investments and maturities:

		Investment Maturities (in Years)
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>
Investment Pool	<u>\$ 517,787</u>	<u>\$ 517,787</u>

Interest Rate Risk – In accordance with state law and District policy, the District does not purchase any investments with maturities greater than two years.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 4 – DEPOSITS AND INVESTMENTS - Continued

Credit Risk – In accordance with state law and the District’s investment policy, investments in investment pools must be rated at least AAA. The District’s investment pools are rated AAAM.

Concentration of Credit Risk – The District does not place a limit on the amount the District may invest in any one issuer.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2013 was as follows:

	Balance September 1, 2012	Increases	Decreases	Balance August 31, 2013
Not depreciated:				
Land	\$ 371,871	\$ -	\$ -	\$ 371,871
Construction in process	<u>1,138,814</u>	<u>2,654,666</u>	<u>(2,403,561)</u>	<u>1,389,919</u>
Subtotal	<u>1,510,685</u>	<u>2,654,666</u>	<u>(2,403,561)</u>	<u>1,761,790</u>
Buildings and other capital assets				
Buildings and building improvements	46,188,778	2,497,140	-	48,685,918
Leasehold improvements	3,147,169	28,260	-	3,175,429
Other real estate improvements	<u>8,115,808</u>	<u>10,980</u>	<u>-</u>	<u>8,126,788</u>
Total buildings and other real estate improvements	57,451,755	2,536,380	-	59,988,135
Library books	861,478	16,963	(1,076)	877,365
Furniture, machinery, and equipment	<u>6,246,051</u>	<u>303,320</u>	<u>(276,003)</u>	<u>6,273,368</u>
Total buildings and other capital assets	<u>64,559,284</u>	<u>2,856,663</u>	<u>(277,079)</u>	<u>67,138,868</u>
Accumulated depreciation				
Buildings and building improvements	(12,003,169)	(818,033)	-	(12,821,202)
Leasehold improvements	(619,056)	(209,442)	-	(828,498)
Other real estate improvements	<u>(1,180,337)</u>	<u>(342,523)</u>	<u>-</u>	<u>(1,522,860)</u>
Total buildings and other real estate improvements	(13,802,562)	(1,369,998)	-	(15,172,560)
Library books	(702,931)	(19,522)	1,076	(721,377)
Furniture, machinery, and equipment	<u>(4,162,629)</u>	<u>(383,177)</u>	<u>276,003</u>	<u>(4,269,803)</u>
Total buildings and other capital assets	<u>(18,668,122)</u>	<u>(1,772,697)</u>	<u>277,079</u>	<u>(20,163,740)</u>
Net capital assets	<u>\$ 47,401,847</u>	<u>\$ 3,738,632</u>	<u>\$ (2,403,561)</u>	<u>\$ 48,736,918</u>

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 5 – CAPITAL ASSETS – Continued

Capital assets activity for the year ended August 31, 2012 was as follows:

	Balance September 1, 2011	Increases	Decreases	Balance August 31, 2012
Not depreciated:				
Land	\$ 371,871	\$ -	\$ -	\$ 371,871
Construction in process	<u>2,305,104</u>	<u>1,486,907</u>	<u>(2,653,197)</u>	<u>1,138,814</u>
Subtotal	<u>2,676,975</u>	<u>1,486,907</u>	<u>(2,653,197)</u>	<u>1,510,685</u>
Buildings and other capital assets				
Buildings and building improvements	43,857,153	2,331,625	-	46,188,778
Leasehold improvements	3,123,212	23,957	-	3,147,169
Other real estate improvements	<u>7,398,882</u>	<u>716,926</u>	<u>-</u>	<u>8,115,808</u>
Total buildings and other real estate improvements	54,379,247	3,072,508	-	57,451,755
Library books	892,967	21,231	(52,720)	861,478
Furniture, machinery, and equipment	<u>5,886,001</u>	<u>497,566</u>	<u>(137,516)</u>	<u>6,246,051</u>
Total buildings and other capital assets	<u>61,158,215</u>	<u>3,591,305</u>	<u>(190,236)</u>	<u>64,559,284</u>
Accumulated depreciation				
Buildings and building improvements	(11,212,797)	(790,372)	-	(12,003,169)
Leasehold improvements	(384,834)	(234,222)	-	(619,056)
Other real estate improvements	<u>(870,301)</u>	<u>(310,036)</u>	<u>-</u>	<u>(1,180,337)</u>
Total buildings and other real estate improvements	(12,467,932)	(1,334,630)	-	(13,802,562)
Library books	(735,617)	(19,334)	52,020	(702,931)
Furniture, machinery, and equipment	<u>(3,883,318)</u>	<u>(411,932)</u>	<u>132,621</u>	<u>(4,162,629)</u>
Total buildings and other capital assets	<u>(17,086,867)</u>	<u>(1,765,896)</u>	<u>184,641</u>	<u>(18,668,122)</u>
Net capital assets	<u>\$ 46,748,323</u>	<u>\$ 3,312,316</u>	<u>\$ (2,658,792)</u>	<u>\$ 47,401,847</u>

NOTE 6 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended August 31, 2013 was as follows:

	Balance September 1, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
Leases, bonds and notes					
Leases	\$ 61,682	\$ -	\$ (16,547)	\$ 45,135	\$ 12,035
Bonds	21,605,000	10,600,000	(915,000)	31,290,000	955,000
Unamortized bond premium	110,162	-	(41,028)	69,134	-
Notes payable	<u>227,128</u>	<u>-</u>	<u>(66,823)</u>	<u>160,305</u>	<u>70,481</u>
Total long-term liabilities	<u>\$ 22,003,972</u>	<u>\$ 10,600,000</u>	<u>\$ (1,039,398)</u>	<u>\$ 31,564,574</u>	<u>\$ 1,037,516</u>

