



BLINN COLLEGE

**ANNUAL
FINANCIAL REPORT**

For the Fiscal Year Ended

August 31, 2012

BLINN COLLEGE
Table of Contents

	Page
Organizational Data	1
Independent Auditors' Report on the Financial Statements and Supplemental Information.....	2
Management's Discussion and Analysis	4
<u>Financial Statements</u>	
Statement of Net Assets (Exhibit 1).....	13
Statement of Financial Position (Exhibit 1-A).....	14
Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit 2)	15
Statement of Activities (Exhibit 2-A).....	16
Statement of Cash Flows (Exhibit 3).....	18
Notes to Financial Statements.....	19
<u>Supplementary Schedules</u>	
Schedules	
A Schedule of Operating Revenues	36
B Schedule of Operating Expenses by Object	37
C Schedule of Non-Operating Revenues and Expenses	38
D Schedule of Net Assets by Source and Availability.....	39
E Schedule of Expenditures of Federal Awards	40
F Schedule of Expenditures of State Awards	41
Notes to Schedules of Expenditures of Federal and State Awards	42
<u>Auditors' Reports on Controls and Compliance</u>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	43
Independent Auditor's Report on Compliance with Requirements that Could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and The State of Texas Single Audit Circular	45
Schedule of Findings and Questioned Costs.....	48

BLINN COLLEGE

Organizational Data
Year Ended August 31, 2012

Board of Trustees

Officers

Atwood C. Kenjura, President
Leon B. Toubin, Vice President
Douglas R. Borchardt, Secretary

	<u>Members</u>	<u>Term Expires</u> <u>May 31,</u>
Atwood C. Kenjura	Brenham, Texas	2013
Carolyn Miller	Brenham, Texas	2013
David Sommer	Brenham, Texas	2013
Norwood Lange	Brenham, Texas	2015
Leon B. Toubin	Brenham, Texas	2015
Henry J. Boehm, Jr. M.D.	Brenham, Texas	2017
Douglas R. Borchardt	Brenham, Texas	2017

Key Administrators

Harold Nolte, Ed.D., President
Ted Raspiller, Ed.D., President Brazos County Campuses
Kelli D. Shomaker, C.P.A., CFO/Sr. VP for Finance and Administrative Services
Cathy Boeker, M.B.A., Executive Admin. of External Affairs
Debra R. LaCour, Ph.D., VP Academic Affairs
Dennis Crowson, Ph.D., VP Student Services
Robert Brick, Ph.D., VP Applied Sciences/Workforce Education



LOTT, VERNON & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

20 SOUTH FOURTH STREET
POST OFFICE BOX 160
TEMPLE, TEXAS 76503

254/778/4783
800/460/4783
FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

*Member of
American Institute & Texas Society of
Certified Public Accountants*

**INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL
STATEMENTS AND SUPPLEMENTAL INFORMATION**

Board of Trustees
Blinn College
Brenham, Texas

We have audited the accompanying financial statements of Blinn College (the College), as of and for the year ended August 31, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Blinn College as of August 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL
STATEMENTS AND SUPPLEMENTAL INFORMATION (CONTINUED)**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplemental schedules (Schedules A through D), as described in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards (Schedule E) and schedule of expenditures of state awards (Schedule F) are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular, and are also not a required part of the financial statements. The supplemental schedules, schedule of expenditures of federal awards and the schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jett, Vernon & Co., P.C.

Temple, Texas
November 29, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Blinn College's (the College) annual financial statements provide an overview of the College's financial performance for the fiscal years ended August 31, 2012 and 2011. Management's discussion and analysis is based on management's knowledge of current activities, resultant changes and known facts; therefore, it should be read in conjunction with the accompanying basic financial statements and associated notes. The basic financial statements, notes and this discussion are the responsibility of management.

Financial Highlights and Significant Activities for 2012

- Net assets increased by \$ 4.7 million
- Tuition and fee revenue (before allowances and discounts) increased by \$7.3 million

The College's overall net assets increased approximately \$4.7 million, or 6%. An increase in tuition and fees charged led to an increase in total tuition and fee revenue (before allowances and discounts) of approximately \$7.3 million, or 17%.

Total operating revenues increased approximately \$8.5 million. This increase is primarily attributable to the increase in tuition and fees discussed above and increased revenues from auxiliary enterprises. Operating expenses increased by \$4.1 million, or 5%, as a result of increases in scholarships and fellowships awarded and depreciation expense.

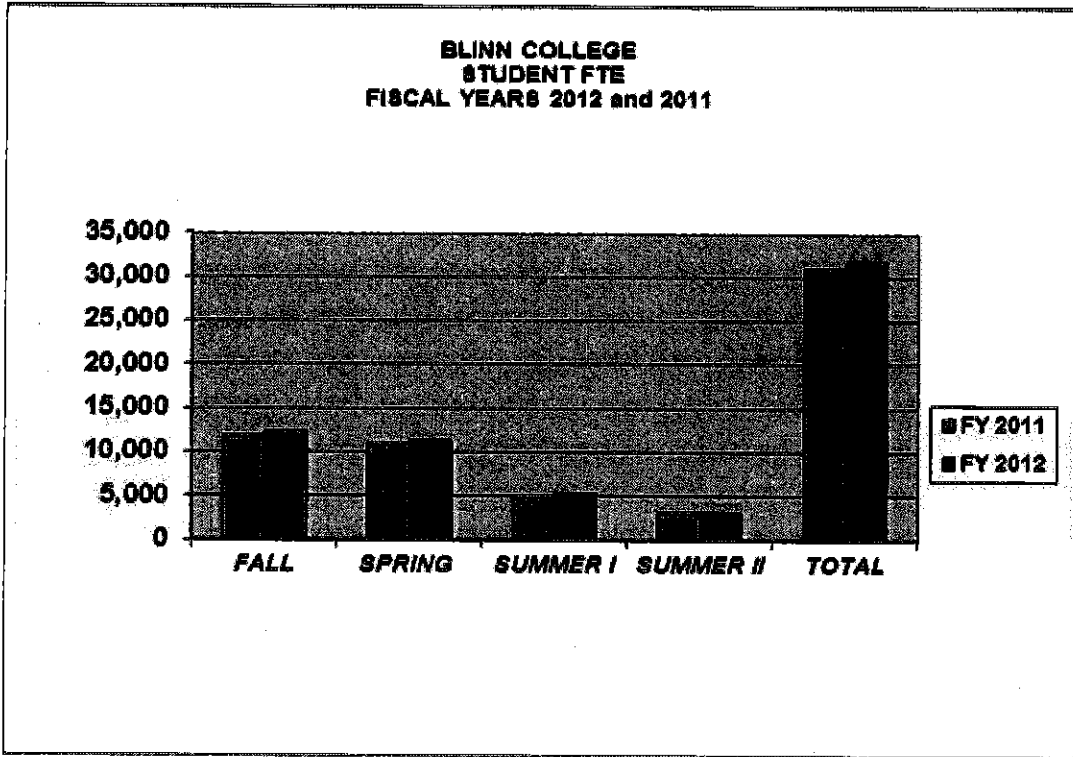
Financial Highlights and Significant Activities for 2011

- Net assets increased by \$1.4 million
- Tuition and fee revenue (before allowances and discounts) increased by \$2.7 million

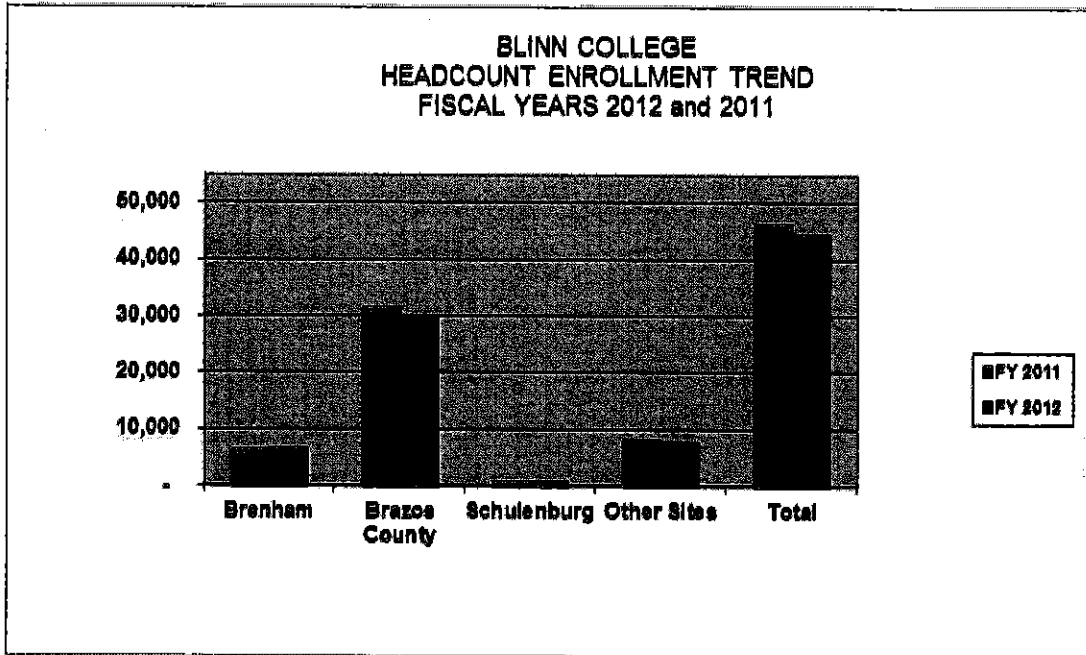
The College's overall net assets increased approximately \$1.4 million, or 2%. An increase in tuition and fees charged and student enrollment led to an increase in total tuition and fee revenue (before allowances and discounts) of approximately \$2.7 million, or 7%.

Total operating revenues increased approximately \$200,000. This increase is primarily attributable to the increase in tuition and fees discussed above and increased revenues from auxiliary enterprises offset by a \$2.8 million increase in scholarship allowances and discounts. Operating expenses increased by \$6.4 million, or 8%, as a result of increases in salary and benefit costs, scholarships and fellowships awarded and other operating expense increases.

Below is a breakdown of the College's full time equivalency (FTE) enrollment by term for fiscal years 2012 and 2011:



Below is a two-year comparison for student enrollment by campus:



Overview of the Basic Financial Statements

The College qualifies as a special purpose government entity, which is engaged in business-type activities. The basic financial statements are prepared on that basis and their form mirrors the statements utilized by organizations in the private sector of the economy. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the basic financial statements.

