

**TEXARKANA COLLEGE**

*Texarkana, Texas*

**ANNUAL FINANCIAL REPORT**

*For The Years Ended*

*August 31, 2013 and 2012*



# **TEXARKANA COLLEGE**

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***ORGANIZATIONAL DATA***



# **TEXARKANA COLLEGE**

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## **ORGANIZATIONAL DATA**

**AUGUST 31, 2013 and 2012**

### **Board of Trustees**

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#### **Officers**

<b>Michael Sandefur</b>	<b>President</b>
<b>David J. Potter II</b>	<b>Vice President</b>
<b>Terry Taylor</b>	<b>Secretary</b>

#### **Members**

#### **Term Expires**

<b>Thomas Coleman</b>	<b>Texarkana, Texas</b>	<b>2014</b>
<b>Jane Daines</b>	<b>Texarkana, Texas</b>	<b>2014</b>
<b>Kyle Davis</b>	<b>Texarkana, Texas</b>	<b>2014</b>
<b>Kaye Ellison</b>	<b>Texarkana, Texas</b>	<b>2014</b>
<b>Anne Farris</b>	<b>Texarkana, Texas</b>	<b>2014</b>
<b>Dr. C. Jack Smith</b>	<b>Texarkana, Texas</b>	<b>2014</b>

### **Key Officers**

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<b>James Henry Russell</b>	<b>President</b>
<b>Kimberly Jones</b>	<b>Chief Financial Officer</b>
<b>Donna McDaniel</b>	<b>Vice President of Instruction</b>
<b>Robert Jones</b>	<b>Interim Dean of Students</b>
<b>Jamie Ashby</b>	<b>Director of Institutional Research and Effectiveness</b>
<b>Suzy Irwin</b>	<b>Director of Institutional Advancement and Public Relations</b>
<b>Mike Dumdei</b>	<b>Director of Information Technology</b>
<b>Dr. Theresa McDonald</b>	<b>Director of Enterprise Resource Planning</b>
<b>Steve Mitchell</b>	<b>Director of Radio Station</b>
<b>Rick Boyette</b>	<b>Director of Facilities Services</b>
<b>Jeff Cottingham</b>	<b>Director of Campus &amp; Public Safety</b>





***INDEPENDENT AUDITORS' REPORT***



Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION, SUPPLEMENTARY  
INFORMATION, AND OTHER INFORMATION**

To the Board of Trustees  
of Texarkana College and the  
Texarkana College Foundation, Inc.

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Texarkana College (the College) and the Texarkana College Foundation, Inc. (the Foundation) as of and for the years ended August 31, 2013 and 2012, and December 31, 2012 and 2011 respectively, and the related notes to the financial statements which collectively comprise the College's and the Foundation's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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



## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Texarkana College and the Texarkana College Foundation, Inc., as of August 31, 2013 and 2012 and December 31, 2012 and 2011, respectively, and the respective changes in financial position and cash flows thereof 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 4 through 11 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 opinions on the financial statements that collectively comprise the Texarkana College and the Texarkana College Foundation, Inc.'s basic financial statements.

The Schedule of Operating Revenues, Schedule of Operating Expenses by Object, Schedule of Non-Operating Revenues and Expenses, and Schedule of Net Position by Source and Availability presented on pages 41 through 44 is presented as for purposes of additional analysis as required by the *Texas Higher Education Coordinating Board* and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is 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 is also not a required part of the basic financial statements.

The schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State of Texas Single Audit Circular* and is also not a required part of the basic financial statements.

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



**Other Matters (Continued)**

*Required Supplementary Information (Continued)*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2013, on our consideration of the Texarkana College and the Texarkana College Foundation, Inc.'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 Texarkana College and the Texarkana College Foundation, Inc.'s internal control over financial reporting and compliance



Certified Public Accountants

Texarkana, Texas  
November 15, 2013





***MANAGEMENT'S DISCUSSION AND ANALYSIS***



**Texarkana College**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**August 31, 2013 and 2012**

This section of Texarkana College's annual financial report presents management's discussion and analysis of the financial performance of the College during the fiscal years ending 2011, 2012 and 2013. This discussion should be read in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental information. The financial statements, notes to the financial statements, supplemental information, and this discussion are the responsibility of Texarkana College's management.

**A Brief Discussion of the Basic Financial Statements**

This annual report contains financial statements prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*. These financial statements differ significantly, in both the form and the accounting principles utilized, from financial statements issued prior to 2002. The financial statements presented in years prior to 2002 focused on the accountability of fund groups, while these statements focus on the financial condition, the results of operations, and cash flows of the College as a whole.

The financial statements prescribed by GASB No. 35, 63, & 65 (the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows) present financial information similar to that used by commercial enterprises. The statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows or resources, when applicable. Decreases over time in the net position (the difference between assets, deferred outflows of resources, liabilities, and deferred inflows or resources) would be one indicator of the deterioration of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities. The statement helps measure the ability to pay operating expenses with operating revenues and the extent that capital assets are financed.

**Texarkana College**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**August 31, 2013 and 2012**

**Financial Position Summary**

Assets	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 14,393,246	\$ 12,860,443	\$ 11,997,061
Capital assets	22,853,546	20,516,853	20,991,552
<b>Total assets</b>	<u><u>37,246,792</u></u>	<u><u>33,377,296</u></u>	<u><u>32,988,613</u></u>
Liabilities			
Long term liabilities	4,429,701	1,792,508	634,662
Other liabilities	5,635,401	5,524,050	6,503,461
<b>Total liabilities</b>	<u><u>10,065,102</u></u>	<u><u>7,316,558</u></u>	<u><u>7,138,123</u></u>
Net Position			
Invested in capital assets, net of debt	20,774,345	20,516,853	20,991,552
Restricted	1,903,985	2,010,210	3,211,100
Unrestricted	4,503,360	3,533,675	1,647,838
<b>Total net position</b>	<u><u>\$ 27,181,690</u></u>	<u><u>\$ 26,060,738</u></u>	<u><u>\$ 25,850,490</u></u>

The College's capital assets represent 61% of the total assets at August 31, 2013 and 2012. The largest component of capital assets is the College's investment in buildings. The buildings represent 71% of the capital assets at the end of the 2013 fiscal year compared to 78% for 2012. Adequate facilities are an important factor in the ability of the College to meet the education needs of current and future students.

**Summary of Changes in Net Position**

Operating Revenues:	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Tuition and Fees	\$ 3,726,660	\$ 4,362,146	\$ 3,480,124
Federal Grants and Contracts	1,357,288	449,750	1,152,471
State Grants and Contracts	1,235,721	855,882	433,791
Non - Governmental Grants	143,838	420,747	235,602
Sales and Services Activities	297,991	277,899	289,905
Net Auxiliary Enterprises	796,150	964,955	1,644,430
Other	188,340	444,371	359,525
<b>Total Operating Revenue</b>	<u><u>\$ 7,745,988</u></u>	<u><u>\$ 7,775,750</u></u>	<u><u>\$ 7,595,848</u></u>

**Texarkana College**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**August 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Expenses:			
Instruction	\$ 11,045,415	\$ 11,036,873	\$ 13,935,976
Academic Support	1,699,138	1,749,531	2,595,778
Student Services	1,858,169	2,551,683	2,792,442
Institutional Support	5,052,342	4,618,879	7,114,940
Operation and Maintenance of Plant	2,196,781	2,188,192	2,449,060
Scholarships and Fellowships	7,214,918	3,990,894	3,462,892
Auxiliary Enterprises	1,963,031	2,058,473	2,153,023
Depreciation	1,640,404	1,348,326	1,126,137
Total Operating Expenses	<u>32,670,198</u>	<u>29,542,851</u>	<u>35,630,248</u>
Operating Loss	<u>(24,924,210)</u>	<u>(21,767,101)</u>	<u>(28,034,400)</u>
Non-Operating Income			
State Appropriations	8,654,487	9,138,836	10,919,861
Taxes	1,367,528	1,354,269	1,245,710
Federal Grants Non Operating	13,119,960	8,256,173	6,366,406
Investment Income	65,427	137,478	188,711
Gifts	2,078,101	1,515,454	96,501
Rent Income	109,717	106,810	89,475
Other Non-Operating Income	6,122	1,468,329	603,626
Gain on Exchange Transaction	754,996	-	-
Loss on Disposal of Fixed Assets	(84,240)	-	-
Interest on Capital Related Debt	(26,936)	-	-
Net Non-Operating Revenues	<u>26,045,162</u>	<u>21,977,349</u>	<u>19,510,290</u>
Increase (Decrease) in Net Position	1,120,952	210,248	(8,524,110)
Net Position-Beginning of Year	<u>26,060,738</u>	<u>25,850,490</u>	<u>34,374,600</u>
Net Position-End of Year	<u>\$ 27,181,690</u>	<u>\$ 26,060,738</u>	<u>\$ 25,850,490</u>

**Texarkana College**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**August 31, 2013 and 2012**

**Summary of Changes in Net Position – continued**

The College's net position increased \$1,120,952 for the year ended August 31, 2013 compared to an increase of \$210,248 for the year ended August 31, 2012. The change between 2013 and 2012 of \$910,704 resulted predominately from the gain on exchange transactions and the additional gifts in the current year.

The College's net position increased \$210,248 and decreased \$(8,524,110) for the years ended August 31, 2012 and 2011, respectively. The 2012 increase was the result of increases in public donations, insurance proceeds from a roofing project, and decreases in the rising star scholarships, decreases in salaries and benefits, and other operating costs. The 2011 decrease in net position resulted in part from the continued implementation of the banner software system, increased unrestricted operation education expenses, and declines in state funding.

The College's unrestricted net position increased by \$969,685 for the year ended August 31, 2013. The unrestricted net position is the assets that generate the College's investment income.

The College's cash and cash equivalents increased \$3,382,264 during the year ended August 31, 2013.

The College's cash and cash equivalents increased by \$5,173,349 during the year ended August 31, 2012.

**Texarkana College**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**August 31, 2013 and 2012**

**Analysis of College's Overall Financial Position and Results of Operation**

Current and other assets, as of August 31, 2013, totaled \$14,393,246 which is 39% of the total assets. Approximately 66% of the current assets are in cash or are invested in certificates of deposit at August 31, 2013.

Current and other assets, as of August 31, 2012, totaled \$12,860,443 which is 39% of the total assets. Approximately 60% of the current assets are in cash or are invested in certificates of deposit at August 31, 2012.