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 6 – LONG-TERM LIABILITIES - Continued

Long-term liability activity for the year ended August 31, 2012 was as follows:

	Balance September 1, 2011	Additions	Reductions	Balance August 31, 2012	Current Portion
Leases, bonds and notes					
Leases	\$ 27,554	\$ 60,527	\$ (26,399)	\$ 61,682	\$ 16,549
Bonds	22,480,000	-	(875,000)	21,605,000	915,000
Unamortized bond premium	158,978	-	(48,816)	110,162	-
Notes payable	<u>107,728</u>	<u>176,000</u>	<u>(56,600)</u>	<u>227,128</u>	<u>66,873</u>
Total long-term liabilities	<u>\$ 22,774,260</u>	<u>\$ 236,527</u>	<u>\$ (1,006,815)</u>	<u>\$ 22,003,972</u>	<u>\$ 998,422</u>

NOTE 7 – DEBT AND LEASE OBLIGATIONS

Debt service requirements at August 31, 2013, were as follows:

For the year ending August 31,	Bonds	
	Principal	Interest
2014	\$ 955,000	\$ 1,246,585
2015	1,365,000	1,307,037
2016	1,425,000	1,247,987
2017	1,480,000	1,185,366
2018	1,545,000	1,121,355
2019-2023	8,815,000	4,514,151
2024-2028	11,120,000	2,223,893
2029-2033	3,845,000	482,664
2034	<u>740,000</u>	<u>13,875</u>
	<u>\$ 31,290,000</u>	<u>\$ 13,342,913</u>

Obligations under capital leases at August 31, 2013, were as follows:

For the year ending August 31,	
2014	\$ 16,208
2015	15,636
2016	15,636
2017	<u>6,368</u>
	53,848
Less interest portion	<u>8,713</u>
Present value of net minimum lease payments	45,135
Less current portion	<u>12,035</u>
Noncurrent portion	<u>\$ 33,100</u>

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 8 – BONDS PAYABLE

General information related to bonds payable is summarized below:

- Consolidated Fund Revenue Bonds, Series 2013.
 - Construction and equipment for two college buildings and related infrastructure
 - Issued June 1, 2013.
 - \$10,600,000: \$9,790,000 “Tax-Exempt Bonds” and \$810,000 “Taxable Bonds”; all authorized bonds have been issued.
 - Source of revenue for debt service – tuition pledge, building use fees, student service fees, lab fees, other fees, gross revenue of Auxiliary Services, and investment earnings on all investments.
 - \$10,600,000 outstanding as of August 31, 2013.

The range of installment payments on an annual basis is from \$288,188 to \$756,687 with an interest rate of 3.75%, with the final installment due October 1, 2033.

- Consolidated Fund Revenue Bonds, Series 2009.
 - Renovations, remodel and construction of student housing facilities
 - Issued November 1, 2009.
 - \$3,570,000; all authorized bonds have been issued.
 - Source of revenue for debt service – tuition pledge, building use fees, student service fees, lab fees, gross revenue of Auxiliary Services, other fees, and investment earnings on all investments.
 - \$3,325,000 and \$3,450,000 outstanding as of August 31, 2013 and 2012, respectively.

The range of installment payments on an annual basis is from \$279,820 to \$283,750 with an interest rate of 4.60%, with the final installment due October 1, 2029.

- General Obligation Bonds, Series 2007.
 - Renovation, construction, and equipment of college buildings.
 - Issued August 28, 2007.
 - \$21,550,000; all authorized bonds have been issued.
 - Source of revenue for debt service – continuing direct annual ad valorem tax levied by the District on all taxable property therein.
 - \$17,365,000 and \$18,155,000 outstanding as of August 31, 2013 and 2012, respectively.

The range of installment payments on an annual basis is from \$1,630,250 to \$1,634,875 with interest rates from 4.25% to 5.00%, with the final installment due February 15, 2028.

NOTE 9 – CAPITAL LEASE AGREEMENTS

Certain leases to finance the purchase of equipment are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such equipment under capital leases as of August 31, 2013 and 2012, is \$84,296 and \$84,296, respectively, and accumulated amortization on those assets is \$42,654 and \$25,795, respectively, as of August 31, 2013 and 2012. Amortization expense on assets recorded under capital leases is included with depreciation expense.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2013 and 2012

NOTE 10 – OPERATING LEASE AGREEMENTS

The District entered into a lease beginning September 1, 2008 for a facility under a long-term, non-cancelable operating lease agreement. The lease expires in 2018 and provides for a five-year renewal option. The District also entered into leases beginning in September 2009 for copiers under various terms under long-term, non-cancelable operating lease agreements. The leases expire in 2014. Lease expenses under these leases were \$207,217 and \$208,444 for the years ended August 31, 2013 and 2012, respectively.

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

For the year ending		
<u>August 31,</u>		
2014	\$	170,736
2015		166,370
2016		166,370
2017		166,370
2018		<u>166,370</u>
	\$	<u>836,216</u>

NOTE 11 – NOTES PAYABLE

The District has notes payable consisting of the following at August 31, 2013:

5.50% note payable, payable in semi-annual installments of \$19,760, maturing April 2014, collateralized by the District's bank deposits	\$ 37,871
5.00% note payable, payable in semi-annual installments of \$8,013, maturing December 2016, collateralized by the District's bank deposits	50,873
5.50% note payable, payable in quarterly installments of \$5,648, maturing February 2017, collateralized by trailers	<u>71,561</u>
	160,305
Less current maturities	<u>70,481</u>
	<u>\$ 89,824</u>

The following is a schedule by year of future maturities required under the notes:

<u>Year ending August 31,</u>	
2014	\$ 70,481
2015	34,392
2016	36,264
2017	<u>19,168</u>
	<u>\$ 160,305</u>

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 12 – ENDOWMENTS

When spending an endowment's net appreciation, donor established guidelines are followed. If the donor does not provide specific guidelines, State law permits the Board of Trustees to authorize the expenditure of net appreciation of an endowment. The Scholarship Committee meets each semester to review awards and insure endowment guidelines are followed. District investment policy specifies permissible investments of endowment funds with maturity dates matching semester scholarship requirements.