Financial statements for the College's component unit, Blinn College Foundation, Inc. (the Foundation) are issued independent to those of the College but are presented with the College's basic financial statements.

The statement of net assets' focus is to report the total net resources available to finance future services. The statement presents all assets and liabilities of the College, and the change in net assets as of the end of the fiscal year. The statement is prepared under the accrual basis of accounting, in which revenues and assets are recognized when earned, and expenses and liabilities are recognized when incurred regardless of when cash is received or paid. The difference between total assets and total liabilities is net assets, which is one indicator of the financial condition of the College when considered with other factors such as changes in enrollment, contact hours, student retention and other non-financial information. The statement of net assets is useful in determining the assets available to continue operations, as well as how much the College owes vendors, bondholders and other entities at the end of the year.

The statement of revenues, expenses and changes in net assets denotes the results of business activities as revenues earned and expenses incurred over the course of the fiscal year. The statement also provides information regarding how the net assets of the College changed during the year. The statement is divided into the operating results of the College as well as the non-operating revenues and expenses. Operating revenues are primarily those that result from instruction, the operation of the College's auxiliary services (student housing, cafeteria, athletics, etc.) and Federal and State grants. State appropriations, property tax receipts, Federal revenues (Title IV funds), and interest income, while budgeted for operations, are considered to be non-operating revenues. Depreciation is shown as an operating expense in accordance with generally accepted accounting principles.

The statement of cash flows presents the information related to cash inflows and cash outflows summarized by operating, financing and investing activities. This statement presents cash receipt and cash disbursement information without consideration of the earning event. This information is crucial to determining the College's fiscal viability and its ability to meet financial obligations as they mature and helps users assess the College's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

The notes to the basic financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes also present information about the College's accounting policies, significant account balances and activities, and contingencies.

Statement of Net Assets

The following is prepared from the College's Statements of Net Assets and provides a summary of its assets, liabilities and net assets for the years ended August 31:

	2012	2011	Increase (Decrease) 2012-2011	2010	Increase (Decrease) 2011-2010
Assets:					
Current assets	\$ 42,765,000	\$ 34,648,000	\$ 8,117,000	\$ 35,525,000	\$ (877,000)
Capital assets, net of depreciation	102,497,000	104,561,000	(2,064,000)	85,832,000	18,729,000
Noncurrent assets	14,823,000	21,172,000	(6,349,000)	33,111,000	(11,939,000)
Total Assets	160,085,000	160,381,000	(296,000)	154,468,000	5,913,000
Liabilities:					
Current liabilities	34,605,000	36,669,000	(2,064,000)	29,166,000	7,503,000
Noncurrent liabilities	37,995,000	40,888,000	(2,893,000)	43,901,000	(3,013,000)
Total liabilities	72,600,000	77,557,000	(4,957,000)	73,067,000	4,490,000
Net Assets:					
Investments in capital assets net of related debt	61,626,000	60,318,000	1,308,000	56,686,000	3,632,000
Restricted	14,730,000	14,449,000	281,000	15,339,000	(890,000)
Unrestricted	11,129,000	8,057,000	3,072,000	9,377,000	(1,320,000)
Total net assets	\$ 87,485,000	\$ 82,824,000	\$ 4,661,000	\$ 81,402,000	\$ 1,422,000

At August 31, 2012, current assets included \$25.9 million of cash and cash equivalents and \$16.9 million in student receivables related primarily to the fall 2012 semester. The increase in current assets is due primary to a \$6.7 million increase in cash and cash equivalents and a \$1.3 million increase in accounts receivables. The cash increase was attributable to decreased capital asset spending in 2012 as compared to 2011; receivables increased due to tuition and general fee increases. The decrease in current assets in 2011 was due primarily to a \$4 million decrease in cash and cash equivalents offset by a \$3.3 million increase in accounts receivable. The cash decrease was attributable to increased capital asset spending; receivables increased due to tuition and general fee increases.

In Fiscal 2012, the College had various capital asset additions of approximately \$1.5 million offset by the annual depreciation charge of \$3.6 million. During fiscal year 2011, the College had capital asset additions of approximately \$21.2 million, including \$10.2 million for a new dormitory, \$5.1 million for a new Agricultural complex, \$2 million for other Brenham Campus capital projects, \$2.6 million for leasehold improvements and equipment for the Health Science Center facility and classroom expansion and office remodeling on the Bryan Campus; offsetting this was the annual depreciation charge on completed projects.

The College's noncurrent assets include funds restricted for endowments, construction, debt service and other investments. Noncurrent assets decreased \$6.3 million in 2012 due to the maturity of the final construction fund investment, the proceeds of which were invested in cash and cash equivalents. Noncurrent assets decreased \$12 million in 2011 due to increased capital asset spending discussed above.

Current liabilities decreased \$2.1 million in fiscal year 2012, due primarily to a decrease in accounts payable of \$3.8 million as a result of the payment of construction liabilities accrued at the prior year-end; offsetting this was

an increase in deferred tuition and fees of \$2.1 million, due to tuition and fee increases. In fiscal year 2011, current liabilities increased \$7.5 million due to an increase in deferred tuition and fees of \$4.2 million and a \$2.7 million increase in accounts payable. These increases were attributable to tuition and fee increases and the capital asset additions put into service for the fall 2011 semester.

Noncurrent liabilities consist of future bond payments. The Fiscal 2012 variance of \$2.9 million is the result of the scheduled debt service amortization. During fiscal 2011, the College issued Combined Fee Revenue Refunding Bonds, Series 2011. The proceeds from the issue (\$6,925,000) were used to refund a portion of existing bond issues for debt service savings and to pay the costs of the bond issuance.

At August 31, 2012 and 2011, total net assets were \$87 million and \$83 million, respectively. Net assets have increased over the two-year period. The College has an unrestricted net asset balance of approximately \$11 million at August 31, 2012, which is maintained as a contingency reserve. Restricted net assets include endowment funds of approximately \$10 million and required debt service reserves of \$4.6 million. The investment in capital assets, net of related debt increased \$1.3 million in 2012. The College's financial position remains strong with adequate liquid assets and a reasonable level of unrestricted net assets.

Statement of Revenues, Expenses and Changes in Net Assets:

The following summary is prepared from the College's Statements of Revenues, Expenses and Changes in Net Assets for the fiscal years ended August 31:

	2012	2011	Increase (Decrease) 2012-2011	2010	Increase (Decrease) 2011-2010
Operating revenues:					
Student tuition and fees, net	\$ 39,354,000	\$ 31,815,000	\$ 7,539,000	\$32,226,000	\$ (411,000)
Federal grants and contracts	791,000	1,048,000	(257,000)	1,037,000	11,000
State grants and contracts	1,090,000	1,351,000	(261,000)	1,255,000	96,000
Auxiliary enterprises, net	7,961,000	6,561,000	1,400,000	6,105,000	456,000
Other	407,000	342,000	65,000	588,000	(246,000)
Total operating revenues	49,603,000	41,117,000	8,486,000	41,211,000	(94,000)
Less operating expenses	90,624,000	86,484,000	4,140,000	80,357,000	6,127,000
Operating loss	(41,021,000)	(45,367,000)	4,346,000	(39,146,000)	(6,221,000)
Nonoperating revenues (expenses):					
State appropriations	24,814,000	27,153,000	(2,339,000)	27,907,000	(754,000)
Property taxes	1,471,000	1,429,000	42,000	1,401,000	28,000
Federal revenue, nonoperating	19,799,000	17,878,000	1,921,000	14,834,000	3,044,000
Gifts	259,000	1,078,000	(819,000)	757,000	321,000
Investment income	543,000	621,000	(78,000)	608,000	13,000
Interest on capital related debt	(1,466,000)	(1,252,000)	(214,000)	(1,141,000)	(111,000)
Other	171,000	(161,000)	332,000	182,000	(343,000)
Total nonoperating revenues	45,591,000	46,746,000	(1,155,000)	44,548,000	2,198,000
Income before other revenue	4,570,000	1,379,000	3,191,000	5,402,000	(4,023,000)
Additions to endowments	91,000	43,000	48,000	88,000	(45,000)
Total increase in net assets	4,661,000	1,422,000	3,239,000	5,490,000	(4,068,000)
Net assets, beginning of year	82,824,000	81,402,000	1,422,000	75,912,000	5,490,000
Net assets, end of year	\$ 87,485,000	\$ 82,824,000	\$ 4,661,000	\$81,402,000	\$ 1,422,000

Total operating revenues increased \$8.5 million from 2011 due to an increase in tuition and fees of \$7.5 million due to an increase in tuition and fees charged and \$1.4 million increase in revenues from auxiliary enterprises, related to the new Brenham dormitory.

Operating expenses consist mainly of personnel costs, which were 58% and 61% of total operating expenses in fiscal 2012 and 2011, respectively. Below is a table of operating expenses for the fiscal years ended August 31 (rounded to the nearest thousand):

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease) 2012-2011</u>	<u>2010</u>	<u>Increase (Decrease) 2011-2010</u>
Instruction and general	\$48,666,000	\$48,163,000	\$ 503,000	\$45,172,000	\$ 2,991,000
Institutional support	8,370,000	8,414,000	(44,000)	8,148,000	266,000
Operation and maintenance of plant	8,302,000	8,065,000	237,000	7,098,000	967,000
Auxiliary enterprises	7,847,000	7,080,000	767,000	6,814,000	266,000
Depreciation	3,609,000	2,510,000	1,099,000	2,367,000	143,000
Scholarships and fellowships	13,830,000	12,252,000	1,578,000	10,758,000	1,494,000
Total Operating Expenses	<u>\$90,624,000</u>	<u>\$86,484,000</u>	<u>\$ 4,140,000</u>	<u>\$80,357,000</u>	<u>\$ 6,127,000</u>

Total operating expenses increased \$4.1 million from 2011 due primarily to increased scholarships and fellowships awarded of \$1.6 million, increased depreciation expense of \$1.1 million and other miscellaneous expense increases.

Total operating expenses increased \$6.1 million from 2010 due primarily to increased payroll and benefits of \$3.8 million, increase in scholarships and fellowships awarded of \$1.5 million and other miscellaneous expense increases.

Total non-operating revenues decreased \$1.1 million from 2011 due primarily to a \$2.3 million decrease in State appropriations, \$800,000 decrease in gifts from the Foundation related to naming rights for the new buildings in 2011, offset by an increase in Federal non-operating revenues (Title IV funds) of \$1.9 million.

Total non-operating revenues increased \$2.2 million from 2010 due primarily to a \$3 million increase in Federal non-operating revenues (Title IV funds), offset by an \$800,000 decrease in State appropriations.

