



Report of Independent Auditors  
and Financial Statements  
with Supplementary Information for

**El Paso County  
Community College District**

August 31, 2012 and 2011

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**AUGUST 31, 2012**

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**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
PRINCIPAL OFFICIALS  
AUGUST 31, 2012**

**BOARD OF TRUSTEES**

**Term Expires**

**Officers**

Mr. Art Fierro, Chair	May 2013
Mrs. Gracie Quintanilla, Vice Chair	May 2017
Dr. John E. Uxer, Secretary	May 2017

**Members**

Mr. Nicolás Domínguez	May 2013
Dr. Carmen Olivas Graham	May 2013
Mr. Brian Haggerty	May 2015
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**PRINCIPAL ADMINISTRATIVE OFFICERS**

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Mr. Steve Smith, Interim Vice President, Instruction  
Mr. Saul Candelas, Vice President, Research and Accountability  
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Ms. Josette Shaughnessy, CPA, Associate Vice President, Budget and Financial Services  
Mr. Fernando Flores, CPA, Comptroller

## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees  
El Paso County Community College District

We have audited the accompanying financial statements of the El Paso County Community College District (the College) as of and for the year ended August 31, 2012 as listed in the table of contents. These financial statements are the responsibility of El Paso County Community College District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ending August 31, 2011, were audited by other auditors whose report dated December 14, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the El Paso County Community College District as of August 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
El Paso County Community College District

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and schedule of expenditures of state awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, Non-Profit Organizations (Circular A-133) and the State of Texas Single Audit Circular are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of operating revenues, schedule of operating expenses, schedule of non-operating revenues and expenses, and schedule of net assets by source and availability also are presented for purposes of additional analysis as required by the Texas Higher Education Coordinating Board and also are not a required part of the financial statements. Such information is the responsibility of management and was derived from and

To the Board of Trustees  
El Paso County Community College District

relates 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 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
December 27, 2012

## **EL PASO COUNTY COMMUNITY COLLEGE DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following discussion and analysis of El Paso County Community College District's (District or College) annual financial statements, prepared by the financial managers of the College, provides an overview of the College's financial operations for the years ended August 31, 2012 and 2011. The external audit firm of Moss Adams LLP has worked closely with management of the College to prepare the financial statements and the related footnote disclosures. This section is designed to assist the reader in the interpretation of the financial statements and should be read in conjunction with the disclosure notes that accompany the basic financial statements. Responsibility for the completeness and fairness of the information rests with the management of the College.

### **Overview of Financial Statements**

The financial statements are prepared in accordance with the GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities." The College is reported as a special-purpose government engaged in business-type activities and uses the accrual method of accounting, which means that revenue is recognized when earned, and expenses are recorded when incurred regardless of when cash is received or paid. The core financial statements required by GASB 34 are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

### **Statement of Net Assets**

The purpose of the Statement of Net Assets is to report at a point in time the total net assets available to finance future services, and to give the reader a snapshot of the financial condition of El Paso County Community College District. According to GASB 34, the classification of the components of the Statement of Net Assets is as follows:

Current Assets: assets available to satisfy current liabilities.

Non-current Assets: include capital assets and other assets not classified as current.

Current Liabilities: include obligations due within one year.

Non-current Liabilities: include bonds payable and other long-term commitments.

Net Assets: difference between assets and liabilities and presented in three categories

- Invested in Capital Assets - Net of Related Debt represents the District's net investment in property, plant and equipment net of accumulated depreciation and amortization on the assets and the related outstanding debt used to construct, purchase or renovate them.

Restricted Net Assets are classified as expendable (available for expenditure in accordance with the restrictions of donors and other external entities) and nonexpendable (permanent endowment corpus only available for investment purposes).

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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- Unrestricted Net Assets are available for any lawful purpose of the District and maintained to ensure sufficient reserve funds for long-term viability of the District.

**Statement of Revenues, Expenses and Changes in Net Assets**

The intent of the Statement of Revenues, Expenses and Changes in Net Assets is to report the burden of the government's functions on non-operating (general) revenues, defined as the amount of the functions that are not supported by charges to users (GASB 34, Par. 38). The statement is divided into Operating Revenues and Expenses, and Non-Operating Revenues and Expenses. Operating revenues are generated from the services provided to students and other customers of the District and represent an exchange for services. Operating expenses are incurred in the production of goods and services that result in operating revenues. Property taxes, state appropriations and Title IV funds represent non-exchange transactions and thus classified under Non-Operating Revenues, which means that Texas community colleges will generally report an operating deficit before taking into account other support. Therefore, revenue and expenses should be considered in total when assessing the change in the College's financial position.

**Statement of Cash Flows**

The primary purpose of the Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments of the College during the fiscal period. This statement is intended to complement the accrual-basis financial statements by providing functional information about financing, capital and investing activities and reports the effects of the College's operations, capital and non-capital financing transactions, and investing transactions on the College's financial position. This statement also helps users to determine the entity's ability to meet its obligations as they come due and the potential need for external financing. The final portion of the statement reconciles the net income or loss from operations to be provided or used by operations. The statement is structured as follows:

- Cash flows from operating activities
- Cash flows from noncapital financing activities
- Cash flows from capital financing activities
- Cash flows from investing activities



**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**CONDENSED COMPARATIVE FINANCIAL INFORMATION**

To show the trends for the two years shown in the statement of Net Assets (Exhibit 1), a summary of three years of data for the years ended August 31, 2010 thru 2012 is presented below:

**Condensed Statement of Net Assets**  
*(In Millions)*

	August 31			Change	
	2012	2011	2010	2011 to 2012	2010 to 2011
<b>Assets</b>					
Cash and Investments	\$ 84.2	\$ 82.0	\$ 84.8	\$ 2.2	\$ (2.8)
Other Assets	40.5	43.9	38.3	(3.4)	5.6
Capital Assets	123.9	119.8	115.4	4.1	4.4
<b>Total Assets</b>	<b>\$248.6</b>	<b>\$245.7</b>	<b>\$238.5</b>	<b>\$ 2.9</b>	<b>\$ 7.2</b>
<b>Liabilities</b>					
Current Liabilities	\$ 60.9	\$ 61.7	\$ 56.6	\$ (0.8)	\$ 5.1
Long-Term Liabilities	62.6	66.9	70.4	(4.3)	(3.5)
<b>Total Liabilities</b>	<b>\$123.5</b>	<b>\$128.6</b>	<b>\$127.0</b>	<b>\$ (5.1)</b>	<b>\$ 1.6</b>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	\$ 76.6	\$ 68.9	\$ 61.6	\$ 7.7	\$ 7.3
Restricted	22.2	27.6	31.1	(5.4)	(3.5)
Unrestricted	26.3	20.6	18.8	5.7	1.8
<b>Total Net Assets</b>	<b>\$125.1</b>	<b>\$117.1</b>	<b>\$111.5</b>	<b>\$ 8.0</b>	<b>\$ 5.6</b>

Total Assets increased by \$2.9 million due to a combination of factors:

As a major component of the Statement of Net Assets, cash increased from fiscal year 2011 by \$2.2 million. This amount represents the net of the following activities: cash used in operating activities decreased by \$5.7 million from fiscal year 2011 mostly due to the large decrease in scholarships of \$6.6 million offset by an increase in loans to students as a result of the discontinuance of a separate Pell award for the summer semesters. While payments to employees and suppliers stayed fairly stable due to cost reduction measures implemented during the fiscal year in review, receipts from students increased due to the tuition increase implemented in fall 2011. Net cash provided by noncapital financing activities decreased by approximately \$150,000 due a combination of factors: state appropriations, ad valorem

## **EL PASO COUNTY COMMUNITY COLLEGE DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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taxes and receipts from student organizations increased by \$6.1 million offset by (1) the decrease of \$6 million in non-operating federal revenue related to the decrease in Pell grant awarding during the summer semesters and (2) the decrease in non-operating state revenue. Finally, the increase of \$341,000 in the net cash used in capital and related financing activities was directly related to the increase in purchases for capital assets offset by the proceeds from the sale of capital assets disposed of during periodic public sales.

Other Assets decreased by \$3.4 million from last year mostly due to a combination of the following factors: due to the 3% decrease in fall enrollment, (1) deferred charges related to the early disbursement of Pell grant funds for fall 2012 decreased by \$2.8 million, and (2) accounts receivables decreased by \$1.9 million. These decreases were offset by an increase of \$1.6 million in Notes Receivable related to the awarding of direct loans to students in August 2012.

Capital Assets increased by \$4.1 million mostly related to the completion of the new Student Enrollment Services building and the Student Union facility located on the Valle Verde Campus. Other completed projects include the Valle Verde Math Lab and the Northwest Campus Library extension. The increase in Capital Assets is offset by the depreciation expense of \$4.7 million.

Total liabilities decreased from the prior year by \$5.1 million, the combination of \$800,000 and \$4.3 million decreases in Current Liabilities and Long-Term Liabilities, respectively. The decrease in Current Liabilities is mostly related to the \$1.5 million increase in Funds Held for Others related to the awarding of fall 2012 direct loans offset by the \$2.9 million decrease in Deferred Revenue related to the Pell Grant disbursements in the respective fall semester. While there was a sharp increase in Deferred Revenue in 2011 over the 2010 fiscal year due to the enrollment increase during 2011, the enrollment decrease in fall 2012 resulted into less Pell awards disbursed in fall 2012, thereby causing the variance between 2011 and 2012.

The \$4.3 million decrease in Long-Term Liabilities is mostly related to the following factors: (1) the payment of revenue bonds offset by the amortization of bond premium and (2) the decrease in the Notes Payable for the annual payment on the note to the State Comptroller's office for the energy efficiency project completed in fiscal year 2009.

The major impact on the net assets as a result of the implementation of GASB 34 is that capitalized expenses with a threshold of \$5,000 are now depreciated. Depreciation for the year ended August 31, 2012 was \$4.8 million or an increase of \$754,000 over the 2011 depreciation. This increase is mostly attributable to the correction of retroactive depreciation on capital assets accounted for by the fixed assets module but not calculated correctly.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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Notwithstanding the impact of depreciation on the increase of Net Assets, the College experienced an overall increase in Net Assets of \$8 million, which represents a healthy increase for the District in light of the fiscal challenges imposed upon by the State Legislature. This increase is directly related to the increase in Net Assets invested in Capital Assets, Net of Related Debt of \$7.7 million due to the completion of capital projects funded by Plant Fund reserves. Restricted Net Assets decreased by \$5.4 million due to the completion of Capital Projects. The increase in the Unrestricted Net Assets of \$5.7 million is directly related to the increase in the Unrestricted Fund balance as a result of implementing cost containment measures to face reductions in state funding. Budget savings were generated from the hiring freeze of vacant positions and the set aside of funds in anticipation of the state funding reduction in retirement benefits.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Increase in Net Assets is affected by the revenues generated and the expenses incurred by the District. The following condensed financial information shows total revenues and expenses for fiscal years 2012, 2011 and 2010:

**Condensed Statement of Revenue, Expenses, and Changes in Net Assets**  
(In Millions)

	August 31			Change	
	2012	2011	2010	2011 to 2012	2010 to 2011
<b>Operating Revenues</b>					
Tuition and Fees (net of Discounts)	\$ 20.4	\$ 19.9	\$ 19.1	\$ .5	\$ .8
Federal, State & Local Grants & Contracts	9.7	12.2	11.6	(2.5)	.6
Auxiliary Enterprises	2.1	2.0	1.5	.1	.5
Other	2.0	.8	.9	1.2	(.1)
<b>Total Operating Revenues</b>	<u>\$ 34.2</u>	<u>\$ 34.9</u>	<u>\$ 33.1</u>	<u>\$ (.7)</u>	<u>\$ 1.8</u>
<b>Operating Expenses</b>					
Instruction	\$ 56.6	\$ 57.8	\$ 54.3	\$ (1.2)	\$ 3.5
Research	-	-	-	-	-
Public Service	5.7	5.6	6.2	.1	(.6)
Academic Support	18.0	18.7	18.4	(.7)	.3
Student Services	9.9	10.4	10.6	(.5)	(.2)
Institutional Support	20.0	20.2	20.0	(.2)	.2
Operation and Maintenance of Plant	9.6	8.9	9.5	.7	(.6)
Scholarships and Fellowships	44.0	50.7	45.7	(6.7)	5.0
Auxiliary Enterprises	3.0	2.2	1.8	.8	.4
Depreciation	4.8	4.0	4.1	.8	(.1)
<b>Total Operating Expenses</b>	<u>\$ 171.6</u>	<u>\$ 178.5</u>	<u>\$ 170.6</u>	<u>\$ (6.9)</u>	<u>\$ 7.9</u>
<b>Operating Loss</b>	<u>\$(137.4)</u>	<u>\$(143.6)</u>	<u>\$(137.5)</u>	<u>\$ (6.2)</u>	<u>\$ 6.1</u>
<b>Non-Operating Revenues (Expenses)</b>					
State Appropriations	\$ 38.4	\$ 41.2	\$ 41.6	\$ (2.8)	\$ (.4)
Maintenance Ad-Valorem Taxes	42.1	37.7	36.9	4.4	.8
Federal Revenue – Non-Operating	67.4	72.6	65.8	(5.2)	6.8
Other State Revenue – Non-Operating	.3	.4	.5	(.1)	(.1)
Investment Income (Net of Investment Expense)	.1	.4	.8	(.3)	(.4)
Interest on Capital Related Debt	(2.9)	(3.1)	(3.1)	.2	-
<b>Net Non-Operating Revenues</b>	<u>\$ 145.4</u>	<u>\$ 149.2</u>	<u>\$ 142.5</u>	<u>\$ (3.8)</u>	<u>\$ 6.7</u>
<b>Income Before Other Revenues, (Expenses), Gains (Losses)</b>	<u>\$ 8.0</u>	<u>\$ 5.6</u>	<u>\$ 5.0</u>	<u>\$ 2.4</u>	<u>\$ .6</u>
<b>Increase in Net Assets</b>	<u>\$ 8.0</u>	<u>\$ 5.6</u>	<u>\$ 5.0</u>	<u>\$ 2.4</u>	<u>\$ .6</u>
Net Assets, Beginning of Year	117.1	111.5	106.5	5.6	5.0
<b>Net Assets, End of Year</b>	<u>\$ 125.1</u>	<u>\$ 117.1</u>	<u>\$ 111.5</u>	<u>\$ 8.0</u>	<u>\$ 5.6</u>

## **EL PASO COUNTY COMMUNITY COLLEGE DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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Total operating revenues decreased by \$700,000 due to the following factors: Tuition and Fees (net of discounts) had a net increase of \$500,000 consisting of the tuition rate increase effective summer 2011 and other student fees increases offset by a decrease in summer tuition revenue due to the discontinuance of the separate summer Pell award which resulted in a decrease in summer enrollment. Federal, State, and Local Grants and Contracts decreased by \$2.5 million mostly due to decreases in existing federal and state grants such as the Strengthening Institutions/Hispanic Serving Institutions, the Minority Science and Engineering Improvement, the Biomedical Research grants, the Texas Grant, and TEOG grants. Auxiliary revenue increased by \$100,000 related to an increase in bookstore commissions. Other Income had an increase of \$1.2 million over last fiscal year due to additional rental income from instructional facilities, an increase in public sales for disposal of capital assets, and the absence of the loss amortization on the 2007 Bonds refunding, which in the past three years had decreased Other Income by \$345,000 per year.

Total operating expenses decreased by \$6.9 million over the previous fiscal year, mostly attributable to the decrease in Scholarships and Fellowships of \$6.7 million. This sharp decrease is directly related to decreased student enrollment for the summer 2012 as a result of the elimination of the summer Pell award. As a result of drastic reductions in state appropriations for formula and benefits funding, the College budget was adopted without any salary increases to faculty and staff in addition to a hiring freeze of all vacant positions except for faculty. So, with salaries and benefits representing over seventy-seven percent (77%) of the operating budget and with an enrollment decrease in summer 2012 due to the elimination of a separate summer Pell award for students, all expenses remained comparable to or lower than the previous fiscal year.

Expenses for Instruction decreased by \$1.2 million related to (1) the decrease in summer enrollment and (2) the decrease in federal grants and contracts. Expenses for the remaining elements of costs were either slightly higher or lower as compared to the previous fiscal year in response to the cost containment measures implemented to balance the operating budget. The increase in Auxiliary Enterprises expenses was related to the increase in bad debt expense associated with financial aid overpayments, cafeteria maintenance, administration of vehicle registration on campus, and intercollegiate athletics operations. Depreciation Expense increased by \$800,000 due to recording additional depreciation for capital assets not included in the calculation of depreciation in the fixed assets module. Information regarding policies for depreciation is disclosed on page 21 of the Notes to the Financial Statements.

Non-Operating Revenues and Expenses include State Appropriations, Maintenance Ad-Valorem taxes, and now Federal Revenues as directed by the most recent GASB implementation guide to report Pell Grant receipts as non-operating revenue. Non-Operating Revenues also include under Other State Revenue to account for state student aid.

Non-Operating Revenues decreased by \$3.8 million due to the following factors that affected all Texas Community Colleges. Fiscal year 2011/12 marked the first year of the biennium with many challenges facing Texas community colleges with no additional formula funding from the State while student enrollment increased at record levels.

## **EL PASO COUNTY COMMUNITY COLLEGE DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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While the College experienced a 17% increase in contact hours over the previous biennium, the 82<sup>nd</sup> Legislature responded to the state fiscal crisis by reducing formula, health insurance and retirement funding by 8%, 41% and 52%, respectively. In response to the unprecedented challenge of covering an \$8 million budget deficit in spite of the 12.6% and 14% tuition increases for resident and non-resident students, respectively, the College implemented a combination of strategies to fund the 2011/12 budget. First, cost containment measures were evaluated and included freezing \$1.8 million in vacant positions, except for faculty; and postponing \$3.8 million in technology and instructional equipment purchases. The remaining deficit of \$3.1 million was covered by a tax rate increase of 8%, the first in six years, which generated the needed revenue to balance the budget.

As a result of the tax rate increase, revenue from Maintenance Ad-Valorem taxes increased by \$4.4 million that also included tax revenue on new property added to the 2011 tax base. The College property tax revenue is based on the tax rate of \$.115442 per \$100 valuation, which represents the lowest tax rate of all major taxing entities in the El Paso County.

State appropriations decreased by \$2.8 million, mostly due to a sharp reduction in appropriations for health insurance benefits. The College has recorded the funding for employee retirement as provided by state constitution and disclosed in the Notes to the Financial Statements the amount of state contribution shortfall included in the operating budget but not paid to the Texas Retirement System.

Both non-operating federal and state revenues decreased by a combined total of \$5.3 million, most due to the elimination of the summer separate Pell award for eligible students, which resulted in a decrease in summer enrollment. State financial aid also decreased due to a reduction in Texas grants that were also part of state budget cuts.

As a reflection of the U.S. ailing economy, interest rates continue to be low. However, due to a new bank depository contract, the College moved its available cash balances from TexPool, the local governmental investment pool administered and monitored by the State Comptroller's Office to higher yield Repurchase Agreements with J.P. Morgan Chase Bank. As a result, Investment Income increased in average interest rate from 0.1378% to 0.1643% by the end of the fiscal year or a change of 0.0265%. Overall investment income decreased from the previous year due to a decrease in investable balances. Although it is expected that the interest rates will slowly increase as the economy recovers, the college administration has taken a conservative approach in budgeting interest income for the coming fiscal year.

### **Description of significant capital asset and long-term debt activity**

As the College continues to grow, the administration is in the process of developing a master plan to address capital improvement needs for its five campuses and the upcoming new campus on Fort Bliss military base property. Major completed projects include the new Student Enrollment Services Building ready for occupancy in March 2013, the new Student Union, and the Math Emporium all located on the Valle Verde Campus; the completed projects also include the expansion of the Northwest Campus library. Upcoming projects include the renovation of facilities to either relocate services or accommodate instructional programs such as the joint architectural program with Texas Tech University. Beginning construction of the College's sixth campus on Fort Bliss is planned for 2014. All facilities construction,

## **EL PASO COUNTY COMMUNITY COLLEGE DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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renovation and improvements will be financed by a combination of funds coming from revenue bond proceeds, grant funds and plant fund reserves.

To accommodate increased enrollment since 1994, the District initiated a financial plan and has since then issued \$137,900,000 in Revenue Bonds, part of which refinanced the 1994, 1995, 1996, 1997, 1997B, 1998, 1999 and 2001 bond issues. This debt is currently covered by the general use fee of \$10 per credit hour and the state-mandated minimum tuition transfer of \$15 per student in the fall and spring semesters and \$7.50 per student for the summer sessions. The defeasance of the Building Use Fee and Tuition Refunding Revenue Bonds, Series 1993 outstanding balance of \$1,750,000 in October 2003 will result in saving the College approximately \$220,000 in interest payments.

In January 2007, the District issued the Fee Revenue Building and Refunding Bonds in the amount of \$66,280,000 that accomplished (1) the refunding of \$37 million of current debt with expected present value savings of \$1.9 million and (2) generating additional funds of \$31.6 million for renovation and new construction. The refunding of some of the current debt created additional debt capacity for the District to issue additional revenue bonds at no additional cost to the student or the taxpayer.

On August 13, 2003, Fitch Ratings issued a press release announcing the upgrade of El Paso Community College credit rating from "A-" to "A". The rating revision upwards reflected the College's positive financial performance, growing enrollment, and favorable area demographics and market position. Also considered in the rating are the operational and financial pressures stemming from increasing enrollment and reductions in state funding and above average, although manageable, debt load. On December 18, 2006 and more recently July 8, 2011, this "A" rating was reaffirmed as an "A+" rating with a stable outlook supported by sound financial management practices and operating results, and an increasingly diverse revenue base. Fitch subscribers can see the complete report at [www.fitchresearch.com](http://www.fitchresearch.com).

On December 21, 2006, Moody's Investors Service issued a press release announcing the upgrade of the College's rating from "A2" to "A1" with a stable outlook. The upgrade was based on the College's rapidly growing tax base caused by healthy growth in the local economy, increasing enrollment, strong operating performance and a manageable debt profile. On August 6, 2009, Moody's reaffirmed the College District's "A1" long-term rating of \$69.2 million with a stable outlook that reflects Moody's expectation that the District will continue to generate positive operating margins, maintain or modestly increase enrollment, and generate sufficient coverage of debt service from pledged revenues.

On November 15, 2012, Moody's affirmed the College's rating as Aa3 with a stable outlook. Moody's outlook reflects that the College will maintain a stable and growing enrollment along with stable to moderate revenue growth from tax revenues and tuition increases, as state appropriations are likely to decrease. Although the construction of a new campus will create additional debt, Moody's expects that the debt burden will be manageable given the current levels of operations and financial resources. The updated report can be found at [www.moody.com](http://www.moody.com).

## **EL PASO COUNTY COMMUNITY COLLEGE DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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On March 15, 2011, Standard & Poor's issued a press release upgrading its underlying rating of "A" to "A+" on the College's Series 2001 Combined Fee Revenue Building and Refunding Bonds with a stable outlook. This outlook reflected the College's essential role as the only community college in the El Paso area; good revenue diversity from tuition, property taxes and state appropriations; and history of consistently positive financial operations. The rating also cited significant growth pressures, limited revenue flexibility, moderate debt burden, and recent instability in state appropriations as challenges for the College. However, Standard & Poor's expectation is that the District will continue to sustain balanced operating results with stable enrollment and overall district financial resources as long as it can manage the potential significant cuts in state appropriations and issue additional revenue debt with the commensurate increase in financial resources or revenue.

Additional information on both capital assets and long-term debt can be found in Notes 5 and 6 of the Notes to the Financial Statements.