Current assets, as of August 31, 2011, totaled \$11,997,061 which is 36% of the total assets. Approximately 64% of the current assets are in cash or are invested in certificates of deposit at August 31, 2011.

Current liabilities total \$5,635,401 for 2013 and \$5,524,050 for 2012. Deferred revenue is 72% for 2013 and 77% for 2012 of the total current liabilities. Deferred revenue is the tuition and fees collected prior to year end for the fall classes. These are deferred because the revenue has not been earned as of the end of the year. These monies are for classes that will be primarily conducted in the next fiscal year.

The college incurred a net operating loss for the year ended August 31, 2013, 2012, and 2011, because state appropriations, Title IV funds and property tax collections are classified as non-operating revenues.

Net operating loss is an excess of the cost to provide educational instruction to our students over income from grants and funds charged to students.

Net operating income is the excess of grants and funds charged to students over the cost to provide educational instruction to our students.

**Texarkana College**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**August 31, 2013 and 2012**

**Analysis of College's Overall Financial Position and Results of Operation (continued)**

State and Federal funds amounted to 72% and charges to students amounted to 14% of total revenues for the year ended August 31, 2013.

State and Federal funds amounted to 63% and charges to students amounted to 19% of total revenues for the year ended August 31, 2012.

Salaries and benefits are approximately 53% of total operating expenses for the year ended August 31, 2013.

Salaries and benefits are approximately 57% of total operating expenses for the year ended August 31, 2012.

Non-operating revenues primarily consist of state appropriations, property tax, federal grants and contracts and investment income.

The College had negative cash flows from operating activities for the years ended August 31, 2013, 2012 and 2011 because a significant portion of the revenue, state appropriations, Title IV funds, and taxes, are considered non-operating revenue.

The College purchased capital assets during the years ended August 31, 2013 and 2012 totaling \$4,069,261 and \$873,626, respectively.



**Texarkana College**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**August 31, 2013 and 2012**

**Changes in credit ratings**

There has not been a change in the credit rating of Texarkana College.

**Debt limitations that may affect the financing of planned facilities or services**

In March of 2013, the College Board of Trustees authorized a maintenance note in the amount of \$3,500,000 to provide funds for an energy management and roofing project. A portion of the note is anticipated to be repaid by energy savings generated by the HVAC project.

In August of 2013, the College entered into an exchange Agreement with the Texas A&M University System. As part of the agreement Texarkana College agreed to lease the Academic Building from Texas A&M University. The lease began August 1, 2013 and ends July 31, 2016. At the end of the term of the lease, Texarkana College will fulfill its obligation by paying \$340,000, and in return, the building will become the property of Texarkana College.

For the fiscal year ended August 31, 2012, the college had no debt.

**Discussion of currently known facts, decisions, or conditions**

Texarkana College has continued the focused objective of returning to the historically sound financial principles and stability for which the institution was known. Based on the actions taken by the board, new administration, and the continued evaluations of performance measures, Texarkana College was able to once again add to the net assets during this past fiscal year. The college also continued to progress in relation to the internal controls structure which is evidenced by the reduction in audit findings and questioned costs as compared to the prior year.

With the continued decline in state appropriations, the college is forced to rely on tuition, fees and local taxes to support its mission. In November 2012, the College was able to successfully expand the taxing district through annexation of territory that lies within the state designated service area. The voters of Bowie County approved the annexation, which increased the college's appraised property values from approximately \$1.3 billion in 2013 to \$5.1 billion in 2014. While this increase of approximately \$4 million in tax revenue will be offset by a decrease in out-of-district tuition, the college anticipates a net increase in tax, tuition and fees of approximately \$3 million for the 2013-14 fiscal year.

**Texarkana College**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**August 31, 2013 and 2012**

**Discussion of currently known facts, decisions, or conditions (continued)**

This increase in tax revenue brings a much needed perpetual revenue source to the college however, additional reductions in expenditures are also necessary for the college to remain financially sound.

In August of 2013, the Board of Trustees approved the purchase of a new Enterprise Resource System (ERP). While the purchase of the new system will require a one-time cash outlay of an estimated \$1.7 million, the college anticipates annual savings of approximately \$1 million per year over the current annual ERP expenditures after the initial year. The college is scheduled to be fully converted to the new system by August 31, 2014.

The college is not aware of any additional facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the subsequent fiscal year.

Based on the continued evaluations and future plans, Texarkana College is well on its way to regaining its strong financial position and will continue to serve the constituents of this region with affordable, accessible, and high quality educational opportunities for future generations to come.

Texarkana College affirms, as its mission, the commitment to provide, within the resources available, educational programs and services that meet the individual and community needs.

***FINANCIAL STATEMENTS***



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# TEXARKANA COLLEGE

## EXHIBIT 1

### STATEMENTS OF NET POSITION

August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,931,537	\$ 3,475,978
Short-term investments	-	1,534,358
Accounts receivable	4,446,538	4,587,592
Inventories	413,590	587,639
<b>Total Current Assets</b>	<u>9,791,665</u>	<u>10,185,567</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	4,601,581	2,674,876
Capital assets, net of accumulated depreciation	22,853,546	20,516,853
<b>Total Noncurrent Assets</b>	<u>27,455,127</u>	<u>23,191,729</u>
<b>Total Assets</b>	<u>37,246,792</u>	<u>33,377,296</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	332,817	184,431
Accrued liabilities	416,422	513,282
Accrued interest	26,936	-
Funds held for others	593,822	552,068
Deposits	25,141	22,401
Deferred revenues	4,045,444	4,251,868
Notes payable - current portion	194,819	-
<b>Total Current Liabilities</b>	<u>5,635,401</u>	<u>5,524,050</u>
<b>Noncurrent Liabilities</b>		
Accounts payable restricted	243,544	1,243,392
Accrued compensable absences payable	540,976	549,116
Capital Lease Obligation - non-current portion	340,000	-
Note payable - non-current portion	3,305,181	-
<b>Total Noncurrent Liabilities</b>	<u>4,429,701</u>	<u>1,792,508</u>
<b>Total Liabilities</b>	<u>10,065,102</u>	<u>7,316,558</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	20,774,345	20,516,853
Restricted for		
Nonexpendable		
Student Aid	1,813,364	1,929,383
Expendable		
Student Aid	90,621	80,827
Unrestricted	4,503,360	3,533,675
<b>Total Net Position</b>	<u>\$ 27,181,690</u>	<u>\$ 26,060,738</u>

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

# TEXARKANA COLLEGE FOUNDATION, INC.

## COMPONENT UNIT

### STATEMENT OF FINANCIAL NET POSITION

DECEMBER 31, 2012 AND 2011

	ASSETS	
	2012	2011
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 292,487	\$ 572,611
Investments	743,079	448,321
Accrued interest and dividends	11,137	15,242
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	1,046,703	1,036,174
	<hr/>	<hr/>
<b>NONCURRENT ASSETS</b>		
Cash and cash equivalents - restricted	212,525	443,904
Investments - restricted	1,631,344	2,180,444
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	1,843,869	2,624,348
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<u>2,890,572</u>	<u>3,660,522</u>
	<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>		
Due to College	-	1,000
Rising star scholarship payable	-	100,000
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	-	101,000
	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	-	101,000
	<hr/>	<hr/>
<b>NET POSITION</b>		
Unrestricted	1,150,196	1,800,374
Temporarily restricted	635,390	657,626
Permanently restricted	1,104,986	1,101,522
	<hr/>	<hr/>
TOTAL NET POSITION	2,890,572	3,559,522
	<hr/>	<hr/>
<b>TOTAL LIABILITIES NET ASSETS</b>	<u>\$ 2,890,572</u>	<u>\$ 3,660,522</u>

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

# TEXARKANA COLLEGE

## EXHIBIT 2

### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

August 31, 2013 and 2012

REVENUES	2013	2012
<b>Operating Revenues</b>		
Tuition and fees (net of grant and scholarship allowances of \$4,686,273 and \$3,990,894 , respectively)	\$ 3,726,660	\$ 4,362,146
Federal grants and contracts	1,357,288	449,750
State grants and contracts	1,235,721	855,882
Non-Governmental grants and contracts	143,838	420,747
Sales and services of educational activities	297,991	277,899
Auxiliary enterprises (net of grant and scholarship allowances of \$1,501,515 and \$1,436,063, respectively)	796,150	964,955
Other operating revenues	188,340	444,371
<b>Total Operating Revenues</b>	<b>7,745,988</b>	<b>7,775,750</b>
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
Instruction	11,045,415	11,036,873
Academic Support	1,699,138	1,749,531
Student Services	1,858,169	2,551,683
Institutional Support	5,052,342	4,618,879
Operation and maintenance of plant	2,196,781	2,188,192
Scholarships and fellowships	7,214,918	3,990,894
Auxiliary enterprises	1,963,031	2,058,473
Depreciation	1,640,404	1,348,326
<b>Total Operating Expenses</b>	<b>32,670,198</b>	<b>29,542,851</b>
<b>Operating Loss</b>	<b>(24,924,210)</b>	<b>(21,767,101)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	8,654,487	9,138,836
Maintenance ad-valorem taxes		
Taxes for maintenance & operations	1,367,528	1,354,269
Federal grants and contracts non-operating	13,119,960	8,256,173
Gifts	2,078,101	1,515,454
Investment income (net of investment expenses)	65,427	137,478
Rent income	109,717	106,810
Other non-operating revenues	6,122	1,468,329
Gain on exchange transaction	754,996	-
Loss on disposal of fixed assets	(84,240)	-
Interest on capital related debt	(26,936)	-
<b>Net non-operating revenues</b>	<b>26,045,162</b>	<b>21,977,349</b>
<b>Increase in Net Position</b>	<b>1,120,952</b>	<b>210,248</b>
<b>Net Position - Beginning of Year</b>	<b>26,060,738</b>	<b>25,850,490</b>
<b>Net Position - End of Year</b>	<b>\$ 27,181,690</b>	<b>\$ 26,060,738</b>