State Appropriations for TRS and ORP

Texas Constitution article 16, section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system", referring to the State's Teacher Retirement System (TRS) including the related Optional Retirement Program (ORP). During the 2011 legislative session, the Texas Legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted revenue appropriation for each year of the biennium state budget. There is no pending litigation concerning this issue to construe the constitutional funding requirements; or to hold that the State biennium appropriation satisfy those requirements; or to attempt to collect any shortfall contributions from any community college district.

The TRS System of Texas has expectations that the College will provide the difference between the formula required contribution and the amount provided by the State, which is less than the amount believed to be required by the constitution. The College estimates the contribution shortage to be \$715,958. It is the College's contention that the State is the employer government legally responsible for the required contributions under GASB No. 27. It is conceivable that at some future point, the College may be required to pay from local funds the disputed TRS/ORP contributions. Should that occur, the College will record a current period expenditure in the year in which the payment is made.

Statement of Cash Flow

The following chart summarizes the statements of cash flows (rounded to the nearest thousand) for the fiscal years ended August 31:

	2012	2011	Increase (Decrease) 2012-2011	2010	Increase (Decrease) 2011-2010
Cash provided by (used in):					
Operating activities	\$ (37,209,000)	\$ (34,118,000)	\$ (3,091,000)	\$ (32,039,000)	\$ (2,079,000)
Non-capital financing activities	43,197,000	42,956,000	241,000	40,427,000	2,529,000
Capital and related financing activities	(6,383,000)	(25,670,000)	19,287,000	9,601,000	(35,271,000)
Investing activities	7,116,000	12,860,000	(5,744,000)	(21,285,000)	34,145,000
Net increase (decrease) in cash and cash equivalents	6,721,000	(3,972,000)	10,693,000	(3,296,000)	(676,000)
Cash and cash equivalents - beginning of year	19,611,000	23,583,000	(3,972,000)	26,879,000	(3,296,000)
Cash and cash equivalents - end of year	<u>\$ 26,332,000</u>	<u>\$ 19,611,000</u>	<u>\$ 6,721,000</u>	<u>\$ 23,583,000</u>	<u>\$ (3,972,000)</u>

The College's cash flow from operating activities will normally reflect a decrease as the College relies on State appropriations to fund operating activities. State appropriations are shown as non-capital financing activities in accordance with the Texas Higher Education Coordinating Board. Cash inflows consist primarily of cash receipts from tuition and fees while cash outflows primarily consist of cash disbursements for wages, benefits, supplies and scholarships.

The increase in cash used in operations in 2012 is primarily due to an increase in the payment to suppliers for goods and services of \$7.9 million, increase in the payment for scholarships of \$1.6 million, an increase in salaries and benefits paid to employees of \$1.3 million, a decrease of \$1.1 million in receipts from grants and contracts offset by a \$8.8 million increase in receipts from students and other customers.

The increase in cash used in operations in 2011 is primarily due to an increase in salaries and benefits paid to employees of \$3.8 million, increase in the payment for scholarships of \$1.5 million offset by a decrease in the payment to suppliers for goods and services of \$2.4 million and a \$1.2 million increase in receipts from students and other customers.

In addition to State appropriations, non-capital financing activities include property tax receipts, non-operating Federal revenue (Title IV funds) and additions to permanent endowments. The increase in non-capital financing activities from 2011 is due to a \$1.9 million increase in non-operating Federal revenue (Title IV funds) offset by a decrease of \$1.1 million in State appropriations received and \$800,000 in gifts. The increase in non-capital financing activities from 2010 is due to a \$3 million increase in non-operating Federal revenue (Title IV funds) and \$300,000 increase in gifts offset by a decrease in State appropriations of \$750,000.

Variations in cash used for capital and related financing activities are dependent on the College's issuance and payment of long-term debt and capital acquisitions. During fiscal 2011, the College issued Combined Fee Revenue Refunding Bonds, Series 2011. The proceeds from the issue (\$6,925,000) were used to refund a portion of existing bond issues for debt service savings and to pay the costs of the bond issuance. In 2012 and 2011, the College spent \$1.5 million and \$21.2 million in capital acquisitions and \$4.8 million and \$4.3 million on scheduled debt service payments, respectively.

The decrease in cash provided by investing activities in 2012 is due primarily to the decrease in the sales and maturities of investments. The increase in 2011 was due to the sales and maturities of investments to fund capital asset spending discussed above.

Capital Assets and Debt Administration

In fiscal year 2011, the College had capital asset additions of approximately \$21.2 million, including \$10.2 million for a new dormitory, \$5.1 million for a new Agricultural complex, \$2 million for other Brenham Campus capital projects, \$2.6 million for leasehold improvements and equipment for the Health Science Center facility and classroom expansion and office remodeling on the Bryan Campus. During fiscal year 2012, the College had various capital additions of approximately \$1.5 million.

During fiscal 2011, the College issued Combined Fee Revenue Refunding Bonds, Series 2011. The proceeds from the issue (\$6,925,000) were used to refund a portion of existing bond issues for debt service savings and to pay the costs of the bond issuance. In fiscal year 2012, there were no bond issues.

Future Considerations

Unlike most community colleges in Texas, which saw a decline in enrollment, Blinn College has begun the 2012-2013 fiscal year with student enrollment and contact hours on par with previous years. Though this is good news for Blinn, the administration has been working on a number of new initiatives to assist in meeting the challenges that lie ahead: unknown level of state support, potential for a decline in enrollment and contact hours, and a competitive distance learning environment, which alleviates some pressure on facilities expansion.

As a first step towards meeting these challenges Blinn has set in motion a new organizational structure designed to reconfigure Blinn to meet the challenges both in our immediate future and in the years to come. As an educational organization, we must be ready to accept change and find new ways of doing business. We are now designed to focus intently on student success, enrollment growth, instructional quality and alternative revenue streams. This new organizational structure will go a great distance to help us achieve that focus-as will the strategic plan that follows.

The reorganization does a great deal to unburden some of our brightest and highest-achieving faculty from administrative duties and consolidate those duties in a small number of new deanships. With fewer scheduling and administrative obligations, these dedicated faculty can then return their brand of educational excellence to our classrooms and assistance in the development of additional on-line distance courses. We will focus with intensity on Allied Health sciences, led by a dedicated vice president, whose mission will be to maximize our position at Texas A&M Health Science Center for the greatest advancement of Blinn.

We have already begun the preliminary steps of crafting our new strategic plan, even as a salary survey is underway to help us target benchmarks of faculty and staff compensation. Blinn is poised and ready to preserve instructional quality and improve efficiency and sees these improvements as securing our future.

Contacting the College's Financial Management

This financial report is designed to provide the College's citizens, taxpayers, students, investors and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Finance and Administrative Services Office at 902 College Avenue, Brenham, Texas 77833.

FINANCIAL STATEMENTS

BLINN COLLEGE
Statements of Net Assets
August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 25,960,974	\$ 19,230,901
Accounts receivable (net)	16,429,334	15,106,417
Interest and dividends receivable	91,897	154,195
Inventories	1,695	3,716
Other assets	280,816	152,792
Total Current Assets	<u>42,764,716</u>	<u>34,648,021</u>
Noncurrent Assets:		
Restricted endowment cash and cash equivalents	259,515	268,947
Restricted debt service cash and cash equivalents	111,941	111,681
Restricted endowment and other investments	14,451,881	20,791,456
Capital Assets (net) (See Note 6)	<u>102,497,503</u>	<u>104,560,532</u>
Total Noncurrent Assets	<u>117,320,840</u>	<u>125,732,616</u>
Total Assets	<u>160,085,556</u>	<u>160,380,637</u>
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	2,121,417	5,912,013
Funds held for others	1,084,523	1,019,524
Deferred revenues	27,788,426	25,713,800
Deposits	734,763	669,017
Bonds payable - current portion	<u>2,876,316</u>	<u>3,354,822</u>
Total Current Liabilities	<u>34,605,445</u>	<u>36,669,176</u>
Noncurrent Liabilities:		
Bonds payable	<u>37,994,922</u>	<u>40,887,733</u>
Total Liabilities	<u>72,600,367</u>	<u>77,556,909</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	61,626,265	60,317,977
Restricted for:		
Nonexpendable - endowments	9,333,482	9,205,045
Expendable		
Endowments	617,254	780,577
Student aid	213,786	(283,789)
Debt service	4,650,832	4,700,866
Star of the Republic Museum	(85,047)	45,744
Unrestricted	<u>11,128,617</u>	<u>8,057,308</u>
Total Net Assets (Schedule D)	<u>\$ 87,485,189</u>	<u>\$ 82,823,728</u>

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

BLINN COLLEGE FOUNDATION, INC.
Statements of Financial Position
August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Cash	\$ 515,440	\$ 627,623
Unconditional promises to give	45,863	89,232
Total Current Assets	<u>561,303</u>	<u>716,855</u>
Restricted Assets:		
Cash	1,382,895	839,528
Investments	3,501,093	3,118,282
Total Restricted Assets	<u>4,883,988</u>	<u>3,957,810</u>
Long-Term unconditional promises to give:		
Total face-value of promises	54,922	107,740
Less amount classified as current	(45,863)	(89,232)
Net long-term unconditional promises to give	<u>9,059</u>	<u>18,508</u>
Other Assets:		
Oil/Gas royalty interest	10,000	10,000
Total Assets	<u><u>5,464,350</u></u>	<u><u>4,703,173</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	43,335	3,387
Total Liabilities	<u>43,335</u>	<u>3,387</u>
Net Assets:		
Unrestricted	272,032	350,524
Temporarily restricted net assets	964,453	572,352
Permanently restricted net assets	4,184,530	3,776,910
Total Net Assets	<u>5,421,015</u>	<u>4,699,786</u>
Total Liabilities and Net Assets	<u><u>\$ 5,464,350</u></u>	<u><u>\$ 4,703,173</u></u>