At August 31, 2013, net appreciation on investment of donor-restricted endowments available for authorization for expenditure was \$3,062, of which \$3,055 was restricted for student aid, instruction, and athletics.

At August 31, 2012, net appreciation on investment of donor-restricted endowments available for authorization for expenditure was \$2,974, of which \$2,967 was restricted for student aid, instruction, and athletics.

NOTE 13 – RETIREMENT PLAN

The State of Texas has joint contributory retirement plans for almost all its employees.

Teacher Retirement System of Texas

Plan Description. The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer, defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan. TRS issues a publicly available financial report with required supplementary information which can be obtained from www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The State funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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. State law provides for a member contribution rate of 6.4 percent for fiscal years 2013 and 2012. State law provides for a state contribution rate of 6.4 percent for fiscal year 2013 and 6.0 percent for fiscal year 2012. In certain instances the reporting district is required to make all or a portion of the state's contribution for fiscal years 2013 and 2012.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 13 – RETIREMENT PLAN - Continued

Teacher Retirement System of Texas (Continued)

Texas Constitution Article 16, Section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system," referring to the State's Teacher Retirement System (TRS) including the related faculty Optional Retirement Program (ORP). During the 2011 legislative session, the Texas Legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted general revenue appropriation for each year of the biennium state budget.

Optional Retirement Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.0 percent and 6.65 percent, respectively. The District contributes 1.31 percent for employees who were participating in the optional retirement program prior to September 1, 1995, 0.58 percent for employees hired September 1, 2007 and after. 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 District was \$669,176 and \$640,702 for the fiscal years ended August 31, 2013 and 2012, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the District.

The total payroll for all District employees was \$14,610,799 and \$15,124,468 for the fiscal years ended August 31, 2013 and 2012, respectively. The total payroll of employees covered by the Teacher Retirement System was \$8,135,245 and \$7,831,222, and the total payroll of employees covered by the Optional Retirement System was \$5,031,040 and \$5,779,177 for the fiscal years ended August 31, 2013 and 2012, respectively.

NOTE 14 – DEFERRED COMPENSATION PROGRAM

District 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. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants. The District had no employees participating in the program during the years ended August 31, 2013 and 2012.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2013 and 2012

NOTE 15 – COMPENSABLE ABSENCES

All full-time employees working twelve months are entitled to accrue paid vacation time from the date of employment. On September 1, current employees are credited 80 hours to be used during the year. Employees hired after September 1 accrue vacation time at 6.67 hours each month worked. The monthly vacation credit may be pro-rated if the employee’s regular work week is less than 40 hours. The District’s policy allows employees to carry their accrued leave forward from one fiscal year to the next fiscal year with a maximum accrual of 160 hours per employee. The District recognizes the accrued liability at August 31, 2013 and 2012 of \$216,313 and \$189,275, respectively, for the unpaid annual leave in the Unrestricted Current Fund. Sick leave is earned at the rate of 8 hours per month for non-faculty and 6 hours per month for faculty and may be pro-rated if the employee’s work week is less than 40 hours. Sick leave is paid only when an employee is off due to illness. The maximum sick leave that may be accumulated is 720 hours. The District’s policy is to recognize the cost of sick leave when paid. The liability is not recorded in the financial statements because experience indicates the expenditure for sick leave to be minimal.

NOTE 16 – DISAGGREGATION OF RECEIVABLES BALANCES

Receivables at August 31 were as follows:

	2013	2012
Student receivables	\$ 1,869,005	\$ 1,682,247
Taxes receivable	335,537	324,737
Federal receivable	582,943	408,173
Accounts receivable	346,504	489,392
Gross receivables	3,133,989	2,904,549
Less: allowance for uncollectible accounts	(383,571)	(374,756)
Net total receivables	\$ 2,750,418	\$ 2,529,793

NOTE 17 – 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*. Revenues are recognized on Exhibit 2 and Schedule A. For federal and non-federal contract and grant awards, funds expended, but not collected, are reported as Accounts Receivable on Exhibit 1. For federal and non-federal contract and grant awards, funds collected, but not expended, are reported as Deferred Revenue on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2013 and 2012 for which monies have not been received nor funds expended totaled \$5,659,081 and \$8,363,423, respectively. Of these amounts, \$5,606,018 and \$8,159,842 were from Federal Contract and Grant Awards and \$53,063 and \$203,581 were from State Contract and Grant Awards for the fiscal years ended August 31, 2013 and 2012, respectively.

NOTE 18 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries appropriate commercial insurance. For the years ended August 31, 2013 and 2012, the District also participated in a pool for its workers’ compensation program.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 18 – RISK MANAGEMENT - Continued

Beginning in the year 2000, the District elected participation in the Texas Public and Junior Community College Employee Benefits Consortium. This pool is exclusively for public community and junior college entities thus providing a preferred risk pool for workers' compensation coverage. Under this agreement, the pool retains liability for claims under \$750,000 or less per incident and purchases commercial insurance for claims in excess of the liability retained by the pool. The reinsurance covers losses to the specific and aggregate statutory limits required by the State of Texas. There was no significant reduction in insurance coverage from the year ended August 31, 2012 to the year ended August 31, 2013, and no settlements exceeded insurance for any of the past three fiscal years.

