

Financial Statements and Report of  
Independent Certified Public Accountants

[Howard County Junior College District](#)

August 31, 2012 and 2011



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Howard County Junior College District  
 ORGANIZATIONAL DATA  
 For the Fiscal Year 2012

Board of Trustees

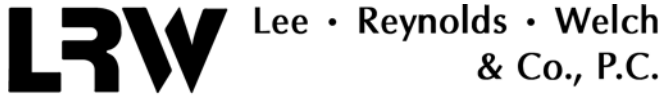
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<u>Officers</u>	<u>Board Title</u>	
Dr. John E. Freeman	Chairman	
Mr. Larry McLellan	Vice Chairman	
Mrs. Marie Ethridge	Secretary	
<u>Members</u>	<u>Address</u>	<u>Term Expires</u>
Dr. John E. Freeman	Big Spring, Texas	May, 2014
Mr. Larry McLellan	Big Spring, Texas	May, 2018
Mrs. Marie Ethridge	Coahoma, Texas	May, 2014
Mr. Maxwell Barr	Coahoma, Texas	May, 2018
Mr. Michael L. Flores	Big Spring, Texas	May, 2016
Mr. Murray Murphy	Big Spring, Texas	May, 2016
Dr. Charles O. Warren	Big Spring, Texas	May, 2014

Principal Administrative Officers and the Business and Financial Staff

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<u>Key Officers</u>	<u>Title</u>
Dr. Cheryl T. Sparks	President
Mr. Terry Hansen	Executive Vice President
Dr. Amy Burchett	Vice President Academic and Student Affairs
Ms. LeAnne Byrd	Provost, San Angelo
Mr. Terry L. Hanson	Executive Dean, Big Spring
Dr. Mark Myers	Provost, Southwest Collegiate Institute for the Deaf
Ms. Brenda Claxton	Controller



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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

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

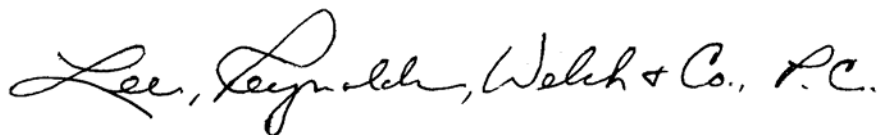
We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing 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 Howard County Junior College District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012, on our consideration of Howard County Junior College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 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. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards and the accompanying schedule of expenditures of State of Texas awards are presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State of Texas Single Audit Circular and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and 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 additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules listed previously are fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Lee, Reynolds, Welch & Co., P.C." The signature is written in a cursive, flowing style.

Big Spring, Texas  
December 26, 2012

Howard County Junior College District  
Management's Discussion and Analysis  
August 31, 2012 and 2011

As management of the Howard County Junior College District, we offer this narrative overview and analysis of the college district's financial activities for the fiscal years ended August 31, 2012 and 2011. Since this management's discussion and analysis focuses on current activities, resulting changes, and currently known facts, we encourage readers to consider it in conjunction with the college district's financial statements and related notes.

Financial Highlights

FYE 2012

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

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

FYE 2011

The college district's financial position, as a whole, improved during the fiscal years ended August 31, 2011 and 2010. Net assets increased by \$2.5 million and \$437 thousand in 2011 and 2010, respectively.

The assets of the college district exceeded its liabilities (net assets) by \$35.6 million and \$33.1 million, as of August 31, 2011 and 2010, respectively. Approximately \$7.8 million of the net assets as of August 31, 2011 was available for spending at the college district's discretion (unrestricted net assets). In comparison, as of August 31, 2010, \$7.7 million was classified as unrestricted net assets.

Brief Overview of the Financial Statements

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

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

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

The Statement of Cash Flows presents the operating cash inflows and outflows resulting in net cash flows from operations. This statement is prepared using the direct method as prescribed by the Governmental Accounting Standards Board (GASB) Statement 34.

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

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

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

### Financial Analysis

#### Net Assets

##### FYE 2012

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

The college's unrestricted net assets increased \$1.1 million for the fiscal year ended August 31, 2012. The increase was accomplished through conservative spending in response to reduced state funding. Refer to the next section on Revenues, Expenses, and Changes in Net Assets for further details.