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



# TEXARKANA COLLEGE FOUNDATION, INC.

## COMPONENT UNIT

### STATEMENT OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>UNRESTRICTED NET POSITION</b>		
Revenues and gains:		
Contributions and fund raising	\$ 200,315	\$ 76,924
Interest income	31,108	50,539
Dividend income	4,694	4,797
Net realized gain (loss) on investments	2,851	1,682
Net unrealized gain on investments	2,519	20,175
	<u>241,487</u>	<u>154,117</u>
Total unrestricted revenues and gains		
	241,487	154,117
Net assets released from restrictions:		
Temporarily restricted assets		
Satisfaction of scholarships and other restrictions	98,892	115,198
	<u>98,892</u>	<u>115,198</u>
Total net assets released from restrictions		
	98,892	115,198
Total unrestricted support and gains	<u>340,379</u>	<u>269,315</u>
<b>EXPENSES</b>		
Program services:		
Donation to Texarkana College	750,000	-
Scholarships	93,171	196,185
Advertising	45,236	-
Grants	-	3,000
Fiduciary fees	11,051	10,102
Professional Fees	74,151	15,322
Miscellaneous	16,948	872
Total expenses	<u>990,557</u>	<u>225,481</u>
Increase (decrease) in unrestricted net position	(650,178)	43,834
<b>TEMPORARILY RESTRICTED NET POSITION</b>		
Support:		
Contributions	57,713	129,104
Interest income	32,907	38,662
Dividend income	10,358	10,563
Net realized gain on investments	9,742	-
Net unrealized gain (loss) on investments	(34,064)	12,462
Net assets released from restriction:		
Satisfaction of scholarship and other restrictions	(98,892)	(115,198)
	<u>(98,892)</u>	<u>(115,198)</u>
Increase (decrease) in temporarily restricted net position	<u>(22,236)</u>	<u>75,593</u>
<b>PERMANENTLY RESTRICTED NET POSITION</b>		
Contributions	3,464	-
Refunds	-	(19,556)
	<u>3,464</u>	<u>(19,556)</u>
Increase (decrease) in permanently restricted net position		
	3,464	(19,556)
<b>INCREASE (DECREASE) IN NET POSITION</b>	(668,950)	99,871
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>3,559,522</u>	<u>3,459,651</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 2,890,572</u>	<u>\$ 3,559,522</u>

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

# TEXARKANA COLLEGE

## EXHIBIT 3

### STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2013 and 2012

<b>Cash Flows From Operating Activities</b>	<b>2013</b>	<b>2012</b>
Receipts from students and other customers	\$ 4,755,431	\$ 4,992,326
Receipts of grants and contracts	2,736,847	1,726,379
Other receipts	943,336	444,371
Payments to or on behalf of employees	(11,082,217)	(12,338,370)
Payments to suppliers for goods or services	(12,749,807)	(10,583,101)
Payments of scholarships	(7,214,918)	(3,990,894)
Net cash used by operating activities	<u>(22,611,328)</u>	<u>(19,749,289)</u>
<b>Cash Flows From Non-capital Financing Activities</b>		
Receipts from state appropriations	7,178,720	7,734,664
Ad valorem tax revenues	1,367,528	1,354,269
Federal revenue non-operating	13,119,960	8,256,173
Gifts and grants (other than capital)	2,078,101	1,515,454
Other receipts	115,839	1,575,139
Net cash provided by non-capital financing activities	<u>23,860,148</u>	<u>20,435,699</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Net receipts (payments) on note borrowings	3,500,000	-
Purchases of capital assets	(2,966,341)	(873,627)
Net cash provided (used) by capital and related financing activities	<u>533,659</u>	<u>(873,627)</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale and maturity of investments	1,534,358	2,134,642
Investment Earnings	65,427	137,478
Sale of investments	-	3,088,446
Net cash provided by investing activities	<u>1,599,785</u>	<u>5,360,566</u>
<b>Increase in cash and cash equivalents</b>	<b>3,382,264</b>	<b>5,173,349</b>
<b>Cash and cash equivalents - September 1,</b>	<b><u>6,150,854</u></b>	<b><u>977,505</u></b>
<b>Cash and cash equivalents - August 31,</b>	<b><u>\$ 9,533,118</u></b>	<b><u>\$ 6,150,854</u></b>

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

# TEXARKANA COLLEGE

## EXHIBIT 3

### STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating loss	\$ (24,924,210)	\$ (21,767,101)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Staff benefits paid directly by state	1,475,767	1,404,172
Depreciation expense	1,640,404	1,348,326
Changes in assets and liabilities		
Receivables, net	141,054	(765,726)
Inventories	174,049	(147,395)
Accounts payable	(851,462)	219,008
Accrued Expenses	(96,860)	(118,276)
Funds held for others	41,754	(12,349)
Deferred revenue	(206,424)	153,052
Deposits held for others	2,740	4,360
Compensated absences	(8,140)	(67,360)
Net cash used by operating activities	<u><u>\$ (22,611,328)</u></u>	<u><u>\$ (19,749,289)</u></u>

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

# TEXARKANA COLLEGE FOUNDATION, INC.

## COMPONENT UNIT

### STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net position	\$ (668,950)	\$ 99,871
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Net realized and unrealized investment gain (loss)	(18,952)	34,319
(Increase) decrease in assets:		
Accrued interest and dividends	4,105	5,197
Unconditional promises to Give - Net	-	-
Increase (decrease) in liabilities:		
Due to College	(1,000)	1,000
Rising Star Scholarship	(100,000)	-
<b>CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>(784,797)</u>	<u>140,387</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale and maturity of investments	549,100	(48,464)
Sale (Purchase) of investments	(275,806)	280,503
<b>CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>273,294</u>	<u>232,039</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(511,503)	372,426
<b>CASH AT BEGINNING OF YEAR</b>	<u>1,016,515</u>	<u>644,089</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 505,012</u>	<u>\$ 1,016,515</u>

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

***NOTES TO THE FINANCIAL STATEMENTS***



# **TEXARKANA COLLEGE**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2013 and 2012**

### **Note 1 - Reporting Entity**

Texarkana College (the College) was established in 1927 in accordance with the laws of the State of Texas to serve the educational needs of Texarkana and the surrounding communities. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The College Board of Trustees (the Board), a nine member group, has governance responsibilities over all activities related to the College. The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and have primary accountability for fiscal matters.

These statements include, as a component unit, Texarkana College Foundation, Inc. (the Foundation) See Note 21.

### **Note 2 - Summary of Significant Accounting Policies**

#### **Reporting Guidelines**

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

#### **Basis of Accounting**

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

#### **Inventories**

Inventories consist of bookstore stock as of August 31, 2013 and 2012. Inventories are valued at lower of cost or market using the first-in, first-out (FIFO) method and are charged to expense as consumed.

# **TEXARKANA COLLEGE**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2013 and 2012**

### **Note 2 - Summary of Significant Accounting Policies – (continued)**

#### **Texarkana College Foundation, Inc. – Net Position**

Temporarily restricted net assets are available for the purposes designated by the donor, primarily scholarships. These net assets consist primarily of investment earnings from permanently restricted assets.

Permanently restricted net assets are to provide a permanent endowment. The investment income from these endowments is temporarily restricted to fund scholarships grants.

#### **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 56.0333). When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

*Title IV, Higher Education Act (HEA) Program Funds* - Certain Title IV HEA Program funds are received by the College to pass through to the student. These funds are initially received by the College and recorded as revenue. When funds are awarded to students and used for tuition and fees the amounts are recorded as tuition discounts. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

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

#### **Budgetary Data**

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



# **TEXARKANA COLLEGE**

## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2013 and 2012**

### **Note 2 - Summary of Significant Accounting Policies – (continued)**

#### **Cash and Cash Equivalents**

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

#### **Investments**

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

#### **Operating and Non-Operating Revenues and Expenses**

The College distinguishes operating revenues and expenses from non-operating items. The College's operating activities are shown as a business-type activity and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees, federal grants, state grants and auxiliary enterprises. The major non-operating revenues are state appropriations, property taxes, title IV funds, and investment income. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

#### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation. For equipment the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated life greater than one year. Renovations of \$100,000 to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The cost 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets applying the half-year convention. Estimated useful lives for depreciable assets are as follows:

Building	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
Software Costs	3 years

# **TEXARKANA COLLEGE**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2013 and 2012**

### **Note 2 - Summary of Significant Accounting Policies – (continued)**

#### **Deferred Revenues**

Tuition and fees of \$3,482,764 and \$3,569,373 and federal, state, and local grants of \$562,680 and \$682,495 have been reported as deferred revenues at August 31, 2013 and 2012, respectively.

#### **Estimates**

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

#### **Reclassifications**

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. None of the reclassifications affect the previously reported change in net position.

#### **Date of Management's Review**

Subsequent events were evaluated through November 15, 2013, which is the date the financial statements were available to be issued.

### **Note 3 - Authorized Investments**

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

# TEXARKANA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 4 - Deposits and Investments

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

	<u>2013</u>	<u>2012</u>
Bank Deposits		
Demand Deposits	9,529,913	6,147,649
Certificates of Deposit	-	1,534,358
Cash and Cash Equivalents		
Petty Cash on Hand	3,205	3,205
<b>Total Cash and Deposits</b>	<u>\$ 9,533,118</u>	<u>\$ 7,685,212</u>

Reconciliation of deposits and investments to the Statement of Net Position:

<u>Type of Security</u>	<u>Market Value</u> <u>2013</u>	<u>Market Value</u> <u>2012</u>
Money Market Accounts	\$ -	\$ -
U.S. Government Securities	-	-
Mutual Funds	-	-
<b>Total Insurance Fund Investments</b>	-	-
<b>Total Cash and Deposits</b>	9,533,118	7,685,212
<b>Total Deposits and Investments</b>	<u>9,533,118</u>	<u>7,685,212</u>
Cash and Cash Equivalents (Exhibit 1)	4,931,537	3,475,978
Restricted cash and cash equivalents (Exhibit 1)	4,601,581	2,674,876
<b>Total Cash and Cash equivalents</b>	<u>9,533,118</u>	<u>6,150,854</u>
Short-term investments (Exhibit 1)	-	1,534,358
Endowment investments (Exhibit 1)	-	-
Insurance Fund investments (Exhibit 1)	-	-
<b>Total Investments</b>	<u>-</u>	<u>1,534,358</u>
<b>Total Deposits and Investments</b>	<u>\$ 9,533,118</u>	<u>\$ 7,685,212</u>

**TEXARKANA COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2013 and 2012**

**Note 4 - Deposits and Investments (continued)**

Cash and deposits for the Foundation reported on the Statement of Net Position consist of the following:

	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents		
Cash on Deposit	\$ 30,849	\$ 26,449
U.S. Savings Bonds	-	-
Money Market Funds	474,163	990,006
<b>Total Cash and Deposits</b>	<u>\$ 505,012</u>	<u>\$ 1,016,455</u>

Investments for the Foundation reported on the statement of net assets are as follows:

<u>Type of Security</u>	<u>Market Value</u> <u>December 31 ,</u> <u>2012</u>	<u>Market Value</u> <u>December 31 ,</u> <u>2011</u>
U.S. Government Agencies Securities	\$ 1,211,630	\$ 1,686,583
Corporate Debt Instruments	773,560	493,861
Mutual Funds	335,573	395,770
Common Stock	53,661	52,551
<b>Total Investments</b>	<u>\$ 2,374,424</u>	<u>\$ 2,628,765</u>

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

<u>Investment Type</u>	<u>Credit</u> <u>Rating</u>	<u>Cost</u>	<u>Market</u> <u>Value</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>(Years)</u>
Money Market	N/A	\$ -	\$ -	N/A
U.S. Government Agencies Securities	AAA	-	-	N/A
Mutual Funds	AAA	-	-	N/A
Certificates of Deposit	N/A	-	-	N/A
<b>Total Texarkana College</b>		<u>\$ -</u>	<u>\$ -</u>	

# TEXARKANA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 4 - Deposits and Investments (continued)

As of December 31, 2012, the Foundation had the following investments and maturities:

	<u>Credit</u>		<u>Market</u>	<u>Weighted</u>
	<u>Rating</u>	<u>Cost</u>	<u>Value</u>	<u>Average</u>
				<u>Maturity</u>
				<u>(Years)</u>
U.S. Government Agencies Securities	AAA	\$ 1,176,276	\$ 1,211,630	4.7
Corporate Debt Instruments	AAA	748,524	773,560	10.7
Mutual Funds	AAA	331,732	335,573	N/A
Equities/Common Stock	A+	1,418	53,661	N/A
Total Texarkana College Foundation, Inc.		<u>\$ 2,257,950</u>	<u>\$ 2,374,424</u>	

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

**Credit Risk:** In accordance with state law and the College policy, funds may be invested in obligations of the United States or its agencies, direct obligations of the State of Texas or its agencies, obligations of political subdivisions rated not less than A by a national investment rating firm, certificates of deposit, and other instruments and obligations authorized by statute.

**Concentration of Credit Risk:** The College and the Foundation do not place a limit on the amount that may be invested in any one issuer.

More than 5% of the Foundation's investments are in FHLB (51%), FFCB (33%), and Mutual Funds (14%).

**Custodial Credit Risk:** At August 31, 2013, the carrying amount of the College's bank deposits was \$9,533,118 and total bank balances equaled \$10,530,443. Bank balances of \$250,000 are covered by federal depository insurance and \$10,907,870 was covered by collateral pledged in the College's name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

At August 31, 2012, the carrying amount of the College's bank deposits was \$7,685,212 and total bank balances equaled \$8,215,397. Bank balances of \$750,000 are covered by federal depository insurance and \$9,256,002 was covered by collateral pledged in the College's name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

# TEXARKANA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 5 - Delinquent Property Taxes and Taxes Receivable

The College's *ad valorem* property tax is levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the College District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year in which imposed. The Board contracted with the Bowie Central Appraisal District for the collection of district taxes. Collections of current taxes are remitted to the College daily; delinquent taxes are remitted monthly.

	August 31	
	2013	2012
Assessed valuation of the District	\$ 1,292,596,446	\$ 1,285,803,150
Less: Exemptions	(11,632,049)	(11,283,291)
<b>Net assessed Valuation of the District</b>	<b>\$ 1,280,964,397</b>	<b>\$ 1,274,519,859</b>

	Current Operations	Debt Service	Total
Tax rate authorized per \$100 valuation	1.0000	0.00000	1.00000
Tax rate assessed per \$100 valuation for 2013	0.10527	0.00000	0.10527
Tax rate assessed per \$100 valuation for 2012	0.10527	0.00000	0.10527

Taxes levied for the years ended August 31, 2013 and 2012 were \$1,352,133 and \$1,347,253, respectively including any penalty and interest assessed.

Taxes Collected	Current Operations	
	2013	2012
Current Taxes Collected	\$ 1,319,684	\$ 1,306,081
Delinquent Taxes Collected	30,905	30,680
Penalties and Interest Collected	16,939	17,508
<b>Total Collections</b>	<b>\$ 1,367,528</b>	<b>\$ 1,354,269</b>

# TEXARKANA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 6 – Capital Assets

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

	<u>Balance</u> <u>August 31,</u> <u>2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>August 31,</u> <u>2013</u>
<u>Not Depreciated:</u>				
Land	\$ 1,433,905	\$ 86,200	\$ -	\$ 1,520,105
Construction in Process	-	1,739,201	-	1,739,201
Total Not Depreciated	<u>1,433,905</u>	<u>1,825,401</u>	<u>-</u>	<u>3,259,306</u>
<u>Buildings and Other Capital Assets:</u>				
Infrastructure	462,825	-	-	462,825
Buildings	25,239,907	1,031,625	(114,274)	26,157,258
Land Improvements	3,310,376	-	(7,140)	3,303,236
Software	968,158	-	-	968,158
Library Books	2,280,718	60,789	-	2,341,508
Furniture and Equipment	3,682,677	1,151,446	(257,774)	4,576,349
Total Building and Other Capital Assets	<u>35,944,661</u>	<u>2,243,860</u>	<u>(379,188)</u>	<u>37,809,334</u>
<u>Accumulated Depreciation</u>				
Infrastructure	439,683	5,518	-	445,200
Buildings	9,259,462	810,603	(57,476)	10,012,587
Land Improvements	2,780,530	85,388	(7,140)	2,858,779
Software	375,889	296,134	-	672,023
Library Books	1,756,563	64,379	-	1,820,944
Furniture and Equipment	2,249,586	378,319	(222,346)	2,405,561
Total Accumulated Depreciation	<u>16,861,713</u>	<u>1,640,341</u>	<u>(286,962)</u>	<u>18,215,094</u>
Net Capital Assets	<u>\$ 20,516,853</u>	<u>\$ 2,428,920</u>	<u>\$ (92,226)</u>	<u>\$ 22,853,546</u>

**TEXARKANA COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2013 and 2012**

**Note 6 – Capital Assets (continued)**

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

	<u>Balance August 31, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2012</u>
<u>Not Depreciated:</u>				
Land	\$ 1,433,905			\$ 1,433,905
Construction in Process	2,762,585	618,155	(3,380,740)	-
Total Not Depreciated	<u>4,196,490</u>	<u>618,155</u>	<u>(3,380,740)</u>	<u>1,433,905</u>
<u>Buildings and Other Capital Assets:</u>				
Infrastructure	462,825	-	-	462,825
Buildings	21,859,167	3,380,740	-	25,239,907
Land Improvements	3,310,376	-	-	3,310,376
Software	968,158	-	-	968,158
Library Books	2,231,943	48,775	-	2,280,718
Furniture and Equipment	3,475,982	206,695	-	3,682,677
Total Building and Other Capital Assets	<u>32,308,451</u>	<u>3,636,210</u>	<u>-</u>	<u>35,944,661</u>
<u>Accumulated Depreciation</u>				
Infrastructure	433,793	5,890	-	439,683
Buildings	8,577,601	681,861	-	9,259,462
Land Improvements	2,690,361	90,169	-	2,780,530
Software	182,257	193,632	-	375,889
Library Books	1,692,910	63,653	-	1,756,563
Furniture and Equipment	1,936,465	313,121	-	2,249,586
Total Accumulated Depreciation	<u>15,513,387</u>	<u>1,348,326</u>	<u>-</u>	<u>16,861,713</u>
Net Capital Assets	<u>\$ 20,991,554</u>	<u>\$ 2,906,039</u>	<u>\$ (3,380,740)</u>	<u>\$ 20,516,853</u>



# TEXARKANA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 7 – Restricted Plant Funds

In May of 2013, the College borrowed \$3,500,000 from Guaranty Bond Bank against the College's future tax collections to upgrade HVAC systems, controls, lighting, pumping, and other modifications to existing buildings. At August 31, 2013 and 2012, the College had \$2,152,543 and \$0, respectively of net position restricted for this project.

### Note 8 – Long-term Liabilities

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

	<b>Balance</b> <b>August 31,</b> <b>2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b> <b>August 31,</b> <b>2013</b>	<b>Current</b> <b>Portion</b>
Notes payable	\$ -	\$3,500,000	\$ (194,819)	\$ 3,305,181	\$ 194,819
Capital lease obligation	-	340,000	-	340,000	-
Compensated absences	549,116	-	(8,140)	540,976	-
Accounts payable restricted	1,243,392	-	(999,848)	243,544	-
Total long-term liabilities	<u>\$ 1,792,508</u>	<u>\$3,840,000</u>	<u>\$ (1,202,807)</u>	<u>\$ 4,429,701</u>	<u>\$ 194,819</u>

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

	<b>Balance</b> <b>August 31,</b> <b>2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b> <b>August 31,</b> <b>2012</b>	<b>Current</b> <b>Portion</b>
Notes Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated absences	616,476	-	(67,360)	549,116	-
Accounts payable restricted	18,186	1,243,392	(18,186)	1,243,392	-
Total long-term liabilities	<u>\$ 634,662</u>	<u>\$1,243,392</u>	<u>\$ (85,546)</u>	<u>\$ 1,792,508</u>	<u>\$ -</u>

# TEXARKANA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 8 – Long-term Liabilities (continued)

On March 28, 2013, the Board of Trustees of the College acting by resolution adopted by a majority vote of the Board of Directors authorized a maintenance note in the amount of \$3,500,000 pursuant to Section 45.108 of the Texas Education Code. The maintenance note was authorized to provide funds for an energy management and roofing project.

The debt service requirements as of August 31, 2013 were as follows:

For the Year Ended August 31,	Maintenance Note		
	Principal	Interest	Total
2014	\$ 194,819	\$ 91,487	\$ 286,306
2015	197,963	86,343	284,306
2016	203,085	81,221	284,306
2017	208,813	75,493	284,306
2018	214,231	70,075	284,306
2019-2023	1,159,977	261,553	1,421,530
2024-2028	1,321,112	122,353	1,443,465
	<u>\$ 3,500,000</u>	<u>\$ 788,525</u>	<u>\$ 4,288,525</u>

### Note 9 – 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*. Contracts and grant revenues are recognized on Exhibit 2 and Schedule A as funds are actually expended. For federal and non-federal contracts and grants awards, funds expended, but not collected, are reported as Accounts Receivables on Exhibit 1. Contracts and grant awards that are not funded and for which the institution has not performed services are not included in the financial statements. Contract and grant award funds already committed or funds awarded during the fiscal year 2013 for which monies have not been received nor funds expended totaled \$867,357 from federal contracts and grant awards and \$48,440 from state contracts and grant awards.