The claims liability of \$82,727 and \$45,760 reported in accrued liabilities at August 31, 2013 and 2012, respectively, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated based on actuarial calculations. Changes in the fund's claims liability amount in fiscal years 2013 and 2012 were:

	<u>August 31, 2013</u>	<u>August 31, 2012</u>
Balance at beginning of year	\$ 45,760	\$ 37,284
Current year claims and changes in estimates	68,121	51,796
Claims paid	<u>(31,154)</u>	<u>(43,320)</u>
Balance at end of year	<u>\$ 82,727</u>	<u>\$ 45,760</u>

NOTE 19 – 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 was \$562 per month for the year ended August 31, 2013, and totaled \$954,913 for the year. The cost of providing those benefits for 84 retirees was \$570,875 and for 247 active employees was \$384,038 for the year ended August 31, 2013. The State's contribution per full-time employee was \$531 per month for the year ended August 31, 2012, and totaled \$905,831 for the year. The cost of providing those benefits for 73 retirees was \$480,203 and for 249 active employees was \$425,628 for the year ended August 31, 2012.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2013 and 2012

NOTE 20 – PROPERTY TAXES

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

As of August 31,:

	<u>2013</u>	<u>2012</u>
Assessed valuation of the District	\$ 4,182,662,077	\$ 3,211,744,897
Less: Abatements	224,750,257	258,128,920
Less: Exemptions	<u>473,102,438</u>	<u>429,485,651</u>
Net assessed valuation of the District	<u>\$ 3,484,809,382</u>	<u>\$ 2,524,130,326</u>

	<u>2013</u>			<u>2012</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized Tax Rate per \$100 Valuation (Maximum per enabling legislation)	0.700000	0.000000	0.700000	0.700000	0.000000	0.700000
Assessed Tax Rate per \$100 Valuation	0.128440	0.048170	0.176610	0.168320	0.070187	0.238507

Taxes levied for the years ended August 31, 2013 and 2012, were \$6,302,846 and \$6,073,191, 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.

	<u>2013</u>			<u>2012</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 4,483,547	\$ 1,681,792	\$ 6,165,339	\$ 4,179,658	\$ 1,742,714	\$ 5,922,372
Delinquent taxes collected	59,804	22,129	81,933	55,611	20,681	76,292
Penalties and interest collected	<u>39,799</u>	<u>12,601</u>	<u>52,400</u>	<u>37,841</u>	<u>13,435</u>	<u>51,276</u>
Total collections	<u>\$ 4,583,150</u>	<u>\$ 1,716,522</u>	<u>\$ 6,299,672</u>	<u>\$ 4,273,110</u>	<u>\$ 1,776,830</u>	<u>\$ 6,049,940</u>

Tax collections for the years ended August 31, 2013 and 2012, were 98.65% and 98.36% of the current tax levy, respectively. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance, operations, and debt service.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 21 – COMMITMENTS AND CONTINGENCIES

The District has received financial assistance from federal and state agencies in the form of grants. The acceptance of such grants requires compliance with special regulations and grant provisions, and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material adverse effect on the District's financial position at August 31, 2013.

The District has construction commitments of approximately \$11.7 million as of August 31, 2013 of which approximately \$384 thousand has been capitalized. The projects are funded by the Consolidated Revenue Bonds, Series 2013, private funds, and District funds.

The District has received appropriations from the State for the operation of the Southwest Collegiate Institute for the Deaf. The acceptance of these funds requires compliance with special purchasing regulations, and is subject to audit by the State. Any disallowed expenditures would have to be reimbursed by the District. However, in the opinion of management, the possible reimbursements, if any, will not have a material adverse effect on the District's financial position at August 31, 2013.

NOTE 22 – INCOME TAXES

The District is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The District had no unrelated business income tax liability for the years ended August 31, 2013 and 2012.

NOTE 23 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description. The District 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.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013 and 2012

NOTE 23 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - Continued

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 thirty years.

The District's contributions to SRHP for the years ended August 31, 2013, 2012, and 2011 were \$76,421, \$77,783, and \$82,845, respectively, which equaled the required contributions each year.

SUPPLEMENTARY INFORMATION

SCHEDULES

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Howard County Junior College District
SCHEDULE OF OPERATING REVENUES
Schedule A
Year Ended August 31, 2013
(With Memorandum Totals for the Year Ended August 31, 2012)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>
Tuition				
State Funded Credit Courses				
In-District Resident Tuition	\$ 958,533	\$ -	\$ 958,533	\$ -
Out-of-District Resident Tuition	6,134,113	-	6,134,113	-
TPEG-credit (set aside)*	80,455	-	80,455	-
Non-Resident Tuition	713,224	-	713,224	-
State Funded Continuing Education	295,855	-	295,855	-
TPEG-non-credit (set aside)*	19,792	-	19,792	-
Non-State Funded Continuing Education	14,760	-	14,760	-
Total tuition	<u>8,216,732</u>	<u>-</u>	<u>8,216,732</u>	<u>-</u>
Fees				
Building use fee	-	-	-	479,443
General fees	147,438	-	147,438	-
Student service fee	-	-	-	161,608
Laboratory fee	179,755	-	179,755	-
Total fees	<u>327,193</u>	<u>-</u>	<u>327,193</u>	<u>641,051</u>
Scholarship allowances and discounts				
Scholarship allowances	(325,677)	(338,679)	(664,356)	(79,052)
Remissions and exemptions	(866,262)	-	(866,262)	-
TPEG allowances	-	(76,778)	(76,778)	-
Federal grants to students	-	(3,207,344)	(3,207,344)	-
Other state	-	(107,295)	(107,295)	-
Total scholarship allowances	<u>(1,191,939)</u>	<u>(3,730,096)</u>	<u>(4,922,035)</u>	<u>(79,052)</u>
Total net tuition and fees	<u>7,351,986</u>	<u>(3,730,096)</u>	<u>3,621,890</u>	<u>561,999</u>
Other operating revenues				
Federal grants and contracts	16,444	3,377,850	3,394,294	-
State grants and contracts	-	755,728	755,728	-
Local grants and contracts	-	15,640	15,640	-
Nongovernmental grants and contracts	86,879	740,457	827,336	-
Sales and services of educational activities	321,156	-	321,156	-
Investment income (program restricted)	-	5,576	5,576	-
Other operating revenues	577,956	1,661	579,617	-
Total other operating revenues	<u>1,002,435</u>	<u>4,896,912</u>	<u>5,899,347</u>	<u>-</u>
Auxiliary enterprises				
Intercollegiate athletics	-	-	-	65,780
Diagnostic center	-	-	-	7,528
Residential life, net of discounts of \$1,108,504 and \$1,037,501	-	-	-	186,029
Bookstore, net of discounts of \$63,346 and \$56,450**	-	-	-	131,124
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>390,461</u>
Total operating revenues (Exh. 2)	<u>\$ 8,354,421</u>	<u>\$ 1,166,816</u>	<u>\$ 9,521,237</u>	<u>\$ 952,460</u>