### **Economic Outlook**

During fiscal year 2008/09, the Texas economy was largely insulated from the nation's housing-induced slowdown with Texas average housing prices still rising, and the City of El Paso was no exception in benefiting from this strong economy. However, starting with the 2009/2010 fiscal year, the State has been experiencing a fiscal crisis with a large revenue deficit that affected the 2012/13 biennium. In response to this economic crisis, Governor Perry mandated a 5% reduction in funding for state agencies, including institutions of higher education at the end of fiscal year 2009/10 for both years of the biennium. In anticipation of the challenging upcoming biennium, the Board of Trustees approved a tuition increase of 12.6% and 14% for resident and non-residents students respectively, which was effective summer 2011. The 82<sup>nd</sup> Legislature confirmed the reduction in funding for the 2012/13 biennium with an additional decrease of 2.8% in formula funding and a significant decrease in funding for health insurance and retirement benefits to the tune of 41% and 52% respectively over the previous biennium. As many Texas community colleges, El Paso Community College faced an unprecedented challenge in balancing its 2011/2012 budget that started with a deficit of \$8 million. The College responded to this challenge by implementing budget reduction strategies to include freezing vacant positions, postponing new technology and equipment purchases in concert with a tax rate increase, the first tax increase in six years. However, in spite of the tuition and tax rate increases, the College has the lowest tuition rate in the region and the lowest tax rate of all major taxing entities of the El Paso County while still maintaining quantity and quality of service to its student population. This demonstrates the College's ability and flexibility for generating additional revenue, should state funding be insufficient to fund its operations and innovative programs. With the adoption of another conservative budget for the 2012/13 fiscal year, the College is preparing for the next state legislative session that will appropriate funding for the 2014-15 biennium. Although the State of Texas is experiencing some economic recovery, the 83<sup>rd</sup> Legislature scheduled to meet in early spring 2013 will be facing continued challenges in funding public education and Medicaid that had been drastically cut during the 82<sup>nd</sup> legislative session.

In November 2010, the firm of EMSI issued a report summarizing the results of a study documented in "the Economic Contributions of El Paso Community College" detailing the role that the College plays in promoting economic development, enhancing students' careers, and improving quality of life. The main



## **EL PASO COUNTY COMMUNITY COLLEGE DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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highlights of this study for the College are as follows:

- Due to EPCC operations and capital spending, the local economy receives roughly \$131.6 million in annual regional income.
- EPCC activities encourage new business, assist existing business and create long-term economic growth. The College enhances worker skills and provides customized training to local business and industry. Past and present skills acquired by EPCC students increase regional income by \$615.3 million.
- Related to students earning potential, studies demonstrate that education increases lifetime earnings. The average annual income of a student with an Associate Degree at the midpoint of his or her career is \$39,300 or 35% more than someone with a high school diploma. Over the course of a working lifetime, associate's degree graduates in the College service area earn \$395,600 more than someone with a high school diploma. As a result of their attending EPCC, students enjoy an attractive 16.9% annual rate of return on their EPCC educational investment with a payback period of 9 years.
- The estimated 95% of EPCC students remaining in Texas and entering the workforce enhance the economic growth and expand the tax base. Higher student earnings and associated increases in property income generate about \$10.3 million in added tax revenue per year.
- EPCC generates a return on public investment, as taxpayers will see a return of \$2.30 for every dollar appropriated by state and local governments to support the College, and state and local governments will receive a rate of return of 8% on their investments in EPCC.
- Most importantly, the state and local community will see \$8.2 million worth of social savings associated with improved health, reduced crime, and less welfare and unemployment claims as long as students stay in the workforce.

The above study demonstrates that El Paso Community College plays a critical role in its service area by stimulating the state and local economy, leveraging taxpayer dollars, generating a return on government investment and increasing students' earning potential. In addition to its current role, the College is facing additional demand from the growth at Fort Bliss, the Army's #1 ranked installation. Fort Bliss is expected to realize a net gain of approximately 24,000 troops by 2013, which will bring total Fort Bliss personnel to about 34,000. It is estimated that 27,350 additional family members will contribute to the economy with 60% of the families living off post. El Paso Community College is gearing up for the challenges of providing educational services to the incoming soldiers and their dependents by addressing its facility needs with the construction of its sixth campus.

In summary, notwithstanding the future impact of military growth in the El Paso area, the potential reductions in state funding and the expected enrollment growth, the College is not aware of any currently known facts, decisions, or conditions that would have a significant effect on the financial position or results of operations during this fiscal year. The College's overall financial position is stable and demonstrated by its ability to generate consistent increases in net assets through the efficient and effective use of its resources. The College will continue to monitor those resources to maintain its ability to react to changes from internal and external forces.

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EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
 STATEMENTS OF NET ASSETS  
 Years Ended August 31, 2012 and 2011

Exhibit 1

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 84,172,806	\$ 81,991,767
Account receivable (net of allowance for doubtful accounts of \$6,268,268 in 2012 and \$5,561,089 in 2011)	10,353,337	12,249,447
Inventories	-	16,525
Deferred Charges	24,814,149	27,586,653
Notes receivable (net of allowance for doubtful accounts of \$3,245,809 in 2012 and \$1,938,968 in 2011)	3,961,425	2,350,030
Other assets	<u>645,927</u>	<u>874,550</u>
Total current assets	<u>123,947,644</u>	<u>125,068,972</u>
Noncurrent Assets		
Deferred charges	786,314	858,769
Capital assets, net	<u>123,901,397</u>	<u>119,814,724</u>
Total noncurrent assets	<u>124,687,711</u>	<u>120,673,493</u>
Total assets	<u>\$ 248,635,355</u>	<u>\$ 245,742,465</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Current Liabilities		
Accounts payable	\$ 3,152,107	\$ 3,563,641
Accrued liabilities	2,829,362	2,167,395
Accrued compensable balances - current portion	192,020	182,186
Workers' compensation reserve - current portion	526,913	399,732
Funds held for others	3,109,498	1,583,474
Deferred revenue	47,300,588	50,170,619
Notes payable - current portion	496,350	477,225
Bonds payable - current portion	3,265,000	3,135,000
Capital lease payable - current portion	<u>3,310</u>	<u>32,654</u>
Total current liabilities	<u>60,875,148</u>	<u>61,711,926</u>
Noncurrent Liabilities		
Accrued compensation balances	3,549,555	3,690,902
Workers' compensation reserve	373,087	500,268
Notes payable	2,276,807	2,772,293
Bonds payable including premium of \$2,383,982 in 2012 and \$2,561,669 in 2011)	<u>56,473,982</u>	<u>59,916,669</u>
Total noncurrent liabilities	<u>62,673,431</u>	<u>66,880,132</u>
Total liabilities	<u>123,548,579</u>	<u>128,592,058</u>
Net Assets		
Invested in capital assets, net of related debt and liabilities	76,631,932	68,925,159
Restricted for		
Nonexpendable		
Student aid	740,985	738,681
Expendable		
Student aid	2,601,659	1,504,018
Loans	1,116,047	908,600
Renewals and replacement	336,941	310,216
Unexpended plant fund	9,831,418	16,871,172
Debt service	7,564,727	7,263,741
Unrestricted	<u>26,263,067</u>	<u>20,628,820</u>
Total net assets	<u>125,086,776</u>	<u>117,150,407</u>
Total liabilities and net assets	<u>\$ 248,635,355</u>	<u>\$ 245,742,465</u>

See Notes to Financial Statements.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Years Ended August 31, 2012 and 2011**

Exhibit 2

	<u>2012</u>	<u>2011</u>
Revenues		
Operating revenue		
Tuition and fees (net of discounts of \$35,444,745 in 2012 and \$33,347,663 in 2011)	\$ 20,414,460	\$ 19,907,092
Federal grants and contracts	4,979,369	6,405,026
State grants and contracts	4,034,558	5,417,936
Non-governmental grants and contracts	637,984	359,296
Auxiliary enterprises	2,149,564	2,004,136
Other operating revenues	1,956,063	822,643
Total operating revenues	<u>34,171,998</u>	<u>34,916,129</u>
Expenses		
Operating expenses		
Instruction	56,569,373	57,782,436
Research	46,990	46,835
Public service	5,741,054	5,623,512
Academic support	18,022,725	18,684,484
Student services	9,899,398	10,409,484
Institutional support	20,028,102	20,167,121
Operation and maintenance of plant	9,554,646	8,907,338
Scholarships and fellowships	44,001,068	50,636,516
Auxiliary enterprises	3,008,770	2,180,466
Depreciation	4,787,773	4,033,896
Total operating expenses	<u>171,659,899</u>	<u>178,472,088</u>
Operating Loss	<u>(137,487,901)</u>	<u>(143,555,959)</u>
Non-operating revenues (expenses)		
State appropriations	38,364,441	41,206,833
Maintenance ad-valorem taxes	42,055,081	37,689,872
Federal revenue, non-operating	67,420,731	72,591,478
Other state revenue, non-operating	339,489	431,302
Investment income (net of investment expenses)	141,792	361,454
Interest on capital related debt	(2,897,264)	(3,087,201)
Total non-operating revenues	<u>145,424,270</u>	<u>149,193,738</u>
Increase in net assets	7,936,369	5,637,779
Net assets, beginning of year	<u>117,150,407</u>	<u>111,512,628</u>
Net assets, end of year	<u>\$ 125,086,776</u>	<u>\$ 117,150,407</u>

See Notes to Financial Statements.

EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
 STATEMENTS OF CASH FLOWS  
 Years Ended August 31, 2012 and 2011

Exhibit 3

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Receipts from students and other customers	\$ 23,083,723	\$ 19,981,927
Receipts of grants and contracts	10,394,662	12,790,351
Other receipts	4,355,467	3,617,462
Payments to or on behalf of employees	(90,503,081)	(89,816,381)
Payments to suppliers for goods or services	(25,217,446)	(25,865,981)
Payments of scholarships	(44,001,068)	(50,636,513)
Loans to students and employees, net other cash payments	(1,611,397)	685,981
Net cash used by operating activities	<u>(123,499,140)</u>	<u>(129,243,154)</u>
Cash Flows From Noncapital Finance Activities		
Receipts from state appropriations	30,997,449	31,155,773
Receipts from ad valorem taxes	41,810,977	37,593,097
Receipts from non operating federal revenue	66,566,381	72,591,478
Receipts from non operating state revenue	227,654	431,302
Receipts from student organizations and other agency transactions	1,526,024	(493,582)
Net cash provided by noncapital financing activities	<u>141,128,485</u>	<u>141,278,068</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from sale of capital assets	75,081	-
Purchase of capital assets	(8,949,525)	(8,533,835)
Payments on capital debt and leases - principal	(3,818,392)	(3,514,317)
Payments on capital debt and leases - interest	(2,897,264)	(3,200,758)
Net cash used in capital and related financing activities	<u>(15,590,100)</u>	<u>(15,248,910)</u>
Cash Flows From Investing Activities		
Investment earnings	<u>141,794</u>	<u>361,454</u>
Increase (decrease) in cash and cash equivalents	2,181,039	(2,852,542)
Cash and cash equivalents, beginning of year	<u>81,991,767</u>	<u>84,844,309</u>
Cash and cash equivalents, end of year	<u>\$ 84,172,806</u>	<u>\$ 81,991,767</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (137,487,901)	\$ (143,555,959)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	4,787,773	4,033,896
Payments made directly by state for benefits	7,366,992	10,051,060
Change in assets and liabilities		
Receivables, net	1,896,110	(1,852,133)
Deferred charges	1,563,037	(4,201,018)
Inventories	16,525	3,792
Other assets	228,623	(190,397)
Deferred revenue	(1,903,848)	6,760,821
Deposits held for others	1,526,024	(493,582)
Compensated absences	(131,513)	70,969
Loans to students and employees, net	(1,611,397)	685,981
Accounts payable	(411,532)	(925,133)
Accrued expenses	661,967	368,549
Net cash used in operating activities	<u>\$ (123,499,140)</u>	<u>\$ (129,243,154)</u>

See Notes to Financial Statements.

# EL PASO COUNTY COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 – Reporting Entity

El Paso County Community College District (the “College”), was established in 1969, in accordance with the laws of the State of Texas, to serve the educational needs of El Paso and the surrounding communities. The College is an unincorporated taxing entity governed by an elected seven-member board of trustees. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (“GASB”) Statement No. 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and recordkeeping requirements of these entities, it is not a component unit of any other governmental entity.

### Note 2 – Summary of Significant Accounting Policies

**Report guidelines** – The significant accounting policies followed by the College in preparing these financial statements are in accordance with the Texas Higher Education Coordinating Board’s Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges. The College applies all applicable GASB pronouncements and all applicable Financial Accounting Standard 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 (BTA).