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

BLINN COLLEGE
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended August 31, 2012 and August 31, 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Tuition and Fees (net of discounts of \$10,789,647 and \$11,040,941, respectively)	\$ 39,353,794	\$ 31,815,383
Federal Grants and Contracts	791,505	1,048,093
State Grants and Contracts	1,089,588	1,350,632
Sales and Services of Educational Activities	288,351	245,127
Auxiliary Enterprises (net of discounts of \$829,154 and \$555,208, respectively)	7,961,541	6,560,960
Other Operating Revenues	118,265	97,362
Total Operating Revenues (Schedule A)	<u>49,603,044</u>	<u>41,117,557</u>
Operating Expenses		
Instruction	38,397,855	37,683,828
Public Service	855,655	1,026,086
Academic Support	4,112,494	4,032,614
Student Services	5,299,383	5,420,209
Institutional Support	8,370,201	8,414,238
Operation and Maintenance of Plant	8,302,085	8,064,544
Scholarships and Fellowships	13,830,251	12,252,095
Auxiliary Enterprises	7,847,483	7,080,447
Depreciation	3,608,585	2,510,398
Total Operating Expenses (Schedule B)	<u>90,623,992</u>	<u>86,484,459</u>
Operating Loss	<u>(41,020,948)</u>	<u>(45,366,902)</u>
Non-Operating Revenues (Expenses)		
State Appropriations	24,813,874	27,152,814
Property Taxes	1,470,887	1,428,819
Federal Revenue, Non Operating	19,799,302	17,877,715
Gifts	259,020	1,077,874
Unrealized Gain (Loss) on Investments	170,750	(330)
Investment Income	543,304	621,348
Gain (Loss) on Disposal of Capital Assets	182	3,331
Interest on Capital Related Debt	(1,465,848)	(1,252,019)
Other Non-Operating Expenses	-	(163,921)
Net Non-Operating Revenues (Schedule C)	<u>45,591,471</u>	<u>46,745,631</u>
Income Before Other Revenue	<u>4,570,523</u>	<u>1,378,729</u>
Other Revenue - Additions to Permanent Endowments	<u>90,938</u>	<u>43,200</u>
Increase in Net Assets	<u>4,661,461</u>	<u>1,421,929</u>
Net Assets, Beginning of Year	<u>82,823,728</u>	<u>81,401,799</u>
Net Assets, End of Year	<u>\$ 87,485,189</u>	<u>\$ 82,823,728</u>

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

BLINN COLLEGE FOUNDATION, INC.
Statement of Activities
For the Year Ended August 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenues				
Donations	\$ 76,914	\$ 432,722	\$ 364,248	\$ 873,884
Investment income	12,682	306,137	-	318,819
Oil/Gas royalty	1,059	-	-	1,059
Endowment of temporarily restricted net assets	-	(43,372)	43,372	-
Net assets released from purpose restrictions	303,386	(303,386)	-	-
Total Public Support and Revenues	<u>394,041</u>	<u>392,101</u>	<u>407,620</u>	<u>1,193,762</u>
Expenses				
Program services:				
Expenditures for the benefit of Blinn College	256,845	-	-	256,845
Scholarships	192,921	-	-	192,921
Support services:				
Administrative expenses	<u>22,767</u>	-	-	<u>22,767</u>
Total Expenses	<u>472,533</u>	<u>-</u>	<u>-</u>	<u>472,533</u>
Change in Net Assets	(78,492)	392,101	407,620	721,229
Net Assets - Beginning of Year	<u>350,524</u>	<u>572,352</u>	<u>3,776,910</u>	<u>4,699,786</u>
Net Assets - End of Year	<u>\$ 272,032</u>	<u>\$ 964,453</u>	<u>\$ 4,184,530</u>	<u>\$ 5,421,015</u>

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

BLINN COLLEGE FOUNDATION, INC.
Statement of Activities
For the Year Ended August 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenues				
Donations	\$ 54,062	\$ 888,257	\$ 1,350,253	\$ 2,292,572
Investment income	25,224	196,840	-	222,064
Oil/Gas royalty	878	-	-	878
Endowment of temporarily restricted net assets	-	(16,710)	16,710	-
Net assets released from purpose restrictions	1,279,864	(1,279,864)	-	-
Total Public Support and Revenues	<u>1,360,028</u>	<u>(211,477)</u>	<u>1,366,963</u>	<u>2,515,514</u>
Expenses				
Program services:				
Expenditures for the benefit of Blinn College	1,068,934	-	-	1,068,934
Scholarships	178,062	-	-	178,062
Support services:				
Administrative expenses	16,944	-	-	16,944
Total Expenses	<u>1,263,940</u>	<u>-</u>	<u>-</u>	<u>1,263,940</u>
Change in Net Assets	96,088	(211,477)	1,366,963	1,251,574
Net Assets - Beginning of Year	<u>254,436</u>	<u>783,829</u>	<u>2,409,947</u>	<u>3,448,212</u>
Net Assets - End of Year	<u>\$ 350,524</u>	<u>\$ 572,352</u>	<u>\$ 3,776,910</u>	<u>\$ 4,699,786</u>

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

BLINN COLLEGE
Statements of Cash Flows
Years Ended August 31, 2012 and August 31, 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Receipts from students and other customers	\$ 49,058,115	\$ 40,291,999
Receipts from grants and contracts	1,311,239	2,416,808
Payments to suppliers for goods and services	(24,201,718)	(16,266,200)
Payments to or on behalf of employees	(49,665,137)	(48,405,489)
Payments for scholarships	(13,830,251)	(12,252,095)
Other receipts	118,265	97,362
Net cash used by operating activities	<u>(37,209,487)</u>	<u>(34,117,615)</u>
Cash Flows From Non-Capital Financing Activities:		
Receipts from state appropriations	21,578,973	22,591,832
Receipts from property taxes	1,468,767	1,431,489
Receipts from non operating federal revenue	19,799,302	17,877,715
Increase (decrease) in permanent endowments	90,938	(22,685)
Other receipts	259,020	1,077,874
Net cash provided by non-capital financing activities	<u>43,197,000</u>	<u>42,956,225</u>
Cash Flows From Capital Financing Activities:		
Purchases of capital assets	(1,545,374)	(21,238,758)
Proceeds from issuance of capital debt	-	6,925,000
Payments on capital debt - principal	(3,371,317)	(9,940,000)
Payments on capital debt - interest	(1,465,848)	(1,252,019)
Bond issue costs paid on refunding debt issue	-	(163,921)
Net cash used by capital and related financing activities	<u>(6,382,539)</u>	<u>(25,669,698)</u>
Cash Flows From Investing Activities:		
Proceeds from sales and maturities of investments	14,495,750	21,614,670
Interest on investments	605,602	773,863
Purchases of investments	(7,985,425)	(9,528,688)
Net cash provided by investing activities	<u>7,115,927</u>	<u>12,859,845</u>
Increase (Decrease) in Cash and Cash Equivalents	6,720,901	(3,971,243)
Cash and Cash Equivalents, Beginning of Year	<u>19,611,529</u>	<u>23,582,772</u>
Cash and Cash Equivalents, End of Year	<u>\$ 26,332,430</u>	<u>\$ 19,611,529</u>
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	\$ (41,020,948)	\$ (45,366,902)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	3,608,585	2,510,398
Noncash state appropriations for employee benefits	3,234,901	4,560,982
Changes in assets and liabilities:		
Receivables (net)	(1,320,796)	(3,255,853)
Inventories	2,021	2,786
Other assets	(128,025)	47,821
Accounts payable	(3,790,596)	2,731,041
Funds held for others	64,999	241,096
Deferred revenues	2,074,626	4,235,036
Deposits	65,746	175,980
Net cash used by operating activities	<u>\$ (37,209,487)</u>	<u>\$ (34,117,615)</u>

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

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

1. Reporting Entity

Blinn College (the College) was established in 1883, in accordance with the laws of the State of Texas, to serve the educational needs of Washington County and the thirteen counties in the service area. The College operates campuses in the cities of Brenham, Bryan, Schulenburg and Sealy, Texas. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. While the College receives funding from local, State of Texas (the 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.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*, gives guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. It requires reporting as a component unit if the organization raises and holds economic resources for the direct benefit of the governmental unit and the component unit is significant compared to the primary government. GASB Statement No. 39 has been applied as required in the preparation of these financial statements and Blinn College Foundation, Inc. financial statements are included as a discrete component unit (see Note 20).

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 (THECB) Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The College applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The College has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The College is reported as a special-purpose government engaged in business-type activities.

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 §56.033). 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 disbursed 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 restricted revenue. When the student is awarded and uses these funds for tuition and fees, the amount is recorded as revenue and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

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

Basis of Accounting

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

Budgetary Data

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

Cash and Cash Equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Board of Trustees has designated public funds investment pools to be cash equivalents as the investments are redeemable on demand.

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

Inventories

Inventories consist of consumable office and physical plant supplies and bookstore stock. Inventories are valued at cost under the first-in first-out method and are charged to expense as consumed.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The College's capitalization policies include real or business personal property with a value equal to or greater than \$5,000 and an estimated useful life in excess of one year. Renovations of \$100,000 to buildings 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. The College reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

Buildings	50 years
Land improvements	20 years
Library books	15 years
Furniture, equipment and vehicles	5-10 years
Computer systems	5 years

Museum Collections

In accordance with guidance issued by the Texas Comptroller of Public Accounts, collections located at the Star of the Republic Museum held for public exhibition are capitalized but not depreciated. Collections are valued at their historical cost or estimated fair value at date of donation.

Deferred Revenues

Tuition, fees and housing charges of \$27,338,385 and \$25,331,717 and federal, state and local grants of \$37,084 and \$65,540 have been reported as deferred revenues at August 31, 2012 and 2011, respectively.

Operating and Non-Operating Revenue and Expense Policy

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

Management Estimates

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

Income Taxes

The College is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc., Organizations*. The College had no unrelated business income tax liability for the year ended August 31, 2012 and 2011.

Reclassifications

Certain 2011 amounts have been reclassified to conform to current year presentation.

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

3. Authorized Investments

The Board of Trustees of the College has adopted a written investment policy regarding the investments of its funds as defined in the Public Funds Investment Act (Chapter 2256.001 Texas Government Code). The investments of the College are in compliance with the Board of Trustees' investment policy and the Public Funds Investment Act. The College is authorized to invest in obligations and instruments as follows: (1) obligations of the United States and 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 deposits and (5) other instruments and obligations authorized by statute.

4. Deposits and Investments

Deposits

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College's investment policy requires pledging of collateral for all bank balances in excess of Federal Depository Insurance Corporation (FDIC) limits at a minimum of 102% of market value. As of August 31, 2012, all of the College's bank balances of \$10,516,248 were insured and collateralized and not exposed to custodial credit risk.