* In accordance with Education Code 56.033, \$100,247 and \$95,808 of tuition was set aside for Texas Public Education Grants (TPEG)

** The bookstore auxiliary operations are outsourced.

<u>2013</u>	<u>2012</u>
<u>Total</u>	<u>Total</u>
\$ 958,533	\$ 938,783
6,134,113	6,070,828
80,455	79,384
713,224	706,042
295,855	242,478
19,792	16,424
14,760	14,825
8,216,732	8,068,764
479,443	525,742
147,438	149,732
161,608	176,178
179,755	189,412
968,244	1,041,064
(743,408)	(658,623)
(866,262)	(755,270)
(76,778)	(52,413)
(3,207,344)	(3,365,484)
(107,295)	(114,956)
(5,001,087)	(4,946,746)
4,183,889	4,163,082
3,394,294	2,857,420
755,728	756,890
15,640	6,209
827,336	786,240
321,156	349,216
5,576	6,378
579,617	800,684
5,899,347	5,563,037
65,780	65,883
7,528	8,980
186,029	157,321
131,124	134,431
390,461	366,615
<u>\$ 10,473,697</u>	<u>\$ 10,092,734</u>
(Exhibit 2)	(Exhibit 2)

Howard County Junior College District
SCHEDULE OF OPERATING EXPENSES BY OBJECT
Schedule B
Year ended August 31, 2013
(With Memorandum Totals for the Year ended August 31, 2012)

	Operating Expenses			2013 Total	2012 Total	
	Salaries and Wages	Benefits State	Local			Other Expenses
Unrestricted - Educational Activities						
Instruction	\$ 7,681,911	\$ -	\$ 719,906	\$ 1,009,576	\$ 9,411,393	\$ 9,932,687
Academic support	787,206	-	68,535	247,764	1,103,505	1,152,589
Student services	1,321,087	-	113,734	256,130	1,690,951	1,798,048
Institutional support	2,597,607	-	1,705,575	1,540,796	5,843,978	5,766,092
Operation and maintenance of plant	769,403	-	261,999	1,890,787	2,922,189	3,079,670
Scholarships and fellowships	-	-	-	42,772	42,772	43,553
Total Unrestricted - Educational Activities	<u>13,157,214</u>	<u>-</u>	<u>2,869,749</u>	<u>4,987,825</u>	<u>21,014,788</u>	<u>21,772,639</u>
Restricted - Educational Activities						
Instruction	111,563	628,032	28,016	169,740	937,351	840,789
Public service	541,599	-	118,029	187,690	847,318	923,413
Academic support	528,296	72,080	135,304	1,203,287	1,938,967	1,282,270
Student services	179,379	115,299	49,540	126,858	471,076	505,546
Institutional support	-	796,151	-	26,942	823,093	739,234
Operation and maintenance of plant	-	12,527	-	-	12,527	11,112
Scholarships and fellowships	-	-	-	3,328,786	3,328,786	4,110,306
Total Restricted - Educational Activities	<u>1,360,837</u>	<u>1,624,089</u>	<u>330,889</u>	<u>5,043,303</u>	<u>8,359,118</u>	<u>8,412,670</u>
Total Educational Activities	14,518,051	1,624,089	3,200,638	10,031,128	29,373,906	30,185,309
Auxiliary Enterprises	140,908	-	37,636	1,592,028	1,770,572	1,588,690
Depreciation Expense - Buildings and other real estate improvements	-	-	-	1,369,998	1,369,998	1,334,630
Depreciation Expense - Equipment and furniture	-	-	-	402,699	402,699	431,266
Total Operating Expenses	<u>\$14,658,959</u>	<u>\$1,624,089</u>	<u>\$3,238,274</u>	<u>\$13,395,853</u>	<u>\$32,917,175</u> (Exhibit 2)	<u>\$33,539,895</u> (Exhibit 2)

Howard County Junior College District
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
Schedule C
Year Ended August 31, 2013
(With Memorandum Totals for the Year Ended August 31, 2012)

	Unrestricted	Restricted	Auxiliary Enterprises	2013 Total	2012 Total
NON-OPERATING REVENUES					
State appropriations					
Education and general state support	\$ 9,775,229	\$ -	\$ -	\$ 9,775,229	\$10,747,709
State group insurance	-	954,913	-	954,913	905,831
State retirement matching	-	669,176	-	669,176	640,702
Professional nursing shortage reduction	-	109,361	-	109,361	32,087
Total state appropriations	9,775,229	1,733,450	-	11,508,679	12,326,329
Property taxes for operations	4,586,829	-	-	4,586,829	4,258,586
Property taxes for debt service	-	1,718,328	-	1,718,328	1,773,050
Payments in lieu of taxes	141,651	-	-	141,651	138,196
Federal revenue, non operating	-	6,277,122	-	6,277,122	7,145,347
Investment income (net of investment expenses)	33,197	5,908	-	39,105	33,473
Gain on disposal of fixed assets	-	-	-	-	4,109
Other non-operating revenue	371,053	5,009	48,510	424,572	388,333
Total non-operating revenues	14,907,959	9,739,817	48,510	24,696,286	26,067,423
NON-OPERATING EXPENSES					
Interest on capital related debt	(989,423)	-	-	(989,423)	(1,020,991)
Total non-operating expenses	(989,423)	-	-	(989,423)	(1,020,991)
Net non-operating revenues	<u>\$13,918,536</u>	<u>\$ 9,739,817</u>	<u>\$ 48,510</u>	<u>\$23,706,863</u> (Exhibit 2)	<u>\$25,046,432</u> (Exhibit 2)