**TEXARKANA COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2013 and 2012**

**Note 9 – Contract and Grant Awards (continued)**

Federal funds receivables included in accounts receivable on Exhibit 1 are as follows:

	<u>2013</u>	<u>2012</u>
Pell Grant Program	\$ 63,881	\$ 247,879
Supplemental Educational Opportunity Grants	2,000	-
Federal Work-study Program	3,535	-
TRIO - Student Support Services Grant	59,886	77,207
TRIO - Talent Search Grant	63,296	73,699
Carl Perkins Grant	33,135	56,991
H2P Grant	293,415	51,399
	<hr/>	<hr/>
Total	<u>\$ 519,148</u>	<u>\$ 507,175</u>

**Note 10 - Retirement Plan**

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

**Teacher Retirement System of Texas**

*Plan Description* - The College 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](http://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, 2012, and 2011 and a state contribution rate of 6.0 percent for the fiscal year 2013, 6.4 percent for the fiscal year 2012 and 6.58 percent for fiscal year 2011. In certain instances, the reporting district is required to make all or a portion of the state's 6.40 percent contribution for fiscal years 2013 and 2012 and 6.644 percent contribution for fiscal year 2011.

# **TEXARKANA COLLEGE**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2013 and 2012**

### **Note 10 - Retirement Plan (continued)**

#### **Optional Retirement Plan**

*Plan Description* - Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the 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%) and (6.4%), respectively. The College contributes no amounts for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense to the state for the College was \$481,464 and \$460,976 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 College.

The total payroll for all of the College employees was \$12,510,286 and \$13,399,565 for fiscal years 2013 and 2012, respectively. The total payroll of employees covered by the Teacher Retirement System was \$6,771,404 and \$6,328,751, and the total payroll of employees covered by the Optional Retirement Program was \$3,691,041 and \$4,997,057 for fiscal years 2013 and 2012, respectively.

### **Note 11 - Staff Benefits**

The College provides staff benefits for its employees in the form of hospital/medical insurance, salary continuance insurance, and life insurance equal to twice the employee's annual contractual salary up to a maximum of \$45,000.

### **Note 12 - Compensable Absences**

Sick leave is accumulated by employees of the institution at the rate of one day per thirty calendar days worked up to a maximum of ninety days. Effective September 1, 2000, upon retirement or termination, employees with ten years or more service with the College may be paid for any accumulated sick leave in excess of thirty days at a rate of one-half of the employee's current salary. Full-time non-contractual personnel or employees with twelve month contracts accrue vacation benefits from the date of employment at the rate of one day for each full calendar month worked up to ten vacation days per year. All accrued unused vacation time computed at the employee's daily rate of compensation is paid to the employee or his beneficiary in the event of termination, retirement, or death. Sick leave and vacation benefits of \$540,976 and \$549,116 have been accrued and reported in the accompanying Statement of Net Position as "accrued compensable absences payable" at August 31, 2013 and 2012, respectively.

# **TEXARKANA COLLEGE**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2013 and 2012**

### **Note 13 - Deferred Compensation Plan**

The College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001 and in Senate Bill No. 872 of the 63<sup>rd</sup> Legislature. The employees' investments are held in tax-deferred annuity plans pursuant to Internal Revenue Code Section 403(b). As of August 31, 2013 and 2012, the College had 44 and 55 employees, respectively, participating in the program. A total of \$196,400 and \$256,367 in payroll deductions were invested in approved plans during the years ended August 31, 2013 and 2012, respectively.

### **Note 14 - 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 College. 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 and retiree was \$470.38 per month plus fifty percent of spouse and/or dependent coverage as of August 31, 2013 and totaled \$994,303 for the year then ended. The cost of providing those benefits for 129 retirees was \$842,688 and for 217 active employees was \$151,617.

The state's contribution per full-time employee and retiree was \$438.30 per month plus fifty percent of spouse and/or dependent coverage as of August 31, 2012 and totaled \$943,196 for the year then ended. The cost of providing those benefits for 130 retirees was \$779,041 and for 218 active employees was \$164,155.

### **Note 15 - Post Employment Benefits Other than Pensions**

#### *Plan Description*

The College contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit post-employment healthcare plan administered by 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/>.

# TEXARKANA COLLEGE

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## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 15 - Post Employment Benefits Other than Pensions (continued)

#### *Funding Policy*

Section 1551.055 of Chapter 1551, Texas Insurance Code provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS board of trustees. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution.

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amount 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The College's contributions to SRHP for the years ended August 31, 2013, 2012, and 2011, were \$2,441,028, \$2,233,434 and \$2,455,310, respectively, which equaled the required contribution each year.

# TEXARKANA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 16 – Fund Endowments

The fund balances of the various Endowment Funds included in the Statement of Net Position are as follows:

	<u>2013</u>	<u>2012</u>
Endowment Funds		
Palmer Foundation	\$ 108,904	\$ 108,198
Endowed Chair for Teaching Excellence	185,471	184,752
J.R. Johnson	308,882	306,881
Parker-Akin Memorial	8,231	8,177
B & PW Scholarship	27,697	27,517
Leonard Scholarship	195,272	194,504
Teachers Credit Union Scholarship	23,579	23,426
Music Scholarship	27,527	27,348
General Scholarship	281,835	280,009
Al Barton Bladesmithing	5,094	5,061
Elizabeth Shaw Memorial	5,460	5,425
Conner Student Loan	633,050	755,736
Business Administration	2,364	2,349
Quasi Endowment Funds		
Eldridge Scholarship	90,621	70,659
Totals	<u>\$ 1,903,987</u>	<u>\$ 2,000,042</u>

### Note 17 - Risk Management - Claims and Judgments

In the normal course of operations, the College is exposed to risks of loss from a number of sources including fire and casualty, errors and omissions by board members and employees, and injuries to employees during the course of performing their duties.

The College attempts to cover these losses by the purchase of insurance. Significant risks are covered by commercial insurance for property and liability programs. There has been no significant reduction in coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

In management's estimation, there are no current loss claims that exceed the maximum coverage or any material unfunded claim benefit obligation for the self-funded programs.

# TEXARKANA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 18 - Contingent Liability

The College entered into an agreement with the Texas Community College Employee Benefits Consortium to self-fund their workers' compensation plan. The agreement was effective September 1, 1991 and is administered by Hibbs - Hallmark & Company.

The College agreed to pay into the fund a fixed cost amount of \$34,848 and a maximum loss fund amount of \$117,345 for the year ended August 31, 2013. The loss fund amount was for Texarkana College's claims and for claims of other group members in excess of their loss fund maximum.

The College agreed to pay into the fund a fixed cost amount of \$36,787 and a maximum loss fund amount of \$111,487 for the year ended August 31, 2012. The loss fund amount was for Texarkana College's claims and for claims of other group members in excess of their loss fund maximum.

The College incurred expenses under the plan as follows:

	<u>2013</u>	<u>2012</u>
Fixed cost	\$ 34,848	\$ 36,787
Actual claims	17,602	16,191
Increase (decrease) in accrued liabilities	<u>(8,704)</u>	<u>(13,887)</u>
Total Expense	<u>\$ 43,746</u>	<u>\$ 39,091</u>

The College's maximum liability for the three years ended August 31, 2013 under this agreement is \$390,596 computed as follows:

2010-2011 Maximum loss fund	\$ 161,764
2011-2012 Maximum loss fund	111,487
2012-2013 Maximum loss fund	<u>117,345</u>
Total	<u>\$ 390,596</u>

The administration of the Plan has estimated the liability for claims that have been reported but not paid and claims incurred but not reported to be \$86,162 and \$98,765 as of August 31, 2013 and 2012, respectively. This liability has been accrued in the financial statements as of August 31, 2013 and 2012.



# TEXARKANA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013 and 2012

### Note 19 - Commitments and Contingencies

Grant Programs - The College participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2013 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

### Note 20 - Disaggregating of Receivables and Payables Balances

Receivables were as follows:

	<u>2013</u>	<u>2012</u>
Student Receivables	\$ 4,796,184	\$ 4,401,631
Taxes Receivable	38,007	41,489
Federal Receivable	519,148	507,175
Interest Receivable	-	148
Allowance for Uncollectible	<u>(906,801)</u>	<u>(362,851)</u>
Total	<u>\$ 4,446,538</u>	<u>\$ 4,587,592</u>

Payables were as follows:

	<u>2013</u>	<u>2012</u>
Accounts Payable		
Vendors Payable	<u>\$ 576,361</u>	<u>\$ 1,427,823</u>
Accrued Liabilities:		
Salaries & Benefits Payable	\$ 419,576	\$ 439,418
Sales Tax Payable	56,971	57,309
Other Liabilities	<u>(60,125)</u>	<u>16,555</u>
Total Accrued Liabilities	<u>\$ 416,422</u>	<u>\$ 513,282</u>

# **TEXARKANA COLLEGE**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2013 and 2012**

### **Note 21 - Component Unit**

The Foundation is a separate nonprofit corporation organized under the Texas Nonprofit Corporation Act in 1959. The purpose of the Foundation is to solicit and manage funds for the sole benefit of Texarkana College. The Foundation primarily provides scholarships to students at the College. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Under Governmental Standards Board Statement No 39, Determining Whether Certain Organizations are Component Units, an organization should report as a discretely presented component those organizations that raise and hold economic resources for the direct benefit of a government unit. Accordingly, the Foundation financial statements are included in the College's annual report as a discretely presented component unit. The financial statements of the Foundation are as of and for the years ended December 31, 2012 and 2011.

### **Note 22 – Construction in Process**

During the year, the College began an energy management and roofing project which was to be completed in two separate phases. Phase I was in process as of August 31, 2013, and was therefore recorded in the financial statements as construction in process.

### **Note 23 – Income Taxes**

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

### **Note 24 – Pending Lawsuits and Claim**

As of the year ended August 31, 2013, one claim involving the College was pending. The claim had been dismissed; however, a right to sue notice was provided until mid-November. As of the date of issuance, no lawsuit has been filed.