The following table presents cash and cash equivalents included in Exhibit 1, Statements of Net Assets, as of August 31:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents:		
Petty cash	\$ 7,522	\$ 10,515
Demand deposits	10,166,374	10,164,695
Investment pools:		
Lone Star Investment Pool	14,900,325	8,179,473
TexPool	1,082,248	1,081,076
TexSTAR	175,961	175,770
	<u>\$ 26,332,430</u>	<u>\$ 19,611,529</u>
Cash and cash equivalents		
	<u>\$ 26,332,430</u>	<u>\$ 19,611,529</u>
Cash and cash equivalents per Exhibit 1		
	<u>\$ 26,332,430</u>	<u>\$ 19,611,529</u>

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

Investments

The College had the following investments as of August 31:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>	
		<u>2012</u>	<u>2011</u>
Federal Home Loan Mortgage Corp.	12/2015 - 11/2018	\$ 2,001,545	\$ 9,374,749
Federal Home Loan Bank	6/2015 - 3/2019	5,354,878	4,199,362
Federal National Mortgage Assoc.	8/2016 - 12/2018	5,548,874	5,049,068
Federal Farm Credit Bank	8/2018	1,042,584	1,694,277
Equities		504,000	474,000
Total Investments		<u>\$14,451,881</u>	<u>\$20,791,456</u>
Total Investments per Exhibit 1		<u>\$14,451,881</u>	<u>\$20,791,456</u>

Interest risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods can be subjected to increased risk of adverse interest rate changes. In accordance with its investment policy, the College limits its exposure to interest rate risk by structuring its portfolio to provide liquidity for operating funds and maximizing yields for funds not immediately needed. The investment policy limits the maximum maturity on any security to seven years. To the extent possible, the College shall attempt to match its investments with anticipated future cash flow. Unless matched to a specific cash flow, the College shall not directly invest in securities maturing more than three years from the date of purchase.

Credit risks are the risk that the insurer of the debt security will not pay its par value upon maturity. The College's investment policy limits credit risk based on meeting requirements of State law.

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The College places no limit on the amount the College may invest in any one issuer. At August 31, 2012 and 2011, the College had approximately \$13.9 and \$20.3 million of its investment portfolio in Federal Agency securities, which mature through March 2019.

During fiscal year 2006, a donor remitted shares in a Company to the College to establish an endowment scholarship. The shares had a fair market value of \$504,000 at August 31, 2012. Securities donated to an investing entity for a particular purpose or under terms of use specified by the donor, are not subject to the requirements of the Public Funds Investment Act. The College amended its investment policy to allow, at the Board of Trustees discretion, the College to hold donated equities for endowed scholarships.

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

5. Disaggregation of Receivables and Payables Balances

Receivables consist of the following at August 31:

	<u>2012</u>	<u>2011</u>
Student tuition and fees	\$ 16,938,121	\$ 15,635,778
Ad valorem taxes	95,891	93,771
Federal grants	441,456	256,650
State grants	170,735	37,761
Other receivables	939,468	687,393
	<u>18,585,671</u>	<u>16,711,353</u>
Allowance for doubtful accounts	(2,156,337)	(1,604,936)
Total	<u>\$ 16,429,334</u>	<u>\$ 15,106,417</u>

Payables consist of the following at August 31:

	<u>2012</u>	<u>2011</u>
Vendors payable	\$ 952,877	\$ 4,784,508
Other payables	1,168,540	1,127,505
Total	<u>\$ 2,121,417</u>	<u>\$ 5,912,013</u>

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

6. Capital Assets

Capital assets' activities for the years ended August 31:

	<u>2012</u>			Balance August 31, 2012
	Balance September 1, 2011	Increases	Decreases	
Capital assets not subject to depreciation:				
Land	\$ 5,515,495	\$ 313,359	\$ -	\$ 5,828,854
Collections	631,273	-	-	631,273
Total not depreciated	<u>6,146,768</u>	<u>313,359</u>	<u>-</u>	<u>6,460,127</u>
Capital assets subject to depreciation:				
Buildings	113,266,018	230,693	-	113,496,711
Land improvements	5,437,241	100,000	-	5,537,241
Furniture, equipment and vehicles	4,851,399	436,187	(42,437)	5,245,149
Computer equipment	6,777,460	268,477	(308,061)	6,737,876
Library books	3,963,672	198,729	(16,435)	4,145,966
Total depreciated	<u>134,295,790</u>	<u>1,234,086</u>	<u>(366,933)</u>	<u>135,162,943</u>
Less accumulated depreciation				
Buildings	23,999,535	2,088,335	-	26,087,870
Land improvements	3,189,946	137,053	-	3,326,999
Furniture, equipment and vehicles	3,121,581	374,265	(42,437)	3,453,409
Computer equipment	2,786,953	876,926	(306,173)	3,357,706
Library books	2,784,011	132,007	(16,435)	2,899,583
Total accumulated depreciation	<u>35,882,026</u>	<u>3,608,586</u>	<u>(365,045)</u>	<u>39,125,567</u>
Net Capital Assets	<u>\$ 104,560,532</u>	<u>\$ (2,061,141)</u>	<u>\$ (1,888)</u>	<u>\$ 102,497,503</u>

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

	<u>2011</u>			
	Balance September 1, 2010	Increases	Decreases	Balance August 31, 2011
Capital assets not subject to depreciation:				
Land	\$ 5,465,871	\$ 49,624	\$ -	\$ 5,515,495
Collections	631,273	-	-	631,273
Construction in Progress	4,315,653	-	(4,315,653)	-
Total not depreciated	<u>10,412,797</u>	<u>49,624</u>	<u>(4,315,653)</u>	<u>6,146,768</u>
Capital assets subject to depreciation:				
Buildings	91,986,496	21,279,522	-	113,266,018
Land improvements	5,437,241	-	-	5,437,241
Furniture, equipment and vehicles	4,546,144	368,047	(62,792)	4,851,399
Computer equipment	3,176,926	3,600,534	-	6,777,460
Library books	3,800,659	178,582	(15,569)	3,963,672
Total depreciated	<u>108,947,466</u>	<u>25,426,685</u>	<u>(78,361)</u>	<u>134,295,790</u>
Less accumulated depreciation				
Buildings	22,349,840	1,649,695	-	23,999,535
Land improvements	3,040,767	149,179	-	3,189,946
Furniture, equipment and vehicles	2,856,642	327,525	(62,586)	3,121,581
Computer equipment	2,610,060	255,201	(78,308)	2,786,953
Library books	2,670,782	128,798	(15,569)	2,784,011
Total accumulated depreciation	<u>33,528,091</u>	<u>2,510,398</u>	<u>(156,463)</u>	<u>35,882,026</u>
Net Capital Assets	<u>\$ 85,832,172</u>	<u>\$ 22,965,911</u>	<u>\$ (4,237,551)</u>	<u>\$ 104,560,532</u>

7. Long-Term Liabilities

Long-term liability activity for the years ended August 31:

	<u>2012</u>				
	Balance September 1, 2011	Additions	Payments	Balance August 31, 2012	Current Portion
Bonds payable	\$43,670,000	\$ -	\$ (3,295,000)	\$40,375,000	\$ 2,800,000
Unamortized bond premium	572,555	-	(76,317)	496,238	76,316
Total	<u>\$44,242,555</u>	<u>\$ -</u>	<u>\$ (3,371,317)</u>	<u>\$40,871,238</u>	<u>\$ 2,876,316</u>

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

	Balance September 1, 2010	<u>2011</u>		Balance August 31, 2011	Current Portion
		Additions	Payments		
Bonds payable	\$46,685,000	\$ 6,925,000	\$ (9,940,000)	\$43,670,000	\$ 3,295,000
Unamortized bond premium	450,939	181,438	(59,822)	572,555	59,822
Total	\$47,135,939	\$ 7,106,438	\$ (9,999,822)	\$44,242,555	\$ 3,354,822

8. Bonds Payable

Bonds payable consist of Combined Fee Revenue and Refunding Bonds. General information related to bonds payable is summarized below:

Combined Fee Revenue Refunding Bonds, Series 2011

- Washington County Junior College District Combined Fee Revenue Refunding Bonds, Series 2011
- To refund a portion of the College's Combination Fee Revenue Bonds, Series 2002 for a debt service savings and pay the costs of issuance of the Bonds
- Issued May 17, 2011
- \$6,925,000, all authorized bonds have been issued
- Interest rates range from 2.00% to 4.00%
- Source of revenue for debt service - designated portion of tuition and fees and designated auxiliary revenues
- Outstanding bonds payable at August 31, 2012 and 2011 of \$6,925,000 and \$6,925,000, respectfully
- A premium of \$181,438 is being amortized over the life of the bonds

Combined Fee Revenue Bonds, Series 2010

- Washington County Junior College District Combined Fee Revenue Bonds, Series 2010
- To pay for (i) various campus renovation projects (ii) a dormitory (iii) teaching equipment for the Allied Health Center and (iv) the costs of issuance of the Bonds
- Issued March 15, 2010
- \$20,155,000, all authorized bonds have been issued
- Interest rates range from 3.000% to 4.375%
- Source of revenue for debt service - designated portion of tuition and fees and designated auxiliary revenues
- Outstanding bonds payable at August 31, 2012 and 2011 of \$20,155,000 and \$20,155,000, respectfully

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

Combined Fee Revenue Refunding Bonds, Series 2009

- Washington County Junior College District Combined Fee Revenue Refunding Bonds, Series 2009
- To refund a portion of the College's Combination Fee Revenue Bonds, Series 1998, Combination Fee Revenue Bonds, Series 1999 and pay the costs of issuance of the Bonds
- Issued April 15, 2009
- \$8,925,000, all authorized bonds have been issued
- Interest rates range from 1.10% to 4.00%
- Source of revenue for debt service - designated portion of tuition and fees and designated auxiliary revenues
- Outstanding bonds payable at August 31, 2012 and 2011 of \$6,700,000 and \$7,755,000, respectively
- A premium of \$244,401 is being amortized over the life of the bonds

Combined Fee Revenue Refunding Bonds, Series 2005

- Washington County Junior College District Combined Fee Revenue Bonds, Series 2005
- To pay the costs of acquisition, construction, improvement and equipment of College facilities and the acquisition of sites therefore, including payment of the College's obligation created by the College's exercise of its purchase option under the lease agreement between the College and the City of Bryan, Texas in connection with the City of Bryan Lease Revenue Bonds Series 1995; to fund the reserve funds and to pay the related costs of issuance
- Issued July 6, 2005
- \$11,815,000, all authorized bonds have been issued
- Interest rates range from 3.5% to 5.125%
- Source of revenue for debt service - designated portion of tuition and fees
- Outstanding bonds payable at August 31, 2012 and 2011 of \$5,590,000 and \$6,555,000, respectively
- A premium of \$416,775 is being amortized over the life of the bonds
- The College received \$1,268,465 from the City of Bryan, Texas. These funds represent the difference between the monthly capital lease payments made by College for the lease of the Bryan Campus and the debt service payments made by the City of Bryan, Texas.