Howard County Junior College District
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
Schedule D
August 31, 2013
(With Memorandum Totals for August 31, 2012)

	Detail by Source				Capital Assets Net of Depreciation & Related Debt	Total
	Unrestricted	Restricted		Total		
		Expendable	Non- Expendable			
Current:						
Unrestricted	\$ 7,153,714	\$ -	\$ -	\$ -	\$ 7,153,714	
Restricted	-	909,427	-	-	909,427	
Auxiliary enterprises	2,337,273	-	-	-	2,337,273	
Endowment:						
True endowment	-	-	1,217,695	-	1,217,695	
Plant:						
Debt service	-	956,320	-	-	956,320	
Investment in plant	-	-	-	28,053,346	28,053,346	
Total Net Position, August 31, 2013	\$ 9,490,987	\$ 1,865,747	\$ 1,217,695	\$ 28,053,346	\$40,627,775	(Exhibit 1)
Total Net Position, August 31, 2012	8,873,517	2,505,904	1,217,687	25,695,916	38,293,024	(Exhibit 1)
Net Increase (Decrease) in Net Position	\$ 617,470	\$ (640,157)	\$ 8	\$ 2,357,430	\$ 2,334,751	(Exhibit 2)

Available for
Current Operations

<u>Yes</u>	<u>No</u>
\$ 7,153,714	\$ -
909,427	-
2,337,273	-
-	1,217,695
-	956,320
-	<u>28,053,346</u>
\$ 10,400,414	\$ 30,227,361
<u>10,522,451</u>	<u>27,770,573</u>
<u>\$ (122,037)</u>	<u>\$ 2,456,788</u>

Howard County Junior College District
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Schedule E
 For the Year Ended August 31, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass-Through Disbursements
U.S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster			
SEOG 12/13	84.007		\$ 87,570
Subtotal SEOG			<u>87,570</u>
Federal College Workstudy Program 11/12	84.033		6,248
Federal College Workstudy Program 12/13	84.033		38,034
Federal College Workstudy Program (100%) 12/13	84.033		1,998
Subtotal Federal College Workstudy Program			<u>46,280</u>
PELL 11/12	84.063		6,395
PELL 12/13	84.063		6,132,981
PELL 13/14	84.063		3,896
Subtotal PELL			<u>6,143,272</u>
Direct Student Loans	84.268		3,256,035
Subtotal Direct Student Loans			<u>3,256,035</u>
READE 10/11	84.031S	P031S100004	10,596
READE 11/12	84.031S	P031S100004	302,787
READE 12/13	84.031S	P031S100004	410,919
Subtotal Reaching Excellence for All in Development Education			<u>724,302</u>
eSTART 11/12	84.031C	P031C110093	225,594
eSTART 12/13	84.031C	P031C110093	636,501
Subtotal eSTART			<u>862,095</u>
Pass through from:			
Texas Education Agency			
Adult Basic Education 225 BS – 12/13	84.002	134100017110449	98,787
Adult Basic Education 231 BS – 12/13	84.002	134100017110449	137,764
Adult Basic Education 225 SA – 12/13	84.002	134100017110458	73,997
Adult Basic Education 231 SA – 12/13	84.002	134100017110458	316,392
Adult Basic Education 231 Admin SA – 12/13	84.002	134100017110458	14,246
Subtotal Texas Education Agency			<u>641,186</u>
Angelo State University			
ASU-HC Cooperative H S I-Stem Program 11/12	84.031C	P031C110142-12	178,618
ASU-HC Cooperative H S I-Stem Program 12/13	84.031C	P031C110142-12	270,792
Subtotal Angelo State University			<u>449,410</u>
Texas Higher Education Coordinating Board			
Annual Perkins	84.048	134236	234,955
Subtotal Texas Higher Education Coordinating Board			<u>234,955</u>
Total U.S. Department of Education			<u>12,445,105</u>

(continued)

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Schedule E
For the Year Ended August 31, 2013