#### **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 dispersed directly to the student, the amount is recorded as a scholarship expense.

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

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

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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

**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.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

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

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

The College pools most of its cash into one bank account. Pooled investments consist of cash in interest bearing accounts and repurchase agreements. The College considers cash equivalents to be all highly liquid deposits with original maturities of three months or less. The governing board has designated public funds investment pools, comprised of \$3,052,824 and \$81,597,747, to be cash equivalents at August 31, 2012 and 2011, respectively. Additionally, included in cash and cash equivalents at August 31, 2012 are \$73,573,574 in repurchase agreements.

**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. The College had no short-term investments at August 31, 2012 and 2011, respectively.

**Authorized investments** - The Board of Trustees of the College has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act (Section 2256.001), Texas Government Code. Such investments include 1) obligations of the United States or its agencies, 2) direct obligations of the State of Texas or its agencies, 3) obligations of political subdivisions rated not less than A by a national investment rating firm, 4) certificates of deposit, and 5) other instruments and obligations authorized by statute. The College's investments are carried at fair value.

For the years ended August 31, 2012 and 2011, management of the College believes that they have substantially complied with the provisions of the Public Funds Investment Act and the College's investment policy.

# EL PASO COUNTY COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

**Allowances for doubtful accounts and loans** - Allowances for doubtful accounts and loans are established through charges to current year expenditures. Receivables and loans are reduced by the allowances for doubtful accounts or loans when management believes that the collectability of the receivables or loans is unlikely.

**Inventories** - Inventories are stated at the lower of cost or fair value. Cost is determined on a first-in, first-out basis. Fair value is based on net realizable value. Inventories consist primarily of prepaid postage.

**Notes receivable** - Notes receivable are for amounts advanced to students to pay for tuition, fees, and books. The notes are all due within one year.

**Capital assets** - Capital assets are stated at cost. Donated capital assets are valued at their estimated fair market value on the date received. The College's capitalization policy includes real or personal property with a value equal or greater than \$5,000 and has an estimated life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets 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 estimated useful lives of the assets applying the half-year convention. The following lives are used:

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

**Deferred charges** - Deferred charges consist of expenses paid in advance that pertain to the subsequent fiscal year and for bond issuance costs and original issue discounts related to various bond issues. The College amortizes these bond issuance costs and original issue discounts charges using the straight line method over the respective lives of the related bonds which is not materially different than the effective interest method. For the years ended August 31, 2012 and 2011, approximately \$72,456 and \$84,475, for each year, in related interest expense has been recognized.

For the years ended August 31, 2012 and 2011, \$23,297,720 and \$26,090,000 was for PELL awarded in August 2012 and August 2011, respectively, for the fall classes.



**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Deferred revenues** - Revenues, consisting primarily of advance payments of tuition and fees, related to academic terms in the next fiscal year, are recorded as deferred revenues and recognized as revenue in the period when earned.

**Compensable absences** - The College accrues an estimated liability for compensable absences that vest in the period earned.

**Tax exempt status** - The College is a political subdivision of the State of Texas and exempt from federal income taxes under the purview of Section 115(1), Income of States, Municipalities, Etc., of the Internal Revenue Code ("IRC"), although unrelated business income may be subject to income taxes under Section 511(a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations, of the IRC. The College has no unrelated business income tax liability for the years ended August 31, 2012 and 2011.

**Student property deposits** - Students are required to pay the College a \$10 property deposit. The amount is refundable upon request when the student graduates or leaves the College. Unclaimed amounts are recognized as revenue after four years. Effective September 1, 1993, state law requires unclaimed student property deposits are for scholarship use only.

**Funds held for others** - Funds held for others represent refundable student property deposits and funds held by the College for various campus and community organizations.

**Property taxes** - Revenue from property taxes, including related penalties and interest, is recognized in the current year, net of allowances for taxes not collected. The College's ad valorem property tax is assessed each October 1 based upon the assessed value of the College as of January 1 of the same year for all real and business personal property located within the College's district. Taxes are due upon receipt of the tax bill and are delinquent if not paid by January 31 of the year following the year in which imposed. Tax liens on real property are executed generally within one month of receipt of notification of delinquency of tax payments.

The use of tax proceeds is restricted to maintenance and operations. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes.

**Net assets** - Net assets are classified based on the existence or absence of restrictions. Accordingly, net assets of the College are classified and reported as follows:

**Invested in capital assets, net** - Invested In Capital Assets, Net is used to accumulate the net investment in property and equipment. The purchase (sale) of property and equipment, accumulated depreciation, and (increase) decrease in related debt and liabilities is recognized as an (addition) reduction of available net assets and is recorded as capital assets and as an addition (reduction) in net assets.

## EL PASO COUNTY COMMUNITY COLLEGE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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

**Restricted net assets** - Restricted net assets include expendable and non-expendable net assets. Non-expendable net assets result from contributions whose use by the College is limited to the earnings thereon. Expendable net assets are for amounts whose use is restricted by either granting agencies, debt requirements, or the Board of Trustees.

**Unexpended plant fund** - The purpose of the unexpended plant funds subgroup is to account for the unexpended resources derived from various sources to finance the acquisition of long-lived assets and the associated liabilities.

**Unrestricted net assets** - Net assets whose use is not restricted.

**Operating and non-operating revenues 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, property tax collections and federal Title IV grant programs. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The major nonoperating expense is interest expense on capital related debt. The operation of the Bookstore is not performed by the College.

**Concentration of credit risk** - Financial instruments which potentially subject the College to a concentration of credit risk consist primarily of cash, repurchase agreements, TexPool, and accounts and taxes receivable. The College places its cash and investments in federally insured financial institutions which collateralize the College's deposits with securities issued by the United States Government and in United States Government Treasury notes. Concentration of credit risk with respect to the accounts receivable is limited due to the large number of accounts which are primarily government related.

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Characterization of Title IV grant revenue** - In response to guidance provided by the Government Accounting Standards Board (GASB) as question/answer 7.72.10 in the Implementation Guide, revenue received for federal Title IV grant programs (i.e., Pell grants) is now characterized as non operating revenue as opposed to operating revenue.

**Reclassifications** - Certain amounts in the prior-year statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 3 – Deposits and Investments**

At August 31, 2012 and 2011, the carrying amount of the College's deposits was \$7,546,408 and \$394,020, respectively, and total cash on hand and bank balances equaled \$8,245,801 and \$3,607,187, respectively.

**Cash and deposits** – Cash and deposits as reported on Exhibit 1, Statement of Net Assets, consist of the items reported below:

	<u>2012</u>	<u>2011</u>
Bank deposits	\$ 7,528,008	\$ 375,620
Cash and cash equivalents		
Demand deposits	18,400	18,400
Repurchase agreements	73,573,574	-
TexPool	<u>3,052,824</u>	<u>81,597,747</u>
Total cash and deposits	<u>\$ 84,172,806</u>	<u>\$ 81,991,767</u>
	<u>Market Value</u>	<u>Market Value</u>
	<u>8/31/12</u>	<u>8/31/11</u>
Type of Security		
Total cash and deposits	\$ 76,626,398	\$ 81,991,767
Total investments	<u>-</u>	<u>-</u>
Total deposits and investments	<u>\$ 76,626,398</u>	<u>\$ 81,991,767</u>

TexPool (the Pool) was established for local governments in Texas under the provisions of the Texas Interlocal Cooperation Act and is designed to comply with all of the Texas statutes, including the Public Funds Investment Act and other regulations for the allowable investments of public funds. The Pool is overseen by the Texas State Comptroller of Public Accounts. TexPool seeks to maintain a \$1.00 value per share as required by the Texas Public Funds Investment Act. TexPool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA rated no load money market mutual funds.

**Interest rate risk** - In accordance with state law and the College's investment policy, the College purchases investments with maturities less than two years or invest bond proceeds for a period of time that coincides with the amount of time it takes to use bond proceeds. TexPool average weighted maturity was 43 days.

**Credit risk** - In accordance with state law and the College's investment policy, investments in investment pools must be rated at least AAA by at least one nationally recognized rating service.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 3 – Deposits and Investments (continued)**

**Custodial credit risk** - For a deposit or investment, custodial risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The College's policy requires deposits to be at least 100 percent secured by collateral valued at market value of the principal and accrued interest reduced by the amount of Federal Deposit Insurance Corporation insurance. As of August 31, 2012 and 2011, the College's \$73,573,574 and \$0 of repurchase agreements and \$8,227,401 and \$3,588,787 of bank deposits, respectively, had collateral of \$75,045,050 and \$24,221,149 of underlying securities which were held by the pledging financial institutions' trust departments or agent in the College's name.

**Note 4 – Disaggregation of Receivables and Payables Balances**

Receivables at August 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Student receivables	\$ 9,700,459	\$ 10,741,982
Taxes receivable	3,274,231	3,030,127
Federal receivables	1,154,176	1,928,457
Accounts receivable, agencies and local vendors	1,840,295	1,484,365
Contract and grant receivables	609,521	577,991
Other receivables	<u>42,923</u>	<u>47,614</u>
Total	16,621,605	17,810,536
Less: Allowance for doubtful accounts	<u>6,268,268</u>	<u>5,561,089</u>
Total receivables, net	<u>\$ 10,353,337</u>	<u>\$ 12,249,447</u>

Student receivables are due within three months.

	<u>2012</u>	<u>2011</u>
Accounts payable		
Vendor payable	\$ 2,924,928	\$ 3,441,273
Student payable	205,333	113,661
Other payable	<u>21,846</u>	<u>8,707</u>
Total accounts payable	<u>3,152,107</u>	<u>3,563,641</u>
Accrued liabilities		
Salaries and benefits	1,648,617	932,086
Accrued interest	<u>1,180,745</u>	<u>1,235,309</u>
Total accrued liabilities	<u>2,829,362</u>	<u>2,167,395</u>
Total payables	<u>\$ 5,981,469</u>	<u>\$ 5,731,036</u>

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 5 – Capital Assets**

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

	<u>Balance</u> <u>September 1,</u> <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>August 31,</u> <u>2012</u>
<b>Not Depreciated</b>				
Land	\$ 7,912,974	\$ -	\$ -	\$ 7,912,974
Construction in progress	<u>1,829,453</u>	<u>3,189,594</u>	<u>(1,214,089)</u>	<u>3,804,958</u>
	<u>9,742,427</u>	<u>3,189,594</u>	<u>(1,214,089)</u>	<u>11,717,932</u>
<b>Other Capital Assets</b>				
Buildings	132,259,483	5,538,376	(165,965)	137,631,894
Land improvements	<u>13,994,374</u>	<u>646,642</u>	<u>                  </u>	<u>14,641,016</u>
Total building and other real estate improvements	146,253,857	6,185,018	(165,965)	152,272,910
Furniture and equipment	24,448,966	722,393	(2,777,458)	22,393,901
Capital leases – vehicles	533,752	-	-	533,752
Library books	<u>4,994,556</u>	<u>260,774</u>	<u>(174,523)</u>	<u>5,080,807</u>
Total buildings and other capital assets	<u>176,231,131</u>	<u>7,168,185</u>	<u>(3,117,946)</u>	<u>191,999,302</u>
<b>Accumulated Depreciation</b>				
Buildings	36,597,180	2,774,916	-	39,372,096
Land improvements	<u>4,290,561</u>	<u>628,828</u>	<u>                  </u>	<u>4,919,389</u>
Total building and other real estate improvements	40,887,741	3,403,744	-	44,291,485
Furniture and equipment	21,833,948	1,085,902	(2,674,179)	20,245,671
Capital leases – vehicles	533,752	-	-	533,752
Library books	<u>2,903,393</u>	<u>298,127</u>	<u>(174,523)</u>	<u>3,026,997</u>
Total buildings and other capital assets	<u>66,158,834</u>	<u>4,787,773</u>	<u>(2,848,702)</u>	<u>68,097,905</u>
Net capital assets	<u>\$119,814,724</u>	<u>\$ 5,570,006</u>	<u>\$ (1,483,333)</u>	<u>\$123,901,397</u>

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 – Capital Assets (continued)**

Capital assets activity for the year ended August 31, 2011 was as follows:

	Balance September 1, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance August 31, <u>2011</u>
<b>Not Depreciated</b>				
Land	\$ 7,912,974	\$ -	\$ -	\$ 7,912,974
Construction in progress	<u>5,644,769</u>	<u>1,304,217</u>	<u>(5,119,533)</u>	<u>1,829,453</u>
	<u>13,557,743</u>	<u>1,304,217</u>	<u>(5,119,533)</u>	<u>9,742,427</u>
<b>Other Capital Assets</b>				
Buildings	122,138,857	10,120,626	-	132,259,483
Land improvements	<u>12,928,787</u>	<u>1,065,587</u>	<u>-</u>	<u>13,994,374</u>
Total building and other real estate improvements	135,067,644	11,186,213	-	146,253,857
Furniture and equipment	25,069,727	892,852	(1,513,613)	24,448,966
Capital leases – vehicles	533,752	-	-	533,752
Library books	<u>4,932,155</u>	<u>270,086</u>	<u>(207,685)</u>	<u>4,994,556</u>
Total buildings and other Capital assets	<u>165,603,278</u>	<u>12,349,151</u>	<u>(1,721,298)</u>	<u>176,231,131</u>
<b>Accumulated Depreciation</b>				
Buildings	33,961,219	2,635,961	-	36,597,180
Land improvements	<u>3,690,834</u>	<u>599,727</u>	<u>-</u>	<u>4,290,561</u>
Total building and other real estate improvements	37,652,053	3,235,688	-	40,887,741
Furniture and equipment	22,925,504	383,070	(1,474,626)	21,833,948
Capital leases – vehicles	444,062	89,690	-	533,752
Library books	<u>2,785,629</u>	<u>325,448</u>	<u>(207,684)</u>	<u>2,903,393</u>
Total buildings and other Capital assets	<u>63,807,248</u>	<u>4,033,896</u>	<u>(1,682,310)</u>	<u>66,158,834</u>
Net capital assets	<u>\$ 115,353,773</u>	<u>\$ 9,619,472</u>	<u>\$ (5,158,521)</u>	<u>\$ 119,814,724</u>

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 6 – Bonds Payable**

General information related to bonds payable is summarized below:

Bond Issue Name	Series	Purpose	Issue Date	Source of Revenue for Debt Service	Amount Authorized	Amount Outstanding
Revenue	1998	Defeasance and Refunding of 1995, 1996, and 1997 Bonds	12/98	General Use and Tuition Fee	\$ 9,390,000	\$ -
Revenue	2001	Construction, Improvement, Maintenance, and Acquisition of Property, Building, and Equipment	02/01	General Use and Tuition Fee	9,365,000	725,000
Revenue	2007	Construction, Improvement, Maintenance, and Acquisition of Property, Building, and Equipment And Refunding of 1995, 1997, 1997-B bonds and Partial refunding of 1998, And 2001 bonds	02/07	General Use and Tuition Fee	66,280,000	56,630,000
Total bonds principal outstanding						<u>\$ 57,355,000</u>

Bonds payable are due in annual installments varying from \$15,000 to \$5,810,000 with interest rates from 3.75% to 5.10% with the final installment due in 2025. Interest expense related to bonds recorded during fiscal year 2012 and 2011 was approximately \$2,900,800 and \$3,037,212, respectively. The principal for all bonds is paid annually on April 1 with semi-annual interest payable on April 1 and October 1.

At August 31, 2012 and 2011, the College had established reserves which hold cash sufficient to meet the requirements of the various bond indentures and to satisfy reserve requirements.

## EL PASO COUNTY COMMUNITY COLLEGE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

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#### Note 6 – Bonds Payable (continued)

The escrow account assets and liability for the defeased bonds are not included in the College's financial statements. At August 31, 2012, \$2,235,000 of the Series 1991, \$1,750,000 of the Series 1993, \$5,345,000 of the Series 1994, \$1,355,000 of the Series 1995, \$4,725,000 of the Series 1996, \$3,015,000 of the Series 1997 and \$8,130,000 of the Series 2001 bonds were considered defeased, respectively.

**Current refunding bonds** - On February 8, 2007, the College issued \$28,150,000 of Revenue Bonds with an average interest rate of 4.785% to refund \$340,000 of Series 1995, \$9,985,000 of Series 1997, \$9,655,000 of Series 1997B, \$4,455,000 of Series 1998, and \$4,475,000 of Series 1999 bonds with an average interest rate of 5.0532%. Net proceeds from the Series 2007 Current Refunding were \$29,432,615; after payment of \$621,146 in underwriting fees, insurance and other issuance cost, these proceeds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments of the Current Refunding. Although the current refunding resulted in the recognition of an accounting loss of \$1,232,200 for the year ended August 31, 2007, the College in effect reduced its aggregate debt service payments over the next twelve years by approximately \$2,138,400 and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately \$1,655,400.

**Advance refunding bonds** - On February 8, 2007, the College issued \$8,020,000 of Revenue Bonds with an average interest of 5.00% to Advance refund \$8,130,000 of Series 2001 bonds with an average interest rate of 5.044%. Net proceeds from the Series 2007 Advance Refunding were \$8,581,209, after payment of \$185,619 in underwriting fees, insurance and other issuance cost. These proceeds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments of the Advance Refunding of \$8,130,000 of Series 2001. Although the advance refunding resulted in the recognition of an accounting loss of \$349,600 for the year ended August 31, 2007, the College in effect reduced its aggregate debt service payments over the next thirteen years by approximately \$362,800 and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately \$250,000.



**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 7 – Long-Term Liabilities**

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

	Balance September 1, 2011	Additions	Reductions	Balance August 31, 2012	Current Portion
Long-term liabilities					
Leases	\$ 32,654	\$ -	\$ 29,344	\$ 3,310	\$ 3,310
Note payable	3,249,518	-	476,361	2,773,157	496,350
Revenue bonds	60,490,000	-	3,135,000	57,355,000	3,265,000
Compensated absences	3,873,088	134,706	266,219	3,741,575	192,020
Workers' compensation Reserve	<u>900,000</u>	<u>480,410</u>	<u>480,410</u>	<u>900,000</u>	<u>526,913</u>
 Total long-term liabilities	 <u>\$ 68,545,260</u>	 <u>\$ 615,116</u>	 <u>\$ 4,387,334</u>	 <u>\$ 64,773,042</u>	 <u>\$ 4,483,593</u>

Long-term liability activity for the year ended August 31, 2011 was as follows:

	Balance September 1, 2010	Additions	Reductions	Balance August 31, 2011	Current Portion
Long-term liabilities					
Leases	\$ 89,862	\$ -	\$ 57,208	\$ 32,654	\$ 32,654
Note payable	3,696,627	-	447,109	3,249,518	477,225
Revenue bonds	63,500,000	-	3,010,000	60,490,000	3,135,000
Compensated absences	3,802,119	244,479	173,510	3,873,088	182,186
Workers' compensation Reserve	<u>900,000</u>	<u>380,697</u>	<u>380,697</u>	<u>900,000</u>	<u>399,732</u>
 Total long-term liabilities	 <u>\$ 71,988,608</u>	 <u>\$ 625,176</u>	 <u>\$ 4,068,524</u>	 <u>\$ 68,545,260</u>	 <u>\$ 4,226,797</u>

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 8 – Debt and Lease Obligations**

Debt service requirements at August 31, 2012 were as follows:

<u>Year Ended</u> <u>August 31,</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 3,265,000	\$ 2,833,800
2014	3,430,000	2,671,050
2015	3,565,000	2,532,830
2016	3,745,000	2,354,880
2017	3,930,000	2,167,653
2018-2022	22,810,000	7,685,260
2023-2025	<u>16,610,000</u>	<u>1,688,000</u>
Total	<u>\$ 57,355,000</u>	<u>\$ 21,933,473</u>

Obligations under capital lease at August 31, 2012 were as follows:

<u>August 31,</u>	<u>Total</u>
2013	\$ 3,348
Less: Amount representing interest costs	<u>(38)</u>
Present value of minimum lease payments	<u>\$ 3,310</u>

**Note 9 – Notes Payable**

The College has expended \$1,284,361 under the Revolving Loan Program of the Texas State Energy Conservation Office (the "Program") for the purpose of renovating and updating the College's energy conservation retrofit measure systems. Prior to funding under the Program, all expenditures and related project work were subject to review by the State. As of August 31, 2012 and 2011, \$539,329 and \$676,622 are outstanding, respectively.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9 – Notes Payable (continued)**

The College has expended \$2,967,275 under another LoanSTAR Revolving Loan from the Texas State Energy Conservation Office (the "Program") for the purpose of energy conservation, such as window film, high efficiency lighting and control valves. Prior to funding under the Program, all expenditures and related project work were subject to review by the State. As of August 31, 2012 and 2011, \$2,233,828 and \$2,572,896 are outstanding, respectively.

Debt service requirements at August 31, 2012 were as follows:

<u>Year Ended</u> <u>August 31.</u>	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 496,350	\$ 72,325
2014	510,367	58,308
2015	524,779	43,896
2016	484,352	29,030
2017	395,553	17,042
2018	<u>361,756</u>	<u>5,468</u>
Total	<u>\$ 2,773,157</u>	<u>\$ 226,069</u>

**Note 10 - Leases**

The College leases vehicles under long-term capital leases. Vehicles include approximately \$3,310 and \$32,654, for lease obligations that have been capitalized as of August 31, 2012 and 2011, respectively. Interest paid for capital lease obligations was approximately \$1,642 and \$4,731 during the fiscal years ended August 31, 2012 and 2011, respectively. The College also leases various equipment and facilities under annually renewable agreements.

Rent expense under operating leases for the fiscal years ended August 31, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Total	<u>\$ 22,130</u>	<u>\$ 345,358</u>

Future minimum payments for each of the five subsequent fiscal years for noncancellable operating leases is as follows:

<u>Year Ended</u> <u>August 31.</u>	<u>Total</u>
2013	\$ 29,846
2014	29,846
2015	27,695
2016	23,145
2017	<u>7,309</u>
Total	<u>\$ 117,841</u>

# EL PASO COUNTY COMMUNITY COLLEGE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Note 11 – 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 (TRS).

#### 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. The Teacher Retirement System does not separately account for each of its component government agencies because it bears sole responsibility for retirement commitments beyond contributions fixed by the Legislature. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefits provisions of the pension plan. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trrs.state.tx.us](http://www.trrs.state.tx.us), under the TRS Publications heading.

**Funding policy** - State law provides for fiscal years 2012 and 2011 state contribution rate of 6.00% and 6.644%, respectively, and a member contribution rate of 6.400%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 2012 and 2011 contribution. The College makes the 100% required contribution which represents the employer's contribution. The State is the administrator and thereby funds the employer matching requirement. The College's contribution for these employees was \$115,280, \$133,382 and \$136,893 for fiscal years 2012, 2011 and 2010, respectively. 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 contribution 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 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (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.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 11 – Employees' Retirement Plans (continued)**

**Optional Retirement Plan**

**Plan description** - The State of Texas has also established a defined contribution plan, the 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 Articles, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

**Funding policy** - Contributions requirements are not actuarially determined but are established and amended by the Texas state legislature. The percentages of participants' salaries currently contributed by the State and each participant are 6.00% and 6.65%, respectively. The College makes the 100% required contribution which represents the employer's contribution. Benefits fully vest after one year plus one day of employment. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program. Currently the College contributes up to 1.92% of each participant's salary to the Optional Retirement Program under provisions of State law. The retirement expense to the College totaled \$335,828, \$300,158 and \$296,028 for 2012, 2011 and 2010, respectively. The State, through appropriations, reimbursed the College 1.31% of the 2.5% it contributed on behalf of certain employees.

The retirement expense to the State for the College totaled \$3,645,727 and \$4,048,600 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 which is recorded as revenue and expense in the restricted fund. The total payroll for all College employees was \$82,976,927 and \$82,572,068 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the Teacher Retirement System was \$47,072,170 and \$47,397,348 and the total payroll of employees covered by the Optional Retirement System was \$17,870,903 and \$18,832,655 for fiscal years 2012 and 2011, respectively.