Combined Fee Revenue Refunding Bonds, Series 2003

- Washington County Junior College District Combined Fee Revenue Refunding Bonds, Series 2003
- To refund \$4,300,000 of Combined Fee and Revenue Bonds, Series 1993
- Issued January 1, 2003
- \$4,475,000, all authorized bonds have been issued
- Interest rates range from 3% to 4.3%
- Source of revenue for debt service - designated portion of tuition and registration charges, other fee charges and designated revenues
- Outstanding bonds payable at August 31, 2012 and 2011 of \$1,005,000 and \$1,220,000 respectively
- Net proceeds from refunding bonds \$4,406,739; after payment of \$94,344 in underwriting fees, insurance, and other issuance costs
- The 1993 Series bond are considered fully defeased and the liability for those bonds has been removed from the financial statements

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

- Advanced refunding of the 1993 Series bonds reduced the Colleges debt service payments over the next 15 years by approximately \$230,000
- Economic gain of approximately \$170,000 is difference between the net present value of the old and new debt service payments

Combined Fee Revenue Bonds, Series 2002

- Washington County Junior College District Combined Fee Revenue Bonds, Series 2002
- To construct and equip student apartment housing and construct, renovate and equip academic buildings and parking lots
- Issued May 1, 2002
- \$15,355,000, all authorized bonds have been issued
- Interest rates range from 2.5% to 5.125%
- Sources of revenue for debt service - designated portion of tuition and registration charges, other fee charges and designated revenues
- Outstanding bonds payable at August 31, 2011 of \$1,060,000. The bonds were retired in 2012

Under each bond issue, the College is to maintain a reserve account equal to the maximum annual principal and interest requirements on all bonds. The College has 60 months to establish this reserve fund. The reserve account balance at August 31, 2012 is \$4,650,832. The Series 2002 and 2003 bonds require the College to maintain adequate insurance coverage. All premiums have been paid.

Combined Bond Debt Service Requirements

Combined bond debt service requirements of the bonds for the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,800,000	\$ 1,454,748	\$ 4,254,748
2014	3,260,000	1,345,648	4,605,648
2015	3,405,000	1,231,448	4,636,448
2016	3,525,000	1,110,123	4,635,123
2017	3,665,000	985,833	4,650,833
2018-2022	11,020,000	3,559,797	14,579,797
2023-2027	6,000,000	1,960,661	7,960,661
2028-2032	6,700,000	743,043	7,443,043
Total	<u>\$ 40,375,000</u>	<u>\$ 12,391,301</u>	<u>\$ 52,766,301</u>

9. Advance Refunding Bonds

- Refunded \$6,765,000 of Combined Fee Revenue Refunding Bonds, Series 2002.
- Issued refunding bonds on May 17, 2011.
- \$6,925,000, all authorized bonds have been issued.
- Combined Fee Revenue Refunding Bonds, Series 2011.
- Average interest rate of bonds refunded – 4.813%.
- Net proceeds from Refunding Series -- \$6,929,085; after payment of \$177,353 in underwriting fees and other issuance costs.
- The 2002 Series is considered fully defeased and the liability for those bonds has been removed from the Investment in Plant Fund Group.

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

- Current refunding of the 2002 Series bonds reduced the College's debt service payments over the next 12 years by approximately \$679,343.
- Economic Gain - \$643,121 difference between the net present value of the old and new debt service payments.
- Accounting Gain – no accounting gain resulted from the advanced refunding.

10. Employees' Retirement Plans

The State of Texas has joint contributory retirement plans for almost all its employees. One of the primary plans in which the College participates is administered by the Teacher Retirement System of Texas

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, 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 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% 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% for fiscal years 2012 and 2011 and a state contribution rate of 6.0% for fiscal year 2012 and 6.644% for fiscal year 2011. In certain instances the reporting district is required to make all or a portion of the state's contribution for fiscal year 2012 and 2011.

Optional Retirement Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.0% and 6.65%, respectively. The College contributes 2.5 percent for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

The retirement expense to the State for the College was \$1,963,271 and \$2,119,777 for the fiscal years ended August 31, 2012 and 2011, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for all College employees was \$41,410,451 and \$41,492,225 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the Teacher Retirement System was \$23,565,333 and \$23,704,074, and the total payroll of employees covered by the Optional Retirement Program was \$11,602,176 and \$11,246,979 for fiscal years 2012 and 2011, respectively.

11. Deferred Compensation Program

The College's 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. This plan is essentially an unfunded promise to pay by the employer to each of the plan participants. At August 31, 2012 and 2011, the College had no employees electing to defer compensation.

12. Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State's contribution per full-time employee was \$438 to \$897 and \$411 to \$854 per month for the years ended August 31, 2012 and 2011, depending on the coverage elected. The State's contribution totaled \$1,961,060 and \$3,170,880, for the years ended August 31, 2012 and 2011, respectively. The cost of providing those benefits for retirees is not separable from the cost of providing benefits for active employees.

13. Compensated Absences

Non-faculty employees are entitled to compensation vacation days. The amount of days is determined annually, based on their length of employment, as stipulated with official policy adopted by the College. The current policy allows a maximum of six accrued unused vacation days to be carried over; however, the carry over days are not payable upon termination. Any accrued unused days in excess of the carry over days expire at the end of each year. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*, no liability is recorded for these non-vesting rights.

Sick leave can be accumulated subject to certain limitations. It is paid to an employee who misses work because of illness. The College does not allow conversion of unpaid sick leave for terminated employees. The College's policy is to recognize the cost of sick leave when paid. The liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

14. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. Contract and grant awards for which funds are expended, but not collected, are reported as accounts receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the college has not yet performed services are not included in the financial statements.

15. Property Tax

The College's ad valorem property tax is levied each October 1, on the assessed value listed as of the prior January 1, for all real, business/land personal property located in the tax area of the College. Property taxes are recorded on an accrual basis of accounting. At August 31:

	<u>2012</u>	<u>2011</u>
Assessed valuation of the College	\$ 2,672,890,186	\$ 2,631,220,352
Less exemptions	<u>(385,315,350)</u>	<u>(367,666,404)</u>
Net assessed valuation of the College	<u>\$ 2,287,574,836</u>	<u>\$ 2,263,553,948</u>

	<u>Current</u>	<u>2012</u> <u>Debt</u>	
	<u>Operations</u>	<u>Service</u>	<u>Total</u>
Tax rate per \$100 valuation for authorized	\$ 0.0566	\$ -	\$ 0.0566
Tax rate per \$100 valuation assessed	0.0566	-	0.0566

	<u>Current</u>	<u>2011</u> <u>Debt</u>	
	<u>Operations</u>	<u>Service</u>	<u>Total</u>
Tax rate per \$100 valuation for authorized	\$ 0.0559	\$ -	\$ 0.0559
Tax rate per \$100 valuation assessed	0.0559	-	0.0559

Tax levied for the years ended August 31, 2012 and 2011 is \$1,452,335 and \$1,413,159, respectively (which includes any penalty and interest assessed if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1, of the year following the year in which imposed.

Under GASB Statement No. 33, *Accounting and Financial Reporting for Non Exchange Transactions*, ad valorem taxes are imposed non-exchange revenue. Asset from imposed non-exchange transactions are recorded when the entity has an enforceable legal claim to the assets or when the entity receives resources, whichever comes first. The enforceable legal claim date for ad valorem taxes is the assessment date. The College has recognized all assessed taxes in the current year and recorded a receivable for uncollected taxes.

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

<u>Taxes Collected at August 31</u>	<u>2012</u>	<u>2011</u>
Current	\$ 1,414,185	\$ 1,377,641
Delinquent	34,014	34,283
Penalties and Interest	<u>22,688</u>	<u>16,895</u>
Total Collections	<u>\$ 1,470,887</u>	<u>\$ 1,428,819</u>

Tax collections for the year ended August 31, 2012 and 2011 were 97% and 97%, respectively of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking fund expenditures.

16. Operating Leases

The College leases facilities related to the Bryan and Sealy Campuses under non-cancelable leases expiring through August 2021, with future minimum payments as of August 31, 2012 as follows:

<u>Fiscal Year</u>	
2013	\$ 1,814,000
2014	1,817,000
2015	1,814,000
2016	1,762,000
2017	1,782,000
2018-2021	7,536,000

Rental expense was approximately \$109,000 and \$341,000 for the years ended August 31, 2012 and 2011, respectively.

The College leases retail space to a tenant expiring through December 2012, for property located on the Bryan Campus. Future minimum rental income, as of August 31, 2012, under the agreement is as follows:

<u>Fiscal Year</u>	
2013	\$ 4,000

Rental income was approximately \$19,000 and \$19,000 for the years ended August 31, 2012 and 2011, respectively.

17. Contingent Liabilities

State and Federal Grants

The College participates in a number of State and Federally assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the College's compliance with applicable grant requirements will be finally determined at some future date. The amount, if any, of expenditures which

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

may be disallowed by the grantor agencies cannot be determined at this time, although the College expects such amounts, if any, to be immaterial.

State Appropriations for TRS and ORP

Texas Constitution article 16, section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system", referring to the State's Teacher Retirement System (TRS) including the related Optional Retirement Program (ORP). During the 2011 legislative session, the Texas Legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted general revenue appropriation for each year of the biennium state budget. There is no pending litigation concerning this issue to construe the constitutional funding requirements; or to hold that the State biennium appropriations satisfy those requirements; or to attempt to collect any shortfall contributions from any community college district.

The TRS System of Texas has expectations that the College will provide the difference between the formula required contribution and the amount provided by the State, which is less than the amount believed to be required by the constitution. The College estimates the contribution shortage to be \$715,958. It is the College's contention that the State is the employer government legally responsible for the required contributions under GASB No. 27. It is conceivable that at some future point, the College may be required to pay from local funds the disputed TRS/ORP contributions. Should that occur, the College will record a current period expenditure in the year in which the payment is made.

18. Self Insurance

Effective September 1, 2003, the College began participating in a public entity risk pool for workers compensation. The participants of the pool include several other public junior and community colleges. The plan provides coverage to each participant with the College's individual loss fund maximum of \$448,940 and \$483,674 at August 31, 2012 and 2011, respectively, which is based on estimated payroll.