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

**TEXARKANA COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2013 and 2012**

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**Note 25 – Related Party Transaction and Balances**

Due to the anticipated cash flow issues, in early 2012, management and the Board of Directors requested that the Foundation provide access to \$1,000,000 of their unrestricted funds. The College requested and received funding of \$750,000 during the year ended August 31, 2012; however, because the amounts were not utilized during that year, the College recorded a liability in the amount of \$750,000 to the Foundation which is included in the statement of net position as of August 31, 2012 as accounts payable restricted. During the year ended August 31, 2013, the College recorded the amount as revenue which is included in the statement of revenues, expenses, and changes in net position as a gift in the non-operating revenues section.

**Note 26 – Capital Lease**

During the fiscal year ended August 31, 2013, the College entered into an exchange agreement (more fully explained in Note 28) which involved the lease of the Academic Building from the Texas A&M University System. The lease period ends July 31, 2016, at which time the College will pay \$340,000 and will assume ownership of the building. The lease of the building is in essence a purchase and is shown as a capital lease obligation in the statement of financial position.

The following schedule represents the future minimum lease payments as of August 31:

<u>Year ending August 31,</u>	
2014	\$ -
2015	-
2016	340,000
	<u>\$ 340,000</u>

Buildings under capital lease have been included in capital assets at August 31, 2013 as buildings in the amount of \$758,623 (cost \$773,059 less accumulated depreciation of \$14,436).

# **TEXARKANA COLLEGE**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**AUGUST 31, 2013 and 2012**

### **Note 27 – Change in Accounting Estimate**

During the fiscal year ended August 31, 2013, the College revised its estimates of useful lives of capital assets related to the accounting software system. The change in the estimated life of the accounting software was prompted by the College's decision to change software vendors. The estimated impact on the August 31, 2013 financial statements is an increase in depreciation expense of \$102,503. There is no effect on the Foundation. The conversion of the software will be implemented during the 2013-2014 fiscal year with a targeted completion date by August 31, 2014.

### **Note 28 – Exchange Transaction**

During the year ended August 31, 2013, the College executed a transaction with the Texas A & M University System to exchange 349 acres of land, buildings and equipment (the Farm) owned by the College for assets owned by the Texas A & M University System, consisting of the A. M. and Welma Aikin Building, the John F. Moss Library and some undeveloped land all of which are located on the College campus. The lease of the Academic Building more fully explained in Note 26, and which involves a one-time payment of \$340,000 in 2016 is an integral part of the exchange agreement.

The book value of the College property at the time of the exchange was \$61,168 (\$134,704 Cost less \$73,536 in accumulated depreciation) and the property had an estimated fair value of \$754,966. Although the property acquired by the College in the exchange has an estimated fair value of \$4.6 million, professional accounting standards limits the amount of gain on a transaction of this nature to no more than the fair value of the property relinquished. The gain is shown as non-operating revenue in the statement of revenues, expenses and changes in net position.

### **Note 29 – Subsequent Events**

In accordance with the Financial Accounting Standards Board (FASB) – Accounting Standards Codification (ASC) – *Subsequent Events*, the College has evaluated events through November 15, 2013, the date the financial statements were available to be issued, and has determined that no additional disclosures are necessary. No events occurring after this date have been evaluated for inclusion in these financial statements.

***SUPPLEMENTAL INFORMATION***



**TEXARKANA COLLEGE**

**SCHEDULE A - SCHEDULE OF OPERATING REVENUES**

For the Year Ended August 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	Total 8/31/13	Totals 8/31/12
<b>Tuition</b>						
State funded courses						
In district resident tuition	\$ 618,190	\$ -	\$ 618,190	\$ -	\$ 618,190	\$ 801,905
Out of district resident tuition	2,339,125	-	2,339,125	-	2,339,125	4,151,164
TPEG (set aside)	-	134,094	134,094	-	134,094	192,484
Non-resident tuition	28,278	-	28,278	-	28,278	124,537
State funded continuing education	539,247	-	539,247	-	539,247	488,660
Non-State funded educational programs	247,866	-	247,866	-	247,866	214,609
<b>Total Tuition</b>	<b>3,772,706</b>	<b>134,094</b>	<b>3,906,800</b>	<b>-</b>	<b>3,906,800</b>	<b>5,973,359</b>
<b>Fees</b>						
General Fees	2,183,390	-	2,183,390	-	2,183,390	1,881,158
Student Service fees	331,009	-	331,009	-	331,009	216,187
Course Fees	481,131	-	481,131	-	481,131	499,057
Laboratory fees	39,110	-	39,110	-	39,110	39,866
Building use fees	2,155,374	-	2,155,374	-	2,155,374	-
<b>Total Fees</b>	<b>5,190,014</b>	<b>-</b>	<b>5,190,014</b>	<b>-</b>	<b>5,190,014</b>	<b>2,636,268</b>
<b>Scholarship allowances and discounts</b>						
Scholarship allowances	(54,607)	(407,410)	(462,017)	-	(462,017)	(826,716)
Rising star scholarships	-	(39,259)	(39,259)	-	(39,259)	(316,373)
Remissions and exemptions (Including border city)	(879,086)	-	(879,086)	-	(879,086)	(548,342)
TPEG allowances	-	(133,156)	(133,156)	-	(133,156)	(203,101)
Title IV allowances	-	(3,856,636)	(3,856,636)	-	(3,856,636)	(2,352,949)
<b>Total Scholarship Allowances</b>	<b>(933,693)</b>	<b>(4,436,461)</b>	<b>(5,370,154)</b>	<b>-</b>	<b>(5,370,154)</b>	<b>(4,247,481)</b>
<b>Total Net Tuition and Fees</b>	<b>8,029,027</b>	<b>(4,302,367)</b>	<b>3,726,660</b>	<b>-</b>	<b>3,726,660</b>	<b>4,362,146</b>
<b>Other Operating Revenues</b>						
Federal grants and contracts	177,112	1,180,176	1,357,288	-	1,357,288	449,750
State grants and contracts	-	1,235,721	1,235,721	-	1,235,721	855,882
Nongovernmental grants and contracts	-	143,838	143,838	-	143,838	420,747
Sales and Services of educational activities	297,991	-	297,991	-	297,991	277,899
Other operating revenues	188,340	-	188,340	-	188,340	444,371
<b>Total Other Operating Revenues</b>	<b>663,443</b>	<b>2,559,735</b>	<b>3,223,178</b>	<b>-</b>	<b>3,223,178</b>	<b>2,448,649</b>
<b>Auxiliary Enterprises</b>						
Bookstore	-	-	-	1,929,369	1,929,369	1,997,058
Less discounts	-	-	-	(1,414,105)	(1,414,105)	(1,231,365)
Residential Life	-	-	-	151,286	151,286	238,932
Less discounts	-	-	-	(87,410)	(87,410)	(204,698)
Cafeteria	-	-	-	4,977	4,977	14,751
Less discounts	-	-	-	-	-	-
Gameroom	-	-	-	-	-	-
Radio	-	-	-	212,033	212,033	150,277
<b>Total Net Auxiliary Enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>796,150</b>	<b>796,150</b>	<b>964,955</b>
<b>Total Operating Revenues</b>	<b>\$ 8,692,470</b>	<b>\$ (1,742,632)</b>	<b>\$ 6,949,838</b>	<b>\$ 796,150</b>	<b>\$ 7,745,988</b>	<b>\$ 7,775,750</b>

**TEXARKANA COLLEGE**

**SCHEDULE B - SCHEDULE OF OPERATING EXPENSES BY OBJECT**

*For the Year Ended August 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)*

	Operating Expenses					
	Salaries and Wages	Benefits		Other Expenses	Total August 31, 2013	Total August 31, 2012
		State Benefits	Local Benefits			
<b>Unrestricted - Educational Activities</b>						
Instruction	\$ 7,188,619	\$ -	\$ 959,743	\$ 1,000,733	\$ 9,149,095	\$ 9,535,155
Academic Support	891,311		171,126	525,596	1,588,033	1,724,226
Student Services	855,212		139,445	81,185	1,075,842	1,697,126
Institutional Support	1,576,279		533,133	2,448,642	4,558,054	4,119,952
Operation and Maintenance of Plant	598,419		257,638	1,326,604	2,182,661	2,188,192
<b>Total Unrestricted Educational Activities</b>	<b>11,109,840</b>	<b>-</b>	<b>2,061,085</b>	<b>5,382,760</b>	<b>18,553,685</b>	<b>19,264,651</b>
<b>Restricted - Educational Activities</b>						
Instruction	502,600	927,806	85,440	380,474	1,896,320	1,501,717
Public Service	-	-	-	-	-	-
Academic Support	3,112	107,896	97	-	111,105	25,305
Student Services	446,522	157,031	79,530	99,244	782,327	854,558
Institutional Support	233,425	218,308	41,085	1,470	494,288	498,927
Operation and Maintenance of Plant				14,120	14,120	-
Scholarships and Fellowships				7,214,918	7,214,918	3,990,894
<b>Total Restricted Educational Activities</b>	<b>1,185,659</b>	<b>1,411,041</b>	<b>206,152</b>	<b>7,710,226</b>	<b>10,513,078</b>	<b>6,871,401</b>
<b>Total Educational Activities</b>	<b>12,295,499</b>	<b>1,411,041</b>	<b>2,267,237</b>	<b>13,092,986</b>	<b>29,066,763</b>	<b>26,136,052</b>
<b>Auxiliary Enterprises</b>	<b>254,347</b>	<b>55,326</b>		<b>1,653,358</b>	<b>1,963,031</b>	<b>2,058,473</b>
<b>Depreciation Expense</b>						
Building & Improvements					901,570	777,920
Software					296,134	193,632
Equipment & Furniture					378,320	313,121
Library Books					64,380	63,653
<b>Total Auxiliary Activities &amp; Depreciation</b>	<b>254,347</b>	<b>55,326</b>	<b>-</b>	<b>1,653,358</b>	<b>3,603,435</b>	<b>3,406,799</b>
<b>Total</b>	<b>\$ 12,549,846</b>	<b>\$ 1,466,367</b>	<b>\$ 2,267,237</b>	<b>\$ 14,746,344</b>	<b>\$ 32,670,198</b>	<b>\$ 29,542,851</b>