##### FYE 2011

The schedule below was prepared from the Statement of Net Assets. Total net assets, which is the difference in total assets and total liabilities, at August 31, 2011 and 2010 was \$35.6 million and \$33.1 million, respectively. This represents an overall increase of 7.42% from the prior fiscal year. The majority of the increase was in invested in capital assets, net of related debt, due to the various improvement projects that continue to take place throughout the college district. Refer to the Capital Assets section for further details.



The college's unrestricted net assets increased \$46 thousand for the fiscal year ended August 31, 2011. The slight increase was accomplished through conservative spending in response to reduced state funding. Refer to the next section on Revenues, Expenses, and Changes in Net Assets for further details.

		NET ASSETS		
ASSETS		2012	2011	2010
	Total current assets	\$ 17,584,133	\$ 16,357,739	\$ 14,796,460
	Restricted cash equivalents	0	497,150	6,861,208
	Total capital assets, net	47,401,847	46,748,323	41,168,050
	Total Assets	64,985,980	63,603,212	62,825,718
LIABILITIES				
	Total current liabilities	5,687,406	6,156,634	6,851,205
	Total noncurrent liabilities	21,005,550	21,845,294	22,830,944
	Total Liabilities	26,692,956	28,001,928	29,682,149
NET ASSETS				
	Invested in capital assets, net of related debt	25,695,916	23,786,191	21,844,188
	Restricted			
	Nonexpendable	1,217,687	1,177,680	1,181,178
	Expendable	2,505,904	2,843,498	2,370,405
	Unrestricted	8,873,517	7,793,915	7,747,798
	TOTAL NET ASSETS	\$ 38,293,024	\$ 35,601,284	\$ 33,143,569

## Revenues, Expenses, and Changes in Net Assets

### FYE 2012

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

Total operating revenues increased \$261 thousand (2.59%) overall from the prior fiscal year, mainly due to the factors as outlined below:

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

However, there was a decrease in the following areas:

- State grants and contracts decreased by \$447 thousand (37.11%) mainly due to the completion of a workforce education grant.
- Nongovernmental grants and contracts decreased approximately \$548 thousand (34.66%) due to the completion of and continued progress on several capital improvement projects funded by private donations.

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

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

#### FYE 2011

The change in net assets is the result of operating and non-operating activities combined during the fiscal year. The college's net assets increased \$2.5 million and \$437 thousand for the fiscal years ended August 31, 2011 and 2010, respectively.

Total operating revenues increased \$1.4 million (16.4%) overall from the prior fiscal year, mainly due to the factors as outlined below:

- Federal grants and contracts increased \$201 thousand (9.13%) mainly due to increased awards within various scholarship programs and a new Title V grant.
- State grants and contracts increased by \$277 thousand (29.93%) mainly due to a new workforce education grant.
- Nongovernmental grants and contracts increased approximately \$919 thousand due to several capital purchases and capital improvement projects funded by private donations.

Operating expenses increased \$1.2 million (3.45%) overall from the prior fiscal year. The college district experienced a slight increase in expenses in most areas with the majority of the increase in scholarship programs. The district continues to be very dedicated to controlling expenditures in all areas.