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 Health & Human Services Commission			
Child & Adult Care Food Program	10.558	TX-114-0006	27,484
Subtotal Texas Health & Human Services Commission			<u>27,484</u>
Total U.S. Department of Agriculture			<u>27,484</u>
U.S. Department of Defense			
Direct Programs:			
Goodfellow AFB Scholarship	12.000		6,138
Army Tuition Assistance	12.000		2,338
Marines Tuition Assistance	12.000		984
Military Spouse Career Advancement BS	12.000		2,941
Military Spouse Career Advancement SA	12.000		3,400
Total U.S. Department of Defense			<u>15,801</u>
U.S. Department of Labor			
WIA Cluster			
Pass through from:			
Workforce Solutions Permian Basin			
Workforce Investment Act - Big Spring	17.258		1,580
Workforce Investment Act - San Angelo	17.258		19,988
Subtotal Workforce Solutions Permian Basin			<u>21,568</u>
Pass through from:			
Harris County Department of Education			
Incentive Grant - BS 12/13	17.267		6,020
Incentive Grant - SA 12/13	17.267		6,563
Subtotal Harris County Department of Education			<u>12,583</u>
Total U.S. Department of Labor			<u>34,151</u>
National Science Foundation			
Pass through from:			
University of Texas of El Paso			
Alliance for Minority Participation Phase IV, Year 2	47.076	HRD-0703584	600
Alliance for Minority Participation Phase IV, Year 3	47.076	HRD-0703584	5,476
Alliance for Minority Participation Phase IV, Year 5	47.076	HRD-0703584	10,454
Alliance for Minority Participation, Year 1	47.076	HRD-1202008	8,013
Total National Science Foundation			<u>24,543</u>
U.S. Department of Veterans Affairs			
Direct Programs:			
Vocational Rehab for Disabled Veterans BS	64.116		9,160
Vocational Rehab for Disabled Veterans SA	64.116		7,388
Subtotal Vocational Rehab for Disabled Veterans			<u>16,548</u>
Post 9/11 Veterans Education Assistance BS	64.130		33,513
Post 9/11 Veterans Education Assistance SA	64.130		171,923
Subtotal Post 9/11 Veterans Education Assistance			<u>205,436</u>
Total U.S. Department of Veterans Affairs			<u>221,984</u>

(continued)

Howard County Junior College District
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Schedule E
 For the Year Ended August 31, 2013

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 Education Agency			
TANF – BS 12/13	93.558	133625017110423	16,726
TANF – SA 12/13	93.558	133625017110432	41,108
Subtotal Texas Education Agency			<u>57,834</u>
Greater Opportunities of the Permian Basin			
Headstart Tuition Assistance	93.600		782
Headstart 12/13	93.600		99,767
Subtotal Greater Opportunities of the Permian Basin			<u>100,549</u>
Total U.S. Department of Health and Human Services			<u>158,383</u>
Total Federal Financial Assistance			<u><u>\$ 12,927,451</u></u>

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Schedule E
For the Year Ended August 31, 2013

Note 1: Financial assistance reconciliation

Federal revenues per Schedule A:	
Federal grants and contracts	\$ 3,394,294
Add: Non-operating federal revenue from Schedule C	6,277,122
Add: Direct student loans	<u>3,256,035</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 12,927,451</u>

Note 2: Significant accounting policies used in preparing the schedule

The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from the amounts used in the preparation of the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 3. Expenditures not subject to federal single audit

All federal expenditures reported in the financial statements are subject to a federal single audit.

Note 4. Nonmonetary federal assistance received

The District did not receive any nonmonetary federal assistance during the fiscal year.

Note 5. Amounts passed through by Howard County Junior College District

The District did not pass through any federal assistance during the fiscal year.

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
Schedule F
For the Year Ended August 31, 2013

State Grantor/Program Title	Contract/ Award Number	Expenditures
Texas Education Agency		
TxVSN 10/11 (Spring 2011)		\$ 533
Adult Basic Education BS 12/13	130100017110449	38,425
Adult Basic Education SA 12/13	130100017110458	97,289
Total Texas Education Agency		<u>136,247</u>
Texas Higher Education Coordinating Board		
Toward EXcellence, Access and Success (TEXAS) Grant - Initial 12/13		122,559
Toward EXcellence, Access and Success (TEXAS) Grant - Returning 12/13		22,451
Total TEXAS Grant		<u>145,010</u>
Texas Education Opportunity Grant – Initial 12/13		50,400
Texas Education Opportunity Grant – Returning 12/13		14,400
Total TEOG		<u>64,800</u>
Professional Nursing Shortage Yr 3 10/11		13,509
Professional Nursing Shortage Yr 4 11/12		8,223
Professional Nursing Shortage (Over Target) 11/12		87,629
At-Risk Student Tracking & Intervention Project 11/12	05668	35,121
Texas College Work Study Program 12/13		15,317
Total Texas Higher Education Coordinating Board		<u>369,609</u>
Department of Assistive and Rehabilitative Services		
DARS – Howard College BS		10,418
DARS – Howard College SA		15,420
DARS – SWCID		79,951
Total Department of Assistive and Rehabilitative Services		<u>105,789</u>
Texas Workforce Commission		
Skills for Small Business	1111SSD000	189
Total Texas Workforce Commission		<u>189</u>
Total State of Texas Financial Assistance		<u><u>\$ 611,834</u></u>

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District
 SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS - CONTINUED
 Schedule F
 For the Year Ended August 31, 2013

Note 1. State Assistance Reconciliation

State Revenues – Per Schedule A:	
State of Texas Financial Assistance	
Per Schedule of Expenditures of State of Texas Awards	\$ 611,834
State Financial Assistance	
State appropriated funds not included in Schedule A	
Professional Nursing Shortage Reduction	(109,361)
State aid from other states not included as State of Texas	
financial assistance	
Vocational Rehabilitation	<u>253,255</u>
Total State Grants and Contracts Revenues per Schedule A	<u>\$ 755,728</u>

Note 2.

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

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

The Board of Trustees
Howard County Junior College District
Big Spring, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Howard County Junior College District (the District) as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

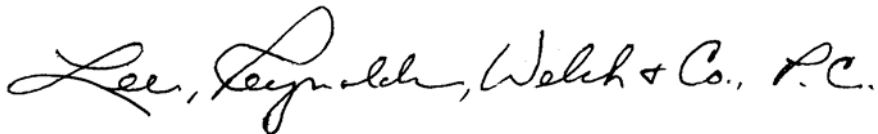
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

Public Funds Investment Act

We have performed tests designed to verify the District's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2013, no instances of noncompliance were found.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Lee, Reynolds, Welch & Co., P.C.".