**Tax Sheltered Annuity Plan for Part Time Employees**

**Plan description** - The College has established a tax sheltered annuity plan for part time employees. An eligible employee is a part time employee who is not eligible for participation in the Teacher Retirement System of Texas or any other public or private retirement system within the meaning of section 3121(b)(7)(F) of the Internal Revenue Code. The Tax Sheltered Annuity Plan provides for the purchase of annuity contracts. These annuity contracts are administered by Metropolitan Life Insurance for the participants. Certificates are issued to the participants evidencing their annuity contracts. A participant is 100% vested in the accumulated value of his annuity contract at all times.

**Funding policy** - A participant can elect to make salary reduction contributions equal to a percentage of 3.75% of his monthly compensation. The College makes contribution equal to 3.75% of participant's monthly compensation. Since these are individual annuity contracts, the College has no additional or unfunded liability for this program. The retirement expense to the College totaled \$82,790, \$98,106 and \$95,332 for 2012, 2011 and 2010, respectively. Total payroll of employees covered by the Tax Sheltered Annuity Plan for Part Time Employees was \$2,207,682, \$2,616,118 and \$2,542,153 for fiscal years 2012, 2011 and 2010, respectively.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 12 – Deferred Compensation Program**

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. As of August 31, 2012 and 2011, the College had 471 and 440 employees participating in the program and \$1,978,473 and \$1,953,403, respectively, of payroll deductions had been invested in approved plans.

**Note 13 – Risk Management**

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1990, the College established a Workers' compensation claim program to account for and finance its uninsured risks of loss related to employee injuries. Under this program, the College retains all risk of loss. The College purchases commercial insurance for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The claims liability of \$900,000 reported at August 31, 2012, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability is subject to change based on actual claim development. Estimated future payments for incurred claims are charged to current funds expenditures. Changes in the College's claims liability amount in fiscal 2012 and 2011 were:

	Beginning-of- Fiscal Year Liability	Current-year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2011 – 2012	\$ 900,000	\$ 480,410	\$ (480,410)	\$ 900,000
2010 – 2011	900,000	380,697	(380,697)	900,000

**Note 14 – Compensated Absences**

**Annual leave** - Full-time employees earn annual leave from 1 to 1.67 days per month depending on the number of years employed with the College and the employee's classification. The College's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of days up to 40 for those employees who accrue 20 days leave per year. Employees with at least six months of service who terminate their employment are entitled to payment for all accumulated unused annual leave up to the maximum allowed. The College recognized an accrual for compensated absences of approximately \$2,519,898 and \$2,633,102 for the unpaid annual leave at August 31, 2012 and 2011, respectively.

**Sick leave** - The Board of Trustees has adopted a policy providing that ten percent (10%) of accrued unused sick leave (not to exceed 960 hours) shall be paid to an employee who has at least five years of continuous eligible full-time service, upon separation from employment for any reason other than by death. At August 31, 2012 and 2011, the estimated liability under this policy was approximately \$1,221,677 and \$1,239,986, respectively, which is accrued.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 15 – Post Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State of Texas 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 early or normal retirement age while working for the State. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State's contribution per full-time active and retired employee was 100% of the premium cost plus 50% of their dependents premium cost for the years ended August 31, 2012 and 2011, and totaled \$3,721,265 and \$6,002,388 for the years. The cost of providing these benefits for 301 and 281 retirees was \$1,667,348 and \$1,345,660 and for 1,243 and 1,275 active employees was \$2,053,917 and \$4,656,728 at August 31, 2012 and 2011, respectively. The College's contribution for healthcare and life insurance benefits for its employees totaled \$6,858,979 and \$3,835,702 for 2012 and 2011, respectively.

**Note 16 – Post Employment Benefits Other than Pensions**

**Plan description** - The College participates in 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. Benefits and contribution provisions of the SRHP are authorized by State law and may be amended by the Texas Legislature.

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

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

The employer's share of the cost of the 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.

## **EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 16 – Post Employment Benefits Other than Pensions (continued)**

The contributions to SRHP for the years ended August 31, 2012, 2011 and 2010 totaled \$1,667,348, \$1,345,660 and \$1,350,129 are paid by the State; no College contributions were required for the years. This amount represents the portion of expended appropriations made by the state legislature on behalf of the College which is recorded as revenue and expense in the restricted fund.

#### **Note 17 – Contract and Grant Awards**

Grant funds are considered to be earned when all eligibility requirements have been met and to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received in advance, they are recorded as deferred revenue until earned. 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. Contract and grant awards funds already committed under multi-year awards or for fiscal periods that differ from the College's fiscal year for which monies have not been received nor funds expended totaled \$68,569,831 and \$72,947,864 at August 31, 2012 and 2011, respectively. Of this amount, \$67,473,404 and \$71,161,839 were related to Federal Contract and Grant Awards, \$1,096,427 and \$1,786,025 were from State and Other Contract and Grant Awards.

#### **Note 18 – Related Party**

The El Paso Community College Foundation (the Foundation) is governed by a twenty-five-member Board of Directors, independent of the College. Although the Foundation is not financially accountable to the College, the Foundation has received from the College both in-kind assistance in the form of donated services and use of facilities and equipment. The Foundation solicits donations for the benefit of the College. It remitted gifts of \$403,601 and \$180,030 to the College during the years ended August 31, 2012 and 2011, respectively. The College donated certain services, such as office space, utilities, supplies, and staff salaries and benefits to the Foundation with approximate value of \$60,000 for each year.



**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 19 – Property Taxes**

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

At August 31, 2012

Assessed valuation of the College	\$	41,628,096,177
Less: exemptions and abatements		<u>(5,592,871,383)</u>
Net assessed valuation of the College		<u>\$ 36,035,224,794</u>

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax rate per \$100 valuation for authorized (maximum per enabling legislation)	\$ 0.15	\$ 0.50	\$ 0.65
Tax rate per \$100 valuation for assessed	0.115442	-	0.115442

At August 31, 2011

Assessed valuation of the College	\$	39,804,189,607
Less: exemptions and abatements		<u>(4,884,780,918)</u>
Net assessed valuation of the College		<u>\$ 34,919,408,689</u>

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax rate per \$100 valuation for authorized (maximum per enabling legislation)	\$ 0.15	\$ 0.50	\$ 0.65
Tax rate per \$100 valuation for assessed	0.107329	-	0.107329

Taxes levied for the years ended August 31, 2012 and 2011, were \$41,649,974 and \$37,532,886, 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.

	<u>Current Operations</u>	
<u>Tax Collected</u>	<u>2012</u>	<u>2011</u>
Current taxes collected	\$40,875,908	\$ 36,538,292
Delinquent taxes	724,944	688,649
Penalties and interest collected	<u>454,229</u>	<u>462,931</u>
 Total collections	 <u>\$ 42,055,081</u>	 <u>\$ 37,689,872</u>

Tax collections for the years ended August 31, 2012 and 2011, were 98% of the current tax levy. Allowances for uncollectible taxes for the years ended August 31, 2012 and 2011, respectively, of \$455,229 and \$417,657, are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to local maintenance and operations.

## **EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 20 – Pending Lawsuits and Claims**

On August 31, 2012, various lawsuits and claims involving the College were pending. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, management believes that this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

#### **Note 21 – Commitments**

Encumbrances, primarily construction and technology related, outstanding at August 31, 2012 and 2011, respectively, that were provided for in the subsequent year's budget aggregated approximately \$1,863,656 and \$1,164,718.

#### **Note 22 – Contingencies**

Texas Constitution article 16, section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system," referring to the State's Teacher Retirement System (TRS) including the related faculty Optional Retirement Program (ORP).

During the 2011 legislative session, the Texas Legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted general revenue appropriation for each year of the biennium state budget.

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 college has calculated that as of August 31, 2012 the contribution that has not been paid to TRS on behalf of college employees is \$1,784,521.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 23 – Fund Balance**

Net assets reclassified in fund balance formatted for the internal purposes at August 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Current funds		
Fund balance, unrestricted	\$ 23,139,056	\$ 18,109,933
Fund balance, auxiliary enterprises	3,124,011	2,518,887
Fund balance, restricted	<u>2,601,659</u>	<u>1,504,018</u>
Total current fund balance	28,864,726	22,132,838
Fund balance, loan funds	1,116,047	908,600
Fund balance, endowment and similar funds	740,985	738,681
Fund balance, plant funds	<u>94,365,018</u>	<u>93,370,288</u>
Total fund balance	<u>\$125,086,776</u>	<u>\$117,150,407</u>

## **SUPPLEMENTARY INFORMATION**

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EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF OPERATING REVENUES  
Year Ended August 31, 2012  
(With Memorandum Totals for the Year Ended August 31, 2011)

Schedule A

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2012 Total	2011 Total
<b>Tuition:</b>						
State-funded credit courses:						
In-district resident tuition	\$ 37,505,058	\$ -	\$ 37,505,058	\$ -	\$ 37,505,058	\$ 35,035,728
Non-resident tuition	3,989,465	-	3,989,465	-	3,989,465	3,478,821
TPEG - credit (set aside)*	2,074,478	-	2,074,478	-	2,074,478	1,944,791
State-funded continuing education	1,596,894	-	1,596,894	-	1,596,894	1,604,431
Non-state funded educational programs	1,465,844	-	1,465,844	-	1,465,844	1,957,673
Total Tuition	<u>46,631,739</u>	<u>-</u>	<u>46,631,739</u>	<u>-</u>	<u>46,631,739</u>	<u>44,021,444</u>
<b>Fees:</b>						
General use fee	6,151,760	-	6,151,760	-	6,151,760	6,288,519
Student fee	2,612,112	-	2,612,112	17,945	2,630,057	2,499,866
Laboratory fee	400,154	-	400,154	-	400,154	399,186
Other fees	63,440	-	63,440	952,924	1,016,364	1,054,903
Total Fees	<u>9,227,466</u>	<u>-</u>	<u>9,227,466</u>	<u>970,869</u>	<u>10,198,335</u>	<u>10,242,474</u>
<b>Scholarships Allowances and Discounts:</b>						
Bad debt allowance	(504,923)	-	(504,923)	-	(504,923)	-
Remissions and exemptions - local	(270,393)	-	(270,393)	-	(270,393)	(249,645)
Remissions and exemptions - state	(6,311,720)	-	(6,311,720)	-	(6,311,720)	(5,154,377)
Federal grants to students	(25,333,549)	-	(25,333,549)	-	(25,333,549)	(24,011,524)
TPEG awards	(730,549)	-	(730,549)	-	(730,549)	(1,064,293)
State grants to students	(2,293,611)	-	(2,293,611)	-	(2,293,611)	(2,867,824)
Total Scholarship Allowances	<u>(35,444,745)</u>	<u>-</u>	<u>(35,444,745)</u>	<u>-</u>	<u>(35,444,745)</u>	<u>(33,347,663)</u>
Total Net Tuition and Fees	<u>20,414,460</u>	<u>-</u>	<u>20,414,460</u>	<u>970,869</u>	<u>21,385,329</u>	<u>20,916,255</u>
<b>Additional Operating Revenues:</b>						
Federal grants and contracts	370,736	4,608,633	4,979,369	-	4,979,369	6,405,026
State grants and contracts	-	4,034,558	4,034,558	-	4,034,558	5,417,936
Non-governmental grants and contracts	-	637,984	637,984	-	637,984	359,296
General operating revenues	1,696,413	259,650	1,956,063	-	1,956,063	822,643
Total Additional Operating Revenues	<u>2,067,149</u>	<u>9,540,825</u>	<u>11,607,974</u>	<u>-</u>	<u>11,607,974</u>	<u>13,004,901</u>
<b>Auxiliary Enterprises:</b>						
Bookstore**	-	-	-	795,721	795,721	610,210
Other	-	-	-	382,974	382,974	384,763
Total Net Auxiliary Enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,178,695</u>	<u>1,178,695</u>	<u>994,973</u>
Total Operating Revenues	<u>\$ 22,481,609</u>	<u>\$ 9,540,825</u>	<u>\$ 32,022,434</u>	<u>\$ 2,149,564</u>	<u>\$ 34,171,998</u>	<u>\$ 34,916,129</u>
					(Exhibit 2)	(Exhibit 2)

\* In accordance with Education code 56.033, \$2,074,478 and \$1,944,791 for the years August 31, 2012 and 2011, respectively, of tuition was set aside for Texas Public Education grants (TPEG).