# TEXARKANA COLLEGE

## SCHEDULE C - SCHEDULE OF NON - OPERATING REVENUES AND EXPENSES

For the Year Ended August 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)

	Unrestricted	Restricted	Auxiliary Enterprises	Total 8/31/13	Total 8/31/12
<b>Non operating revenues</b>					
Education and general state support	\$ 7,098,590	\$ -	\$ -	\$ 7,098,590	\$ 7,682,738
Dramatic enrollment growth	144,857	-	-	144,857	-
State group insurance	-	994,303	-	994,303	943,196
State retirement matching	-	416,737	-	416,737	512,902
<b>Total State Appropriation</b>	<b>7,243,447</b>	<b>1,411,040</b>	<b>-</b>	<b>8,654,487</b>	<b>9,138,836</b>
<b>Other non operating revenues</b>					
Ad-valorem taxes	1,367,528	-	-	1,367,528	1,354,269
Federal Revenue non operating	-	13,119,960	-	13,119,960	8,256,173
Gifts	1,317,931	760,170	-	2,078,101	1,515,454
Investment income	52,388	13,039	-	65,427	137,478
Rent Income	109,717	-	-	109,717	106,810
Insurance Proceeds - Net	6,122	-	-	6,122	1,468,329
Gain on exchange transaction	754,996	-	-	754,996	-
<b>Total Other Non-operating Revenues</b>	<b>3,608,682</b>	<b>13,893,169</b>	<b>-</b>	<b>17,501,851</b>	<b>12,838,513</b>
<b>Total Non-operating Revenues</b>	<b>10,852,129</b>	<b>15,304,209</b>	<b>-</b>	<b>26,156,338</b>	<b>21,977,349</b>
<b>Non-Operating (Expenses)</b>					
Loss on disposal of fixed assets	(84,240)	-	-	(84,240)	-
Interest on capital related debt	-	(26,936)	-	(26,936)	-
<b>Total Non Operating (Expenses)</b>	<b>(84,240)</b>	<b>(26,936)</b>	<b>-</b>	<b>(111,176)</b>	<b>-</b>
<b>Net Non - Operating Revenues</b>	<b>\$ 10,767,889</b>	<b>\$ 15,277,273</b>	<b>\$ -</b>	<b>\$ 26,045,162</b>	<b>\$ 21,977,349</b>

See independent auditor's report

**TEXARKANA COLLEGE**

**SCHEDULE D - SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY**

*For the Year Ended August 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)*

	Detail By Source						Capital Assets		Available for	
	Unrestricted	Restricted		Non Expendable	Total	Net of Depreciation & Related Debt	Current Operations		No	
		Expendable	Non Expendable				Yes	No		
Current:										
Unrestricted	\$ 2,943,095			\$ 2,943,095	\$			2,943,095		
Restricted										
Auxiliary	1,560,265			1,560,265				1,560,265		
Endowment:										
Restricted		\$ 90,621	\$ 1,813,364	1,903,985					\$	1,903,985
Plant:										
Unexpended										
Investment in Plant					\$	20,774,345		20,774,345		20,774,345
<b>Total Net Position, August 31, 2013</b>	<b>4,503,360</b>	<b>90,621</b>	<b>1,813,364</b>	<b>27,181,690</b>	<b>20,774,345</b>	<b>20,774,345</b>	<b>4,503,360</b>	<b>4,503,360</b>	<b>22,678,330</b>	
<b>Total Net Position, August 31, 2012</b>	<b>3,533,675</b>	<b>80,827</b>	<b>1,929,383</b>	<b>26,060,738</b>	<b>20,516,853</b>	<b>20,516,853</b>	<b>3,533,675</b>	<b>3,533,675</b>	<b>22,527,063</b>	
<b>Net Increase (Decrease) in Net Position</b>	<b>\$ 969,685</b>	<b>\$ 9,794</b>	<b>\$ (116,019)</b>	<b>\$ 1,120,952</b>	<b>\$ 257,492</b>	<b>\$ 257,492</b>	<b>\$ 969,685</b>	<b>\$ 969,685</b>	<b>\$ 151,267</b>	

See independent auditor's report

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# Texarkana College

## SCHEDULE E - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2013

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantors Number</u>	<u>Pass Through Disbursements and Expenditures</u>
<b><u>U.S. Department of Education</u></b>			
Direct Programs:			
<i>Student Financial Assistance Cluster:</i>			
Federal Supplemental Education Opportunity Grants	84.007 *	N/A	\$ 25,641
Federal Work Study Program	84.033 *	N/A	52,804
Student Loans	84.268 *	N/A	4,372,138
Federal Pell Grant	84.063 *	N/A	8,190,926
<i>Subtotal Student Financial Assistance Cluster</i>			<u>12,641,509</u>
<i>TRIO Cluster:</i>			
TRIO - Student Support Services	84.042	P042A060013	214,952
TRIO - Talent Search	84.044	P042A060013	263,499
<i>Subtotal TRIO Cluster</i>			<u>478,451</u>
Passed Through the Texas Higher Education Coordinating Board			
Vocational Education - Basic Grant	84.048	N/A	180,880
Allocated Administrative Costs	Various	N/A	177,032
Total Passed Through the Texas Higher Education Coordinating Board			<u>357,912</u>
<b>Total U.S. Department of Education</b>			<u><u>13,477,872</u></u>
<b><u>U.S. Department of Labor</u></b>			
Direct Programs:			
Health Professional Pathways Consortium	17.282 *	TC-22486-11-60-A-39	754,995
<b>Total U.S. Department of Labor</b>			<u><u>754,995</u></u>
<b><u>U.S. Department of Justice</u></b>			
Passed Through the Texas Higher Education Coordinating Board			
TMPC Reallocation Grant			244,381
<b>Total U.S. Department of Justice</b>			<u><u>244,381</u></u>
<b>Total Federal Financial Assistance</b>			<u><u>\$ 14,477,248</u></u>

\* Major Program

# Texarkana College

## SCHEDULE E - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2013

### Note 1- Federal Assistance Reconciliation

Federal Grants and Contract Revenue - Per Schedule of Operating Revenues (Schedule A)	\$ 1,357,288
Federal Grants and Contract Revenue - Per Schedule of Operating Revenues (Schedule C)	<u>13,119,960</u>
Total Federal Revenues per the Schedule of Expenditures of Federal Awards	<u>\$ 14,477,248</u>

### Note 2- Significant Accounting Policies

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

### Note 3 - Expenditures Not Subject to Federal Single Audit

None

### Note 4 - Student Loans Processed and Administrative Costs Recovered

The College began processing student loans through the Loan Program (CFDA 84.268) for the year ended August 31, 2013.

### Note 5 - Amounts Passed Through by the College

None

# Texarkana College

## SCHEDULE F - SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended August 31, 2013

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Grantors Number</u>	<u>Pass Through Disbursements and Expenditures</u>
<b><u>Texas Higher Education Coordinating Board</u></b>		
Texas Grant Program	N/A	\$ 127,640
Texas Grant II - TEOG	N/A	53,773
ISP - Grant	N/A	119,736
Professional Nursing Shortage Reduction	N/A	187,729
Nursing Scholarship	N/A	40,975
Trauma EMS Grant	N/A	5,989
<b>Total Texas Higher Education Coordinating Board</b>		<b>535,842</b>
<b><u>Texas Workforce Commission</u></b>		
Small Business Grant	0711SSD001	5,075
Skills Grant - JCM	0712SDF000	133,632
Skills Grant - Humco	0711SDF002	58,051
<b>Total Texas Workforce Commission</b>		<b>196,758</b>
<b><u>Texas Commission of Environmental Quality</u></b>		
Passed Through Sulphur River Basin Authority		
Clean Rivers Grant	N/A	41,274
<b>Total Texas Commission on Environmental Quality</b>		<b>41,274</b>
<b><u>Texas Comptroller of Public Accounts</u></b>		
Jet Grant Round 5	6095-08	* 164,289
Jet Grant Round 6	6095-08	* 297,558
<b>Total Texas Comptroller of Public Accounts</b>		<b>461,847</b>
<b>Total State Financial Assistance</b>		<b>\$ 1,235,721</b>

\* Major Program

### Notes to the Schedule of Expenditures of State Awards

#### Note 1: Significant Accounting Policies

The accompanying schedule of expenditures of state awards has been prepared on the accrual basis of accounting. The expenditures included in this schedule are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported represent funds which have been expended by the College for the purposes of the award. The College has followed the applicable guidelines issued by the various entities in the preparation of the schedule.

**TEXARKANA COLLEGE**

**SCHEDULE G - AUXILIARY ENTERPRISES - STATEMENT OF INCOME AND EXPENDITURES  
FOR THE YEAR ENDED AUGUST 31, 2013 WITH COMPARATIVE FIGURES FOR 2012**

	2013				2012					
	Cafeteria	Bookstore	Housing	Radio	Total	Cafeteria	Bookstore	Housing	Radio	Total
<b>Sales and Gross Profit</b>										
Sales	\$ 4,977	\$ 1,929,369	\$ 151,286	\$ 212,033	\$ 2,297,665	\$ 14,751	\$ 1,997,058	\$ 238,932	\$ 150,277	\$ 2,401,018
<b>Total Sales</b>	4,977	1,929,369	151,286	212,033	2,297,665	14,751	1,997,058	238,932	150,277	2,401,018
<b>Less Direct Cost</b>										
Cost of goods sold	8,986	1,499,691	-	-	1,508,677	-	1,646,518	-	-	1,646,518
Salaries	-	142,474	-	111,873	254,347	1,371	157,289	13,620	103,675	275,955
<b>Total Direct Cost</b>	8,986	1,642,165	-	111,873	1,763,024	1,371	1,803,807	13,620	103,675	1,922,473
<b>Gross Profit</b>	<b>(4,009)</b>	<b>287,204</b>	<b>151,286</b>	<b>100,160</b>	<b>534,641</b>	<b>13,380</b>	<b>193,251</b>	<b>225,312</b>	<b>46,602</b>	<b>478,545</b>
<b>Operating Expenditures</b>										
Benefits	-	33,206	-	22,120	55,326	34	31,774	2,481	20,354	54,643
Supplies	2,786	(55)	7,075	6,572	16,378	-	231	1,179	7,531	8,941
Travel	-	-	-	179	179	-	-	-	2,358	2,358
Contracted Services	1,043	8,366	2	95,755	105,166	44,228	10,198	-	15,172	69,598
Capital Outlay	-	-	-	-	-	-	-	385	-	385
Student Aid	-	-	3,000	-	3,000	-	-	-	-	-
Utilities	-	-	-	16,705	16,705	-	-	-	53	53
Depreciation	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-
Miscellaneous	22	3,232	-	-	3,254	-	22	-	-	22
<b>Total Operating Expenditures</b>	3,851	44,749	10,077	141,331	200,007	44,262	42,225	4,045	45,468	136,000
<b>Excess (Deficiency) of Income Over Expense</b>	<b>\$ (7,860)</b>	<b>\$ 242,455</b>	<b>\$ 141,209</b>	<b>\$ (41,171)</b>	<b>\$ 334,634</b>	<b>\$ (30,882)</b>	<b>\$ 151,026</b>	<b>\$ 221,267</b>	<b>\$ 1,134</b>	<b>\$ 342,545</b>