Big Spring, Texas
December 30, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND
STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

The Board of Trustees
Howard County Junior College District
Big Spring, Texas

Report on Compliance for Each Major Federal and State Program

We have audited Howard County Junior College District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs and the requirements in the grant documents that could have a direct and material effect on the District's major State of Texas programs for the year ended August 31, 2013. The District's major federal and State of Texas 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 the requirements of laws, regulations, contracts, and grants applicable to its federal and State of Texas programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal and State of Texas 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; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133, and the State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or State of Texas program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal and State of Texas Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and State of Texas programs for the year ended August 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular and which is described in the accompanying schedule of findings and questioned costs as item 13-1. Our opinion on each major federal and State of Texas program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and State of Texas 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 of Texas program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

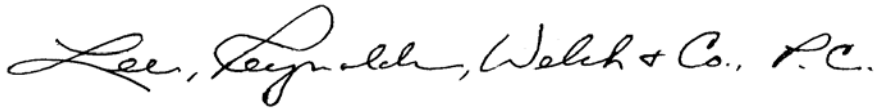
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal 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 of Texas 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 of Texas program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 13-1, that we consider to be a significant deficiency.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Lee, Reynolds, Welch & Co., P.C.".

Big Spring, Texas
December 30, 2013

Howard County Junior College District
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended August 31, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? __ yes X no
- Significant deficiency(ies) identified? __ yes X none reported

Noncompliance material to financial statements noted? __ yes X no

Federal and State of Texas Awards

Internal control over major programs

- Material weakness(es) identified? __ yes X no
- Significant deficiency(ies) identified? X yes __ none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes __ no

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of State of Texas Single Audit Circular? __ yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
84.033, 84.268, 84.007, 84.063	U.S. Department of Education, Student Financial Aid Programs
84.002	U.S. Department of Education, Adult Basic Education

Identification of major State of Texas programs:

<u>Contract Number</u>	<u>Name of State of Texas Program</u>
N/A	Adult Basic Education
N/A	Professional Nursing Shortage Reduction
N/A	Department of Assistive and Rehabilitative Services

Howard County Junior College District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
For the Year Ended August 31, 2013

Section I – Summary of Auditor’s Results - Continued

Dollar threshold used to distinguish between type A and type B federal programs: \$ 387,824
Dollar threshold used to distinguish between type A and type B state programs: \$ 300,000

Auditee qualified as low-risk auditee for federal awards? yes no
Auditee qualified as low-risk auditee for State of Texas awards? yes no

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal and State of Texas Award Findings and Questioned Costs

Finding 13-1 – U. S. Department of Education, Student Financial Aid Programs, CFDA #84.033, 84.268, 84.007, 84.063

Criteria: Pell, CFDA # 84.063 - Under 34 CFR 690.83, institutions must report student payment data within 30 calendar days after the school makes a payment; or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Key items reported include the actual disbursement date and disbursement amount. The actual disbursement date is defined as the date the money was credited to the student’s account at the school or the date the funds were otherwise made available to the student.

Condition and context: Pell, CFDA #84.063 – Of the 25 students tested that received Pell disbursements, 25 had disbursement dates reported to COD that did not match the actual disbursement date on the students’ accounts.

Questioned costs: None.

Cause: The District utilizes a clearing house for student financial aid reporting that represents it does not have the function to be able to report disbursements by the actual disbursement dates.

Effect: The District is not in compliance with the various reporting regulations for the Student Financial Aid Programs.

Howard County Junior College District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
For the Year Ended August 31, 2013

Section III – Federal and State of Texas Award Findings and Questioned Costs - Continued

Finding 13-1 – U. S. Department of Education, Student Financial Aid Programs, CFDA #84.033, 84.268, 84.007, 84.063 - Continued

Recommendation: We recommend the District investigate other methods of reporting Pell disbursements to the Common Origination and Disbursement (COD) system to include direct reporting to COD via their free software in order to meet compliance requirements.

Views of responsible officials and planned corrective action:

Agree.

The issue that the college continues to experience is as follows: The disbursement date reported to Common Origination and Disbursement (COD) is the date of the initial disbursement which is applied no more than ten days before the first class day. Howard College only credits enough funds to cover the initial cost of tuition and fees. Since the full award is not applied at initial disbursement, subsequent disbursements are required. As additional disbursements and/or adjustments are applied to student's accounts these subsequent disbursements must be reported via batch. The date of the batch may not always coincide with the actual date of disbursement. It is our understanding that this situation is common within the Community College sector. We have discussed this matter with our software provider, and their suggestion to correct this problem would entail the development of a new program for the software system. Howard College will continue to pursue this option with the software provider.

Another option that Howard College plans to implement starting for the Spring 2014 semester is as follows: As before, Pell grants will be disbursed ten days before classes begin. Additional disbursements/or adjustments may be applied to student's accounts daily, but the transmitting of funds will not be permitted after 4:00 p.m. each day. At that time the Financial Aid office will run the process to upload all financial aid disbursements to COD using the software provided by the Department of Education (ED-EXPRESS).

The Howard College Financial Aid office will also research and pursue other software options that may be available for use in transmitting data directly to COD.

Contact: Jodie Wright

Implementation date: Spring 2014

Howard County Junior College District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2013

Federal and State Award Findings and Questioned Costs

Finding 12-1 – U. S. Department of Education, Student Financial Aid Programs, CFDA #84.033, 84.268, 84.007, 84.063, 84.375

Condition and context:	<p>The following summarizes the results of compliance testing performed for the requirements mentioned above:</p> <ul style="list-style-type: none">• Pell, CFDA #84.063 – Of the 28 students tested that received Pell disbursements, 27 had disbursement dates reported to COD that did not match the actual disbursement date on the students' accounts.• Direct Loans, CFDA #84.268 – Seven graduates and five withdrawal students from the 11/12 school year were tested for timely status change reporting to NSLDS. Three of the status changes reported had not been reported timely to NSLDS.
Status:	<p>Pell – See current year finding 13-1. Direct Loans – Corrected.</p>