\*\* The College bookstore is outsourced to an independent third-party.

EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
 SCHEDULE OF OPERATING EXPENSES BY OBJECT  
 Year Ended August 31, 2012  
 (With Memorandum Totals for the Year Ended August 31, 2011)

Schedule B

	Operating Expenses				2012 Total	2011 Total
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
<b>Unrestricted - Educational Activities</b>						
Instruction	\$ 40,364,544	\$ -	\$ 4,579,608	\$ 2,636,660	\$ 47,580,812	\$ 46,219,120
Research	29,208	-	3,301	14,481	46,990	46,835
Public Service	3,312,712	-	379,923	1,193,585	4,886,220	4,587,777
Academic Support	11,962,271	-	1,351,997	1,951,550	15,265,818	15,124,534
Student Support	6,792,355	-	767,684	779,702	8,339,741	8,343,051
Institutional Support	11,800,746	-	1,333,741	5,719,316	18,853,803	18,555,826
Operation and Maintenance of Plant	2,167,710	-	446,538	6,940,398	9,554,646	8,907,338
Scholarships and Fellowships	-	-	-	2,023,145	2,023,145	1,899,985
<b>Total Unrestricted Educational Activities</b>	<b>76,429,546</b>	<b>-</b>	<b>8,862,792</b>	<b>21,258,837</b>	<b>106,551,175</b>	<b>103,684,466</b>
<b>Restricted - Educational Activities</b>						
Instruction	\$ 2,860,133	\$ 3,995,856	\$ 411,822	\$ 1,720,750	\$ 8,988,561	\$ 11,563,316
Research	-	-	-	-	-	-
Public Service	300,634	330,041	43,288	180,871	854,834	1,035,735
Academic Support	897,332	1,190,506	129,204	539,865	2,756,907	3,559,950
Student Support	510,803	676,290	73,549	299,015	1,559,657	2,066,433
Institutional Support	-	1,174,299	-	-	1,174,299	1,611,295
Operation and Maintenance of Plant	-	-	-	-	-	-
Scholarships and Fellowships	-	-	-	41,977,923	41,977,923	48,736,531
<b>Total Restricted Educational Activities</b>	<b>4,568,902</b>	<b>7,366,992</b>	<b>657,863</b>	<b>44,718,424</b>	<b>57,312,181</b>	<b>68,573,260</b>
<b>Total Educational Activities</b>	<b>80,998,448</b>	<b>7,366,992</b>	<b>9,520,655</b>	<b>65,977,261</b>	<b>163,863,356</b>	<b>172,257,726</b>
Auxiliary Enterprises	437,801	-	76,631	2,494,338	3,008,770	2,180,466
Depreciation Expense - Buildings and other real estate improvements	-	-	-	3,701,595	3,701,595	3,235,688
Depreciation Expense - Equipment, furniture, and library books	-	-	-	1,086,178	1,086,178	798,208
<b>Total Operating Expenses</b>	<b>\$ 81,436,249</b>	<b>\$ 7,366,992</b>	<b>\$ 9,597,286</b>	<b>\$ 73,259,372</b>	<b>\$ 171,659,899</b> (Exhibit 2)	<b>\$ 178,472,088</b> (Exhibit 2)

EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
 SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES  
 Year Ended August 31, 2012  
 (With Memorandum Totals for the Year Ended August 31, 2011)

Schedule C

	Unrestricted	Restricted	Auxiliary Enterprises	2012 Total	2011 Total
<b>NON-OPERATING REVENUES:</b>					
State Appropriations:					
Education and general state support	\$ 30,997,449	\$ -	\$ -	\$ 30,997,449	\$ 31,155,773
State group insurance	-	3,721,265	-	3,721,265	6,002,460
State retirement matching	-	3,645,727	-	3,645,727	4,048,600
Total State Appropriations	<u>30,997,449</u>	<u>7,366,992</u>	<u>-</u>	<u>38,364,441</u>	<u>41,206,833</u>
Maintenance ad valorem taxes	42,055,081	-	-	42,055,081	37,689,872
Federal Revenue, Non Operating	233,397	67,187,334	-	67,420,731	72,591,478
Other State Revenue, Non Operating	-	339,489	-	339,489	431,302
Investment income	135,526	4,703	1,563	141,792	361,454
Total Non-Operating Revenues	<u>73,421,453</u>	<u>74,898,518</u>	<u>1,563</u>	<u>148,321,534</u>	<u>152,280,939</u>
<b>NON-OPERATING EXPENSES:</b>					
Interest on capital related debt	2,897,264	-	-	2,897,264	3,087,201
Loss on disposal of capital assets	-	-	-	-	-
Total Non-Operating Expenses	<u>2,897,264</u>	<u>-</u>	<u>-</u>	<u>2,897,264</u>	<u>3,087,201</u>
Net Non-Operating Revenues	<u>\$ 70,524,189</u>	<u>\$ 74,898,518</u>	<u>\$ 1,563</u>	<u>\$ 145,424,270</u> (Exhibit 2)	<u>\$ 149,193,738</u> (Exhibit 2)



EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
 SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY  
 Year Ended August 31, 2012  
 (With Memorandum Totals for the Year Ended August 31, 2011)

Schedule D

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted Expendable	Non- Expendable	Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
Current:							
Unrestricted	\$ 23,139,056	\$ -	\$ -	\$ -	\$ 23,139,056	\$ 23,139,056	\$ -
Restricted	-	2,601,659	-	-	2,601,659	2,601,659	-
Auxiliary Enterprises	3,124,011	-	-	-	3,124,011	3,124,011	-
Loan	-	1,116,047	-	-	1,116,047	-	1,116,047
Endowment:							
Quasi:							
Restricted	-	-	740,985	-	740,985	-	740,985
Plant:							
Unexpended	-	9,831,418	-	-	9,831,418	-	9,831,418
Renewals	-	336,941	-	-	336,941	336,941	-
Debt Service	-	7,564,727	-	-	7,564,727	-	7,564,727
Investment in Plant	-	-	-	76,631,932	76,631,932	-	76,631,932
Total Net Assets, August 31, 2012	26,263,067	21,450,792	740,985	76,631,932	125,086,776 (Exhibit 1)	29,201,667	95,885,109
Total Net Assets, August 31, 2011	20,628,820	26,857,747	738,681	68,925,159	117,150,407 (Exhibit 1)	22,743,054	94,407,353
Net Increase (Decrease) in Net Assets	\$ 5,634,247	\$ (5,406,955)	\$ 2,304	\$ 7,706,773	\$ 7,936,369 (Exhibit 2)	\$ 6,458,613	\$ 1,477,756

**FEDERAL AWARDS SECTION**

EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended August 31, 2012

Schedule E

	Federal CFDA Number	Pass-through Grantor's Numbers	Federal Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION:</u></b>			
Direct Programs:			
Student Financial Assistance Cluster			
Supplemental Education Opportunity Grants	84.007		\$ 1,187,159
Federal College Work study Program	84.033		923,735
Federal Pell Grant Program	84.063		64,431,531
Federal Direct Student Loans	84.268		11,313,097
Academic Competitiveness Grants	84.375		23,957
Total Student Financial Assistance Cluster			<u>77,879,479</u>
TRIO Cluster			
TRIO Student Support Services	84.042A		614,649
TRIO Upward Bound - Office of Postsecondary Education	84.047A		239,700
Total TRIO Cluster			<u>854,349</u>
Higher Education Institutional Aid	84.031		252,961
Minority Science and Engineering Improvement	84.120A		7,696
Migrant Education-High School Equivalency Program	84.141A		531,517
Gaining Early Awareness and Readiness for Undergraduate Prog.	84.334A		777,060
Pass Through From:			
Texas Higher Education Coord. Board			
Career and Technical Education -- Basic Grants to States			
Formula Allocation	84.048	124241	649,811
CTE Marketing Project FY 11	84.048	P11105	(749)
Texasgenuine CTE Strategic Plan 12	84.048	121105	294,404
Total Career and Technical Education - Basic Grants to States			<u>943,466</u>
University of Texas at El Paso			
Minority Science and Engineering Improvement			
Office of Postsecondary Education UTEP			
Transform Engineering Education	84.120A	P120A070032-08	7,816
Total U.S. Department of Education:			<u>81,254,344</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE:</u></b>			
Pass Through From:			
Texas Workforce Commission			
State Administrative Matching Grants for the Supplemental Nutrition			
Apprenticeship Program FY 11 9.54%	10.561	1011ATP000	366
Apprenticeship Program FY 12 12.59%	10.561	1012ATP000	25,595
Total State Administrative Matching Grants			<u>25,961</u>
Total U.S. Department of Agriculture			<u>25,961</u>
<b><u>U.S. DEPARTMENT OF DEFENSE:</u></b>			
Direct Program:			
Procurement Technical Assistance for Business Firms	12.002		303,835
Total U.S. Department of Defense:			<u>303,835</u>
<b><u>U.S. DEPT. OF HOUSING &amp; URBAN DEVELOPMENT:</u></b>			
Direct Program:			
Hispanic-Serving Institutions Assisting Communities	14.514		312,079
Pass Through From:			
City of El Paso			
Community Development Block Grants/Entitlement Grants	14.218	N/A	27,765
TVP Non-Profit Corporation			
Community Development Block Grants/Entitlement Grants	14.218	N/A	18,999
Project Vida Community Development Corporation			
Community Development Block Grants/Entitlement Grants	14.218	N/A	18,996
Total Community Development Block Grants/Entitlement Grants			<u>65,760</u>
Housing Authority of the City of El Paso			
Public Housing Neighborhood Networks Grants	14.875	N/A	8,959
Total U.S. Dept. of Housing & Urban Development:			<u>\$ 386,798</u>

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**Year Ended August 31, 2012**

Schedule E (continued)

	Federal CFDA Number	Pass-through Grantor's Numbers	Federal Expenditures
<b><u>U.S. DEPARTMENT OF LABOR:</u></b>			
Direct Program:			
Community Based Job Training Grants	17.269		289,689
Pass Through From:			
Texas Workforce Commission			
WIA Dislocated Workers			
Apprenticeship Program FY 11 (35.05%)	17.260	1011ATP000	1,346
WIA Dislocated Worker Formula Grants			
Apprenticeship Program FY 12 (33.86%)	17.278	1012ATP000	<u>68,836</u>
Total U.S. Department of Labor:			<u>359,871</u>
<b><u>INSTITUTE OF MUSEUMS AND LIBRARY SERVICES:</u></b>			
Pass Through From:			
Texas State Library and Archives Commission			
Grants to States			
Texas State Library Special Project	45.310	478-12003	<u>49,478</u>
Total Institute of Museums and Library Services:			<u>49,478</u>
<b><u>NATIONAL SCIENCE FOUNDATION:</u></b>			
Direct Program:			
Geosciences	47.050		67,282
Education and Human Resources	47.076		107,349
Pass Through From:			
Arizona State University			
Education and Human Resources			
WAESO F10UR19	47.076	HRD0602425	736
WAESO F11UR003	47.076	HRD0602425	117
WAESO F11UR005	47.076	HRD0602425	756
WAESO F11UR049	47.076	HRD0602425	<u>662</u>
Total Education and Human Resources			<u>109,620</u>
University of Texas at El Paso			
Mathematical and Physical Sciences			
UTEP/LSAMP 2011	47.049	HRD0703584	<u>16,407</u>
Total National Science Foundation:			<u>193,309</u>
<b><u>U.S. SMALL BUSINESS ADMINISTRATION:</u></b>			
Pass Through From:			
University of Texas at San Antonio			
Small Business Development Centers			
UTSA SBDC SBA 2011	59.037	11-603001-Z-0049-25-EPCC	35,821
UTSA SBDC JOBS ACT 2011	59.037	1-603001-Z-0155-EPCC	500
UTSA SBDC SBA 2012	59.037	2-603001-Z-0049-26-EPCC	<u>186,447</u>
Total Small Business Development Centers			<u>222,768</u>
Total U.S. Small Business Administration:			<u>222,768</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u></b>			
Direct Programs:			
National Institutes of Health			
Biomedical Research and Research Training	93.859		383,463
Pass Through From:			
National Institutes of Health			
Biomedical Research and Research Training			
UTEP Bridges to the Future 2012	93.859	5R25GM049011-12	57,111
UTEP Bridges to the Future 2013	93.859	2R25GM049011-13	<u>20,116</u>
Total Biomedical Research and Research Training			<u>460,690</u>