The liability for claims incurred but not reported under the self-insured plan is \$98,940 and \$102,427 as of August 31, 2012 and 2011, respectively, and is included in the accompanying statements of net assets. Future payments for the claims will be paid from the accrued liability.

Self-insurance activity for the years ended August 31, 2012 and 2011 was as follows:

Accrued Liability for the Year Ended August 31	Balance of Liability at Beginning of Fiscal Year	Additions	Reductions for Claims Paid	Cumulative Balance of Liability at End of Fiscal Year
2011	\$ 457,109	\$ 165,007	\$ (146,775)	\$ 475,341
2012	475,341	71,024	(50,530)	495,835

BLINN COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

19. Postemployment Benefits Other than Pensions

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

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

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

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB statement 45.

The employer contribution rate represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The College's contributions to SRHP for State retirees for the years ended August 31, 2012 and 2011, were \$979,955 and \$895,585, respectively, which amounts were funded from the College's State group insurance appropriation. The College's contributions to SRHP for local retirees for the years ended August 31, 2012 and 2011, were \$219,365 and \$196,844, respectively, which amounts were paid directly by the College.

20. Component Units

Blinn College Foundation, Inc. – Discrete Component Unit

Blinn College Foundation, Inc. (the Foundation) was established as a separate nonprofit organization in 1990, to raise funds to provide student scholarships and assistance in the development and growth of the College. Under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation is a component unit of the College because the College provides financial support to the Foundation and the economic resources received or held by the Foundation are entirely or almost entirely for the benefit of the College.

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

SUPPLEMENTARY SCHEDULES

BLINN COLLEGE
Schedule of Operating Revenues
Year Ended August 31, 2012
(With Memorandum Totals for the Year Ended August 31, 2011)

	Educational Activities		Total	Auxiliary Enterprises	2012	2011
	Unrestricted	Restricted	Educational Activities		Total	Total
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 507,604	\$ -	\$ 507,604	\$ -	\$ 507,604	\$ 404,908
Out-of-district resident tuition	29,976,446	-	29,976,446	-	29,976,446	24,706,461
Non-resident tuition	1,905,992	-	1,905,992	-	1,905,992	1,556,776
TPEG - credit (set aside) *	952,390	-	952,390	-	952,390	849,706
State funded continuing education	755,035	-	755,035	-	755,035	791,358
Non-State funded continuing education	95,435	-	95,435	-	95,435	198,321
Total Tuition	<u>34,192,902</u>	<u>-</u>	<u>34,192,902</u>	<u>-</u>	<u>34,192,902</u>	<u>28,507,530</u>
Fees:						
General fee	10,663,112	-	10,663,112	1,881,726	12,544,838	11,507,194
Laboratory and course fees	1,975,485	-	1,975,485	-	1,975,485	1,397,157
Vehicle registration fees	647,337	-	647,337	-	647,337	690,572
Incidental fees	331,181	-	331,181	-	331,181	444,014
Other fees	-	-	-	451,698	451,698	309,857
Total fees	<u>13,617,115</u>	<u>-</u>	<u>13,617,115</u>	<u>2,333,424</u>	<u>15,950,539</u>	<u>14,348,794</u>
Allowances and discounts:						
Bad debt allowance	(556,762)	-	(556,762)	-	(556,762)	(292,353)
Scholarship allowances	(468,357)	-	(468,357)	-	(468,357)	(484,226)
Remissions and exemptions	(1,748,241)	-	(1,748,241)	-	(1,748,241)	(1,131,778)
TPEG allowances	(184,574)	-	(184,574)	-	(184,574)	(702,187)
Federal and State grants to students	(7,470,964)	-	(7,470,964)	-	(7,470,964)	(8,032,380)
Other	(360,749)	-	(360,749)	-	(360,749)	(398,017)
Total allowances and discounts	<u>(10,789,647)</u>	<u>-</u>	<u>(10,789,647)</u>	<u>-</u>	<u>(10,789,647)</u>	<u>(11,040,941)</u>
Total net tuition and fees	<u>37,020,370</u>	<u>-</u>	<u>37,020,370</u>	<u>2,333,424</u>	<u>39,353,794</u>	<u>31,815,383</u>
Additional operating revenues:						
Federal grants and contracts	-	791,505	791,505	-	791,505	1,048,093
State grants and contracts	-	1,089,588	1,089,588	-	1,089,588	1,350,632
Sales and services of educational activities	288,351	-	288,351	-	288,351	245,127
Other operating revenues	118,265	-	118,265	-	118,265	97,362
Total additional operating revenues	<u>406,616</u>	<u>1,881,093</u>	<u>2,287,709</u>	<u>-</u>	<u>2,287,709</u>	<u>2,741,214</u>
Auxiliary enterprises:						
Residential life	-	-	-	4,215,184	4,215,184	2,964,701
Scholarship allowances and discounts	-	-	-	(348,501)	(348,501)	(240,900)
Net residential life	-	-	-	3,866,683	3,866,683	2,723,801
Cafeteria	-	-	-	2,678,211	2,678,211	2,389,098
Scholarship allowances and discounts	-	-	-	(278,900)	(278,900)	(148,318)
Net cafeteria	-	-	-	2,399,311	2,399,311	2,240,780
Bookstore	-	-	-	1,541,346	1,541,346	1,374,835
Scholarship allowances and discounts	-	-	-	(201,753)	(201,753)	(165,990)
Net bookstore	-	-	-	1,339,593	1,339,593	1,208,845
Other auxiliary	-	-	-	355,954	355,954	387,534
Total net auxiliary enterprises	-	-	-	7,961,541	7,961,541	6,560,960
Total Operating Revenues	<u>\$ 37,426,986</u>	<u>\$ 1,881,093</u>	<u>\$ 39,308,079</u>	<u>\$ 10,294,965</u>	<u>\$ 49,603,044</u>	<u>\$ 41,117,557</u>

(Exhibit 2)

(Exhibit 2)

* In accordance with Education Code §56.033, \$952,390 and \$849,706 for the years ended August 31, 2012 and 2011, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

BLINN COLLEGE
Schedule of Operating Expenses By Object
Year Ended August 31, 2012
(With Memorandum Totals for the Year Ended August 31, 2011)

	Operating Expenses			2012 Total	2011 Total
	Salaries and Wages	Benefits			
		State	Local		
Unrestricted - Educational Activities:					
Instruction	\$27,517,154	\$ -	\$ 2,403,198	\$ 4,229,477	\$34,149,829
Public Service	260,251	-	25,436	167,484	453,171
Academic Support	2,823,353	-	254,591	526,177	3,604,121
Student Services	3,553,615	-	304,032	729,546	4,587,193
Institutional Support	3,805,500	-	172,271	2,502,921	6,480,692
Operation and Maintenance of Plant	951,790	-	365,947	6,984,348	8,302,085
Scholarships and Fellowships	-	-	-	559,644	559,644
Total Unrestricted - Educational Activities	<u>38,911,663</u>	<u>-</u>	<u>3,525,475</u>	<u>15,699,597</u>	<u>58,136,735</u>
Restricted - Educational Activities:					
Instruction	185,424	3,891,043	104,898	66,661	4,248,026
Public Service	184,390	50,428	47,825	119,841	402,484
Academic Support	-	508,373	-	-	508,373
Student Services	-	712,190	-	-	712,190
Institutional Support	47,298	1,702,248	1,244	138,719	1,889,509
Scholarships and Fellowships	-	-	-	13,270,607	13,270,607
Total Restricted - Educational Activities	<u>417,112</u>	<u>6,864,282</u>	<u>153,967</u>	<u>13,595,828</u>	<u>21,031,189</u>
Total Educational Activities	<u>39,328,775</u>	<u>6,864,282</u>	<u>3,679,442</u>	<u>29,295,425</u>	<u>79,167,924</u>
Auxiliary Enterprises	2,081,676	-	945,863	4,819,944	7,847,483
Depreciation Expense - Buildings and other real estate improvements	-	-	-	2,225,388	2,225,388
Depreciation Expense - Equipment, furniture and library books	-	-	-	1,383,197	1,383,197
Total Operating Expenses	<u>\$41,410,451</u>	<u>\$ 6,864,282</u>	<u>\$ 4,625,305</u>	<u>\$37,723,954</u>	<u>\$90,623,992</u>
				(Exhibit 2)	(Exhibit 2)

BLINN COLLEGE
Schedule of Nonoperating Revenues and Expenses
Year Ended August 31, 2012
(With Memorandum Totals for the Year Ended August 31, 2011)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Non-Operating Revenues:				
State appropriations:				
Education and General state support	\$ 20,788,543	\$ -	\$ 20,788,543	\$ 21,682,952
State group insurance	-	1,961,060	1,961,060	3,170,880
State retirement matching	-	1,963,271	1,963,271	2,119,777
Professional nursing shortage reduction	-	101,000	101,000	179,205
Total state appropriations	<u>20,788,543</u>	<u>4,025,331</u>	<u>24,813,874</u>	<u>27,152,814</u>
Property taxes	1,470,887	-	1,470,887	1,428,819
Federal revenue, non operating	-	19,799,302	19,799,302	17,877,715
Gifts	-	259,020	259,020	1,077,874
Investment income	543,304	-	543,304	621,348
Gain on disposal of capital assets	182	-	182	3,331
Unrealized gain (loss) on investments	170,750	-	170,750	(330)
Total non-operating revenues	<u>22,973,666</u>	<u>24,083,653</u>	<u>47,057,319</u>	<u>48,161,571</u>
Non-Operating Expenses:				
Interest on capital related debt	1,465,848	-	1,465,848	1,252,019
Other expenses	-	-	-	163,921
Total non-operating expenses	<u>1,465,848</u>	<u>-</u>	<u>1,465,848</u>	<u>1,415,940</u>
Net non-operating revenues	<u>\$ 21,507,818</u>	<u>\$ 24,083,653</u>	<u>\$ 45,591,471</u>	<u>\$ 46,745,631</u>
			(Exhibit 2)	(Exhibit 2)

BLINN COLLEGE
Schedule of Net Assets by Source and Availability
Year Ended August 31, 2012
(With Memorandum Totals for the Year Ended August 31, 2011)