See independent auditor's report

# TEXARKANA COLLEGE

## SCHEDULE H - INSURANCE IN FORCE

August 31, 2013

Company	Policy Number	Coverage	Coverage In Thousands	Expiration Date
Texas Association of Public Schools	TX10093J	Property	\$ 71,983	September 1, 2013
Texas Association of Public Schools	TX10093J	Automobile Liability	\$ 1,000	September 1, 2013
Texas Association of Public Schools	TX10093J	Mobile Equipment	\$ 98	September 1, 2013
Texas Association of Public Schools	TX10093J	General Liability	\$ 1,000	September 1, 2013
Darwin Select	0202-1076	Board Liability	\$ 1,000	September 1, 2013
Fidelity & Deposit	CCP6155276	Employee Dishonesty	\$25/\$25/\$140	March 1, 2014

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***FEDERAL FINANCIAL ASSISTANCE INFORMATION  
SINGLE AUDIT***



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

To the Board of Trustees of  
Texarkana College  
Texarkana, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit, the Texarkana College (the College), as of and for the years ended August 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Texarkana College's basic financial statements and have issued our report thereon dated November 15, 2013.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2013-1 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the *Public Funds Investment Act* (Chapter 2256, of the Texas Government Code), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-1.

### **The College's Response to Finding**

The College's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on it.

### **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.

  
Certified Public Accountants

Texarkana, Texas  
November 15, 2013



Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees  
of Texarkana College  
Texarkana, Texas

**Report on Compliance for Each Major Federal Program**

We have audited the Texarkana College's (the College) 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 College's major federal programs for the year ended August 31, 2013. Texarkana College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Texarkana College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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





### **Opinion on Each Major Federal Program**

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

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-1. Our opinion on each major federal program is not modified with respect to these matters.

Texarkana College's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College'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 Texarkana College, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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



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

*Thomas & Thomas LLP*

Certified Public Accountants

Texarkana, Texas  
November 15, 2013



# Texarkana College

## Schedule of Findings and Questioned Costs Year Ended August 31, 2013

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### Section I – Summary of Auditor’s Results

#### Financial Statements

The Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are Not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	None Reported

#### Federal Awards

Internal control over major programs:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are Not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Audit findings disclosed that are required to be reported in accordance with Section 510(a) of circular A-133?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.007	Student Financial Assistance Cluster – FSEOG
84.033	Student Financial Assistance Cluster – FWS
84.063	Student Financial Assistance Cluster – PELL
84.268	Student Financial Assistance Cluster – Direct Loans
17.282	H2P Program

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low risk auditee?	No
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# **Texarkana College**

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## **Schedule of Findings and Questioned Costs Year Ended August 31, 2013**

### **Section II – Federal Award Findings and Questioned Costs**

#### **Finding 2013-1**

##### **Department of Education**

**Student Financial Assistance – CFDA# 84.007/84.033/84.063/84.268**

**Award year – July 1, 2012 to June 30, 2013**

**Award numbers – P063P102318, P007A104134, P033A104134, and P375A102318**

##### **Special Tests and Provisions – Return of Title IV Funds**

##### **Type of Finding – Significant Deficiency**

##### **Condition:**

The Return of funds to Title IV was not performed on a timely basis throughout the year.

##### **Criteria:**

The amount of earned Title IV grant is calculated by determining the percentage of Title IV grant assistance that has been earned by a student and applying that percentage to the total amount of Title IV grant assistance that was or could have been disbursed to the student for the payment period of enrollment as of the student's withdrawal date. A student earns 100% if his or her withdrawal date is after the completion of 60% or more of the period of enrollment for a program measured in credit hours.

When a recipient of Title IV grant assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment.

##### **Cause:**

There is no clear systemic approach to assure that return to Title IV calculations are performed within required timeframes.

##### **Effect:**

Funding not returned to Title IV on a timely basis could be construed as poor cash management and the College utilizing government funds for their use during the year.

# **Texarkana College**

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## **Schedule of Findings and Questioned Costs Year Ended August 31, 2013**

### **Section II – Federal Award Findings and Questioned Costs (continued)**

#### **Finding 2013-1 (continued)**

##### **Context:**

A sample of 64 students receiving aid was selected for audit from a population of 3,085 students. The tests disclosed that 10 return to Title IV remittances were not submitted within the allowed 45 day timeframe. Of that sample, 27 were properly returned within the established guidelines while 27 did not require amounts to be returned.

##### **Questioned Costs:**

Questioned costs are indeterminable because the calculation would require an overall approach to determining when amounts should have been remitted, when amounts were actually remitted and any earnings due the government.

##### **Recommendation:**

The College should implement a formal monthly process whereby, Return to Title IV calculations are performed based on a consistent basis of academic enrollment reporting and to assure that those amounts are remitted to the state within the required 45 days after the date the institution determines that the students withdrew.

##### **Management's Response:**

In the 2010 – 2011 Audit, the College discovered that many students who received financial aid withdrew without an R2T4 calculation being performed. Therefore, the College concentrated its efforts in the 2011-2012 year on ensuring that all withdrawal students were identified and that R2T4 calculations were performed correctly. The College met the goal of performing R2T4 calculations for all withdrawn students, but did not meet the goal of performing the calculations and returning funds in a timely manner.

In the 2012-2013 year, the College continued to focus on ensuring that R2T4 calculations for all withdrawn students were performed correctly and made improvements in returning funds in a timely manner. The College continues to increase focus on this area and has implemented further procedures since year end to better streamline the process and improve timeliness.

**Responsible Individual:** Kim Jones, CFO

**Anticipated Completion Date:** Fiscal Year 2013-2014

# **Texarkana College**

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## **Schedule of Findings and Questioned Costs Year Ended August 31, 2013**

### **Section III – Findings and Questioned Costs – Major Federal Award Programs**

#### **Prior Year Findings and Questioned Costs Relating to Federal Awards**

##### **Finding 2012-1 – Student Financial Assistance - Eligibility**

To address this deficiency management:

Developed a formal Policies and Procedures Manual for Financial Aid for the 2012- 2013 year.

Further, most of the policies and procedures used when determining financial aid eligibility have been programmed in the Banner Information System. The determination of eligibility for financial aid awards and federal funds is now automated by Banner.

Management is confident that the established policies and procedures, in combination with the programming in the Banner Information System to automate the determination of eligibility, has addressed the audit recommendation to establish a process to more accurately determine financial aid need and eligibility.

##### **Finding 2012-2 - Student Financial Assistance – Return of Title IV Funds**

This same finding occurred during the 2012-2013 audit, see response in finding 2013-1.

##### **Finding 2012-3 - Student Financial Assistance – Disbursements to or on Behalf of Students**

To address this deficiency management:

Purchased and installed a multi-million dollar integrated Finance, HR, and Student Information System (Banner).

The Banner system automatically creates fund origination/disbursement records, including the amounts and dates, thereby eliminating manual data entry that was needed to update the estimated date with the actual disbursement date. Further, Banner automatically checks the enrollment level of the student at the time of disbursement. Management is confident that the auditor's finding has been addressed with the elimination of paper vouchers and manual data entry, in conjunction with the implementation of automated processes in the Banner system.



***STATE FINANCIAL ASSISTANCE INFORMATION***



Certified Public Accountants

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

To the Board of Trustees  
of Texarkana College  
Texarkana, Texas

**Report on Compliance for Each Major State Program**

We have audited the Texarkana College's (the College) compliance with the types of compliance requirements described in the State of Texas Single Audit Circular, *Uniform Grant Management Standards* that could have a direct and material effect on each of the College's major state programs for the year ended August 31, 2013. Texarkana College's major state programs are identified in the summary of auditor's results section of the accompanying state 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 state programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Texarkana College's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of Texas Single Audit Circular. Those standards and *Uniform Grant Management Standards* 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 state program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



### **Opinion on Each Major State Program**

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

### **Other Matters**

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the State of Texas Single Audit Circular.

Texarkana College's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College'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 Texarkana College, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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



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

*Thomas & Thomas LLP*  
Certified Public Accountants

Texarkana, Texas  
November 15, 2013





# **Texarkana College**

## **State Grant Schedule of Findings and Questioned Costs Year Ended August 31, 2013**

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### **Section I – Summary of Auditor’s Results**

#### **Financial Statements**

The Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to the financial statements noted?	None Reported

#### **State Awards**

Internal control over major programs:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Audit findings disclosed that are required to be reported in accordance with State of Texas Single Audit Circular?	None Reported

Identification of major programs:

#### **Name of State Program or Cluster**

Jet Grant

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

Auditee qualified as low risk auditee? Yes

# **Texarkana College**

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## **Schedule of Findings and Questioned Costs Year Ended August 31, 2012**

### **Section II – Findings and Questioned Costs – Major State Award Programs**

During the Year ended August 31, 2013, there were no findings or questioned costs reported.

# **Texarkana College**

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## **Schedule of Findings and Questioned Costs Year Ended August 31, 2013**

### **Section III – Findings and Questioned Costs – Major State Award Programs**

#### **Prior Year Findings and Questioned Costs Relating to State Awards**

##### **Finding 2012-4 -Texas Grant and Texas II Grant – Eligibility**

To address this deficiency management has:

Developed a formal Policies and Procedures Manual for Financial Aid for the 2012- 2013 year.

Further, most of the policies and procedures used when determining financial aid eligibility have been programmed in the Banner Information System. The determination of eligibility for financial aid awards and state/federal funds is now automated by Banner.

Management is confident that the established policies and procedures, in combination with the programming in the Banner Information System to automate the determination of eligibility, has addressed the audit recommendation to establish a process to more accurately determine eligibility.

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