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
Year Ended August 31, 2012**

Schedule E (continued)

	Federal CFDA Number	Pass-through Grantor's Numbers	Federal Expenditures
The University of Texas at El Paso			
Minority Health and Health Disparities Research			
UTEP Community Health Worker Prog. Yr, 5	93.307	2-R24-MD001785-04	2,678
Trans-NIH Recovery Act Research Support (B)	93.701	1R21HL091820-01A2	<u>50</u>
Total U.S. Dept. of Health and Human Services:			<u>463,418</u>
 <b><u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:</u></b>			
Direct Programs:			
Learn and Serve America Higher Education	94.005		<u>75,854</u>
Total Corporation for National and Community Service:			<u>75,854</u>
 <b><u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u></b>			
Direct Programs:			
Scientific Leadership Awards	97.062		<u>62,897</u>
Total U.S. Department of Homeland Security			<u>62,897</u>
 <b><u>U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT:</u></b>			
Pass Through From:			
Georgetown University			
USAID Foreign Assistance for Programs Overseas			
GU SEED Cycle 2011	98.001	EP-RX2050-705-10-M-1	107,529
SEED Cycle 2011-2012	98.001	EP-RX2050-705-11-M-12	237,712
CASS 2012	98.001	EP-RX2050-852-11-A1	182,888
SEED Cycle 2012	98.001	EP-RX2050-705-12-E	<u>45,119</u>
Total USAID Foreign Assistance for Programs Overseas			<u>573,248</u>
Total Federal Financial Assistance:			<u><u>\$ 83,971,781</u></u>

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**August 31, 2012**

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1. FEDERAL ASSISTANCE RECONCILIATION

Federal Revenue - Per Schedule E	
Per Schedule of Expenditures of Federal Awards	\$ 83,971,781
Direct Student Loans	(11,313,097)
Funds passed through to others	(258,584)
Non Operating Federal Revenue from Schedule C	(67,420,731)
Total Federal Revenue per Schedule A	<u>\$ 4,979,369</u>

2. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of El Paso County Community College District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. STUDENT LOANS PROCESSED AND ADMINISTRATIVE COST RECOVERED

<u>Federal Grantor</u> <u>CFDA Number/Program Name</u>	<u>New Loans</u> <u>Processed</u>	<u>Administrative</u> <u>Cost</u> <u>Recovered</u>	<u>Total Loans</u> <u>Processed and</u> <u>Administrative</u> <u>Cost Recovered</u>
U. S. Department of Education			
84.268 Federal Direct Student Loans	<u>\$11,313,097</u>	<u>\$</u>	<u>\$11,313,097</u>

4. AMOUNTS PASSED THROUGH BY THE COLLEGE

The Hispanic Serving Institutions Science Technology Engineering and Mathematics grant (CFDA 84.031) from the U.S. Department of Education passed through \$103,545 to the Texas Tech University.

The University of Texas of El Paso returned funds of \$8,054 to the Minority Science and Engineering Improvement grant (CFDA 84.120) funded by the U.S. Department of Education. Last fiscal year \$319,705 was passed through.

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**August 31, 2012**

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The Gain Early Awareness and Readiness for Undergraduate Program (CFDA 84.334) passed through from the U.S. Department of Education to the following:

Anthony Independent School District	\$ 7,066
Canutillo Independent School District	38,857
Fabens Independent School District	24,201
Tornillo Independent School District	7,271
Clint Independent School District	26,798
	<u>\$ 104,193</u>

The Career and Technical Education Leadership Grants (CFDA 84.048) passed through from the Texas Higher Education Coordinating Board from the U.S. Department of Education to the following:

ESC Region One	\$ 3,000
Region 3 Education Service Center	3,000
Region 4 Education Service Center	3,000
Region 5 Education Service Center	3,000
Region 7 Education Service Center	3,000
Region 8 Education Service Center	3,000
Region 9 Education Service Center	3,000
Region 10 Education Service Center	3,000
Region 11 Education Service Center	3,000
Region 12 Education Service Center	3,000
Region 13 Education Service Center	3,000
Region 14 Education Service Center	3,000
Region 15 Education Service Center	3,000
Region 16 Education Service Center	3,000
Region 17 Education Service Center	3,000
Region 18 Education Service Center	3,000
Region 19 Education Service Center	3,000
Region 20 Education Service Center	1,900
	<u>\$ 52,900</u>

The Opportunities for Enhancing Diversity in the Geosciences program (CFDA 47.050) from the National Science Foundation passed through \$6,000 to the University of Texas at El Paso.

**REPORT OF INDEPENDENT AUDITORS 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  
El Paso County Community College District  
El Paso, Texas

We have audited the financial statements of the El Paso Community College District (College) as of and for the year ended August 31, 2012, and have issued our report thereon dated December 27, 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 opinion 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 entity'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 previously.



Board of Trustees  
El Paso County Community College District  
El Paso, Texas

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, 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we have reported to management of the College in a separate letter dated December 27, 2012.

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

*Mess Adams LLP*

Albuquerque, New Mexico  
December 27, 2012

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees  
El Paso County Community College District  
El Paso, Texas

Compliance

We have audited the El Paso Community College District (the College), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended August 31, 2012. The College's major federal 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 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, the 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 programs for the year ended August 31, 2012.

Board of Trustees  
El Paso County Community College District  
El Paso, Texas

Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal 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 program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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.

The purpose of this report is solely to 1) describe the scope of our testing of internal control over compliance and the results of that testing; and 2) express an opinion on compliance based on our audit. This report is an integral part of an audit performed in accordance with OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Mess Adams LLP*

Albuquerque, New Mexico  
December 27, 2012

**EL PASO COMMUNITY COLLEGE DISTRICT  
 SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS  
 Year Ended August 31, 2012**

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**A. SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness (es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None Reported
- Non-compliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness (es) identified?  Yes  No
- Significant deficiency (ies) identified?  Yes  None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Cluster
12.002	Procurement Technical Assistance for Business
14.514	Hispanic Serving Institutions Assisting Communities

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

Auditee qualified as low-risk auditee?  Yes  No

**EL PASO COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended August 31, 2012**

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**B. FINDINGS - FINANCIAL STATEMENTS**

NONE

**C. FINDINGS - FEDERAL AWARD**

NONE

**D. PRIOR YEAR FINDINGS**

NONE

**STATE AWARDS SECTION**

EL PASO COUNTY COMMUNITY COLLEGE DISTRICT  
 SCHEDULE OF EXPENDITURES OF STATE AWARDS  
 Year Ended August 31, 2012

Schedule F

	State Grantor's Number	State Expenditures
<b>TEXAS WORKFORCE COMMISSION:</b>		
Apprenticeship Program FY 11 (55.41%)	1011ATP000	\$ 2,127
Apprenticeship Program FY 12 (53.55%)	1012ATP000	108,865
TWC - CETT	1010SDF000	68,774
TWC-Skills for Small Business Dev	1012SSD000	1,785
Total Texas Workforce Commission:		<u>181,551</u>
<b>TEXAS HIGHER EDUCATION COORDINATING BOARD:</b>		
P-16 Initiative - Developmental and Adult Education		
ABE-IG Adult Basic ED Innovation Grant	02776	135,671
THECB - Complete College America	02776	6,616
THECB Puente	08820	22,898
DEDP - (DE Demonstration Project)	02776	456,274
Total P-16 Initiative:		<u>621,459</u>
Texas Grant Initial (DC429)	N/A	776,898
Texas Grant Renewal (DC324)	N/A	1,007,435
TEOG Init'l (DC354)-Formerly TXGrt2	N/A	176,807
TEOG Renw'l (DC457)-Formerly TXGrt2	N/A	332,471
State Workstudy 2011-2012	N/A	115,254
Top 10 Percent Scholarship	N/A	175,328
Comm College Development Ed Initiative Prg.	CMS 2431	16,952
El Paso Pathways	2639	61,251
NSRP Under 70 Program FY 2010	6887	40,625
TOP 10 RENEWAL SCHOLARSHIP	N/A	20,000
NSRP Under 70 Program FY 2011	6887	(737)
THECB Nursing Innovations	5690	50,005
SIDE M	8000001440.3 / 02641	5,120
Starr Study	6394	3,200
SGPD	N/A	26,013
Early High School Graduation (HB 1479)	N/A	28,907
Tuition Assistance - Military Forces	N/A	743,910
Total Texas Higher Education Coordinating Board:		<u>4,200,898</u>
<b>TEXAS EDUCATION AGENCY:</b>		
Mission Rural Early college H/S	91045567110002	-
Cotton Valley ECHS Implementation	SAS # A823-11	195,486
Total Texas Education Agency:		<u>195,486</u>
<b>TEXAS DEPT. OF ASSISTIVE &amp; REHABILITATIVE SERVICES:</b>		
DARS Interpretative Services	538-08-001-000000000540	16,774
Total Texas Dept. of Assistive & Rehabilitative Services:		<u>16,774</u>
<b>TEXAS COMPTROLLER OF PUBLIC ACCOUNTS:</b>		
Pass Through		
Jobs and Education for Texans	N/A	836
Total Texas Comptroller of Public Accounts:		<u>836</u>
Total State Financial Assistance:		<u>\$ 4,595,545</u>

**EL PASO COUNTY COMMUNITY COLLEGE DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**August 31, 2012**

---

1. STATE ASSISTANCE RECONCILIATION

State Revenue - Per Schedule F		
Per Schedule of Expenditures of State Awards	\$	4,595,545
SGPD Awards from prior period set-asides		(26,012)
Funds passed through to others		(195,486)
Non Operating State Revenue from Schedule C		(339,489)
Total State Revenue per Schedule A	\$	<u>4,034,558</u>

2. BASIS OF PRESENTATION

The accompanying schedule of expenditures of state awards includes the state grant activity of El Paso County Community College District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State of Texas Single Audit. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. AMOUNTS PASSED THROUGH THE COLLEGE

The Early College High School Small and Rural District Implementation Grant from the Texas Education Agency passed-through \$195,486 to the Fabens Independent School District.



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

Board of Trustees  
El Paso County Community College District  
El Paso, Texas

Compliance

We have audited the El Paso Community College District (the College), compliance with the types of compliance requirements described in the State of Texas Single Audit Circular that could have a direct and material effect on each of the College's major state programs for the year ended August 31, 2012. The College's major state programs are identified in the summary of auditor's results section of the accompanying schedule of state findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major 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; and State of Texas Single Audit Circular. Those standards 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 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 on the College's compliance with those requirements.

In our opinion, the 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 state programs for the year ended August 31, 2012.

Board of Trustees  
El Paso County Community College District  
El Paso, Texas

### Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to 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 state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

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.

The purpose of this report is solely to 1) describe the scope of our testing of internal control over compliance and the results of that testing; and 2) express an opinion on compliance based on our audit. This report is an integral part of an audit performed in accordance with the State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

*Mess Adams LLP*

Albuquerque, New Mexico  
December 27, 2012

**EL PASO COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF STATE FINDINGS AND QUESTIONED COSTS  
Year Ended August 31, 2012**

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**A. SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued

Unqualified

Internal control over financial reporting:

• Material weakness (es) identified?

Yes  No

• Significant deficiency(ies) identified?

Yes  None Reported

Non-compliance material to financial statements noted?

Yes  No

***State Awards***

Internal control over major programs:

• Material weakness (es) identified?

Yes  No

• Significant deficiency (ies) identified?

Yes  None Reported

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State of Texas Single Audit Circular?

Yes  No

Identification of Major Programs:

Grant Number                      Name of State Program or Cluster

None

TEXAS GRANTS

Dollar threshold used to distinguish between type A and type B programs

\$ 300,000

Auditee qualified as low-risk auditee?

Yes  No

**EL PASO COMMUNITY COLLEGE DISTRICT**  
**SCHEDULE OF STATE FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended August 31, 2012**

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**B. FINDINGS - FINANCIAL STATEMENTS**

NONE

**C. FINDINGS - STATE AWARD**

NONE

**D. PRIOR YEAR FINDINGS**

NONE