	Detail by Source					Total	Capital Assets		Available for Current Operations	
	Unrestricted	Restricted		Non-Expendable	Net of Depreciation and Related Debt		Yes	No		
		Expendable	Non-Expendable							
Current:										
Unrestricted	\$ 6,445,659	\$ -	\$ -	\$ -	\$ -	6,445,659	\$	6,445,659	\$ -	
Student aid	-	213,786	-	-	-	213,786	-	-	213,786	
Star of Republic Museum	-	(85,047)	-	-	-	(85,047)	-	-	(85,047)	
Auxiliary enterprises	4,682,958	-	-	-	-	4,682,958	-	4,682,958	-	
Endowment:										
Expendable	-	617,254	-	-	-	617,254	-	-	617,254	
Non-expendable	-	-	9,333,482	-	-	9,333,482	-	-	9,333,482	
Plant:										
Debt service	-	4,650,832	-	-	-	4,650,832	-	-	4,650,832	
Investment in plant	-	-	-	-	61,626,265	61,626,265	-	-	61,626,265	
Total Net Assets, August 31, 2012	11,128,617	5,396,825	9,333,482	61,626,265	87,485,189	87,485,189	11,128,617	76,356,572	76,356,572	
Total Net Assets, August 31, 2011	8,057,308	5,243,398	9,205,045	60,317,977	82,823,728	82,823,728	8,057,308	74,766,420	74,766,420	
Net Increase (Decrease) in Net Assets	\$ 3,071,309	\$ 153,427	\$ 128,437	\$ 1,308,288	\$ 4,661,461	\$ 4,661,461	\$ 3,071,309	\$ 1,590,152	\$ 1,590,152	

(Exhibit 1)
(Exhibit 1)
(Exhibit 2)

Schedule E

BLINN COLLEGE
Schedule of Expenditures of Federal Awards
For The Year Ended August 31, 2012

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
<u>U.S. Department of Education</u>			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Education Opportunity Grant	84.007	P007A113969	\$ 122,184
Federal Work Study Program	84.033	P033A113969	296,985
Federal Pell Grant	84.063	P063P112262	19,677,118
Federal Direct Student Loan Program	84.268	P268K112262	26,332
Federal Direct Student Loan Program	84.268	P268K122262	26,144,747
			<u>26,171,079</u>
Pass-Through From:			
Texas Higher Education Coordinating Board Carl Perkins Vocational Education	84.048	124231	301,769
Total U.S. Department of Education			<u>46,569,135</u>
<u>U.S. Department of Labor</u>			
Pass-Through from:			
Texas Workforce Commission:			
Texas Engineering Experiment Station/TAMU System Workforce Investment Act	17.260	1611WSW000	73,000
Texas Workforce Commission: Workforce Investment Act -Disl Worker	17.278	1612ATP001	2,752
Total U.S. Department of Labor			<u>75,752</u>
<u>U.S. National Science Foundation</u>			
Pass-Through from:			
Texas A&M University System Texas Engineering Experiment Station	47.041	C12-00259	11,567
Total U.S. National Science Foundation			<u>11,567</u>
<u>U.S. Small Business Administration</u>			
Pass-Through from:			
University of Houston:			
Small Business Development Center	59.037	11-603001-Z-0047-27	12,404
Small Business Development Center	59.037	2-603001-Z-0047-28	93,028
Total U.S. Small Business Administration			<u>105,432</u>
Total Expenditures of Federal Awards			<u>\$ 46,761,886</u>
<u>Federal Direct Student Loan Program, CFDA 84.268, includes the following:</u>			
Direct Subsidized Loans			\$ 15,658,079
Direct Unsubsidized Loans			4,465,750
Direct PLUS Loans			2,580,184
Direct Additional Unsubsidized Loans			3,467,066
			<u>\$ 26,171,079</u>

See accompanying notes to Schedules of Expenditures of Federal and State Awards.

BLINN COLLEGE
Schedule of Expenditures of State Awards
For the Year Ended August 31, 2012

Grantor Agency Program Title	Grant Contract Number	Expenditures and Pass Through Disbursements
Texas Comptroller of Public Accounts - Jobs and Education for Texans (JET) Law Enforcement Officer Standards & Education (LEOSE)	5112-5 9P110538	\$ 170,735 35
Texas Department of State Health Services EMS Local Projects	2012-040044	5,748
Texas Higher Education Coordinating Board: Alternative Teacher Certification Funding Intensive College Readiness Programs (IPAES) State of Texas Assessments of Academic Readiness (STAAR) Texas Grant Program Texas Educational Opportunity Grant Program (TEOG) Top 10% Scholarship	04093 06094 06386	34,136 57,451 400 528,674 131,355 12,000
Texas Workforce Commission Skills Development-Igloo Products #2 Corporation Skills for Small Business Program	2810SDF006 1611SSD000	143,479 1,222
Chapter 133 Apprentice Training Program 2012	1612ATP001	<u>4,353</u>
Total Expenditures of State Awards		<u>\$ 1,089,588</u>

See accompanying notes to Schedules of Expenditures of Federal and State Awards.

BLINN COLLEGE
Notes to Schedules of Expenditures of Federal and State Awards
Year Ended August 31, 2012

1. Relationship to Financial Statements

	<u>Federal</u>	<u>State</u>
Federal Grants and Contracts Revenue - Per Schedule A	\$ 791,505	\$ 1,089,588
Add Financial Aid Loans	26,171,079	-
Add Nonoperating Federal Revenue from Schedule C	<u>19,799,302</u>	<u>-</u>
Total per Schedules of Expenditures of Federal and State Awards	<u>\$46,761,886</u>	<u>\$ 1,089,588</u>

2. Significant Accounting Policies Used in Preparing the Schedules

The schedules present the activity of all Federal and State programs of the College for the year ended August 31, 2012. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the College for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The College has followed all applicable guidelines issued by various entities in the preparation of the schedules.

3. Relationship to Federal and State Financial Reports

Differences between amounts reflected in the financial reports filed with grantor agencies for the programs and in the schedules of expenditures of Federal and State awards are due to different program year ends and accruals that will be reflected in the next report filed with the agencies.

4. Amounts Passed-Through by the College

The following amount was passed-through to the listed subrecipient by the College. This amount was from the Intensive College Readiness Program (IPAES) through the Texas Higher Education Coordinating Board.

Education Service Center-Region VI	<u>\$ 57,451</u>
------------------------------------	------------------

AUDITORS' REPORTS ON CONTROLS AND COMPLIANCE



LOTT, VERNON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

20 SOUTH FOURTH STREET 254/778/4783
POST OFFICE BOX 160 800/460/4783
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

*Member of
American Institute & Texas Society of
Certified Public Accountants*

**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***

Board of Trustees
Blinn College
Brenham, Texas

We have audited the financial statements of Blinn College (the College), as of and for the years ended August 31, 2012 and 2011, and have issued our report thereon dated November 29, 2012. 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.

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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* (CONTINUED)**

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, Texas Government Code), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Public Funds Investment Act (Chapter 2256, Texas Government Code).

This report is intended solely for the information and use of the Audit Committee, Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jott, Vernon & Co., P.C.

Temple, Texas
November 29, 2012



LOTT, VERNON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

20 SOUTH FOURTH STREET 254/778/4783
POST OFFICE BOX 160 800/460/4783
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

Member of
*American Institute & Texas Society of
Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

Board of Trustees
Blinn College
Brenham, Texas

Compliance

We have audited Blinn College's (the College) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State of Texas Single Audit Circular that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2012. The College's major federal and state programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133 and the State of Texas Single Audit Circular, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state 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. Our audit does not provide a legal determination of the College's compliance with those requirements.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR (CONTINUED)**

In our opinion, Blinn College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, 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 Item 2012-1.

Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as Item 2012-1. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR (CONTINUED)**

Blinn College's response to the finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Blinn College's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Audit Committee, Board of Trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jatt, Vernon & Co., P.C.

Temple, Texas
November 29, 2012

BLINN COLLEGE
Schedule of Findings and Questioned Costs
August 31, 2012

I. Summary of Audit Results

Financial Statements

1. Type of auditor's report issued: *unqualified*

2. Internal control over financial reporting:
 Material weakness(es) identified? _____ yes X no
 Significant deficiencies identified that are
 not considered to be material
 weakness(es)? _____ yes X none reported

3. Noncompliance material to financial
 statements noted? _____ yes X no

Federal and State Awards

4. Internal control over major programs:
 Material weakness(es) identified? _____ yes X no
 Significant deficiencies identified that are
 not considered to be material
 weakness(es)? X yes _____ no

5. Type of auditor's report issued on compliance
 for major programs: *unqualified*

6. Any audit findings disclosed that are required
 to be reported in accordance with section
 510(a) of OMB Circular A-133 or the State of
 Texas Single Audit Circular and Uniform
 Grant Management Standards? _____ yes X no

7. Identification of major programs:

<u>Name of Federal Programs</u>	<u>Federal CFDA Number</u>	<u>Name of State Program</u>
U.S. Department of Education Student Financial Aid Cluster:		Texas Workforce Commission
SEOG	84.007	- Skills Development – Igloo Products #2 Corporation
Federal College Work Study Program	84.033	- Skills for Small Business Program
Federal Pell Grant Program	84.063	
William D Ford Direct Loans	84.268	
		Intensive College Readiness Programs (IAPES)
		Texas Educational Opportunity Grant (TEOG)

BLINN COLLEGE
Schedule of Findings and Questioned Costs (Continued)
August 31, 2012

8. Dollar threshold used to distinguish between type A and type B federal programs: \$300,000
9. Dollar threshold used to distinguish between Type A and Type B state programs: \$300,000
10. Auditee qualified as low-risk auditee for federal single audit? X yes no
11. Auditee qualified as low-risk auditee for state single audit? X yes no
- II. Financial Statement Findings
- None.
- III. Federal and State Awards Findings and Questioned Costs

Significant Deficiency:

2012-1 Pell Grant Program – lack of timely reconciliation for draw downs of Pell grants.

Condition: In our testing of Pell Grants, the initial reconciliation of Pell draw downs did not balance.

Criteria: Routine reconciliations of Pell draw downs are necessary to identify rejections so that they may be resolved in a timely manner.

Cause: Routine reconciliations of Pell draw downs were not performed until the College was performing year-end closing procedures. At that point, several rejections were noted that would need to be researched and corrected.

Effect: The effect of not timely reconciling draw downs for Pell grants results in a difference between what was awarded and what was actually drawn down, as well as revealed several rejections still outstanding.

Recommendation: Timely reconciliations should be performed in order to balance the awarded amount to the amount actually drawn down, and resolve any outstanding rejections.

View of Responsible Officials and Planned Corrective Actions: Blinn College has enhanced and modified existing policies and procedures to ensure compliance with cash management requirements. The new policies and procedures require monthly reconciliation of funds and should provide more oversight to the reconciliation process. The staff member assigned to this process has also worked with the software provider on best practices for Pell grant reconciliation and is working to implement those practices.