Net non-operating revenues increased \$989 thousand mainly due to an increase in federal financial aid programs as a result of increased enrollment and increased cost of attendance and housing.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2012	2011	2010
<b>REVENUES</b>			
Operating revenues			
Tuition & fees (net of discounts)	\$ 4,163,082	\$ 3,539,834	\$ 3,371,951
Federal grants and contracts	2,857,420	2,405,435	2,204,119
State grants and contracts	756,890	1,203,469	926,249
Local grants and contracts	6,209	31,254	292,299
Nongovernmental grants and contracts	1,032,383	1,579,904	660,411
Sales and services of educational activities	349,216	338,381	299,897
Auxiliary enterprises (net of discounts)	366,615	423,853	444,634
Other operating revenues	807,062	556,058	456,318
Total operating revenues	<u>10,338,877</u>	<u>10,078,188</u>	<u>8,655,878</u>
<b>EXPENSES</b>			
Operating expenses			
Instruction	10,773,476	12,249,845	12,041,598
Public service	923,413	1,119,832	753,444
Academic support	2,434,859	1,590,954	1,505,472
Student services	2,303,594	2,685,368	2,890,973
Institutional support	6,505,326	6,151,810	5,986,974
Operation and maintenance of plant	3,090,782	3,527,994	4,092,383
Scholarships and fellowships	4,153,859	5,018,877	3,818,885
Auxiliary enterprises	1,588,690	1,555,125	1,939,160
Depreciation	1,765,896	1,357,850	1,054,323
Total operating expenses	<u>33,539,895</u>	<u>35,257,655</u>	<u>34,083,212</u>
Operating loss	(23,201,018)	(25,179,467)	(25,427,334)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
State appropriations	12,326,329	13,496,753	13,575,960
Property taxes for operations	4,258,586	4,388,681	4,360,575
Property taxes for debt service	1,773,050	1,724,889	1,813,160
Payments in lieu of taxes	138,196	134,825	131,537
Federal revenue, non-operating	7,145,347	7,291,166	5,595,263
Investment income (net of investment expenses)	33,473	16,493	45,765
Interest on capital related debt	(1,020,991)	(698,967)	(107,445)
Gain (Loss) on disposal of fixed assets	4,109	(594)	(3,134)
Other non-operating revenues	388,333	404,833	357,670
	<u>25,046,432</u>	<u>26,758,079</u>	<u>25,769,351</u>
Income before other revenue	1,845,414	1,578,612	342,017
Other revenue			
Capital contributions	846,326	879,103	94,995
Increase in net assets	<u>2,691,740</u>	<u>2,457,715</u>	<u>437,012</u>
Net Assets – beginning of year	<u>35,601,284</u>	<u>33,143,569</u>	<u>32,706,557</u>
Net Assets – end of year	<u>\$ 38,293,024</u>	<u>\$ 35,601,284</u>	<u>\$ 33,143,569</u>

## Cash Flow

### FYE 2012

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

### FYE 2011

In addition to the Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, presented below, is another way to assess the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments by the college district during the fiscal year. There was a decrease in cash and cash equivalents of \$4.4 million for the year ended August 31, 2011. The decrease was attributable mainly to the continued progress of capital projects throughout the district with the majority from the General Obligation Bond issued in 2007 which is nearing completion.

#### CASH FLOW

Cash Provided (Used) by:	2012	2011	2010
Operating activities	\$ (21,120,844)	\$ (20,914,784)	\$ (22,248,951)
Noncapital financing activities	23,044,804	23,735,822	21,631,130
Capital and related financing activities	(2,076,169)	(7,285,148)	(12,517,946)
Investing activities	33,473	16,493	45,765
Net decrease in cash and cash equivalents	(118,736)	(4,447,617)	(13,090,002)
Cash and cash equivalents Sept 1	14,080,237	18,527,854	31,617,856
Cash and cash equivalents Aug 31	\$ 13,961,501	\$ 14,080,237	\$ 18,527,854

## Overall Financial Position

### FYE 2012

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

As in the past, the college continued to seek additional funding from outside sources such as from federal, state, and non-governmental grants. In an effort to meet the needs of the college's thirteen

county service area, the college continued to seek ways to enhance existing programs, pursue new course delivery methods, and to provide new services as needed or requested. Expenditures were controlled through conservative budgeting strategies, freezing the filling of vacant positions, limiting or reducing staff in certain areas, as well as purchasing techniques and controls that reduced costs and maximized value.

#### FYE 2011

As reflected in the schedules and narrative, the college's financial position improved during the fiscal year ended August 31, 2011. Even though the state cut its original appropriation for the fiscal year by 7.5%, the operating and non-operating revenues, including capital contributions, increased approximately 10.9% for FYE 2011. Operating and non-operating expenses increased approximately 5.2% for FYE 2011. There is a correlation to the increase in both areas in certain situations, such as state and federal financial aid programs and restricted grants and contracts. A brief explanation for the majority of the increases is discussed above in the other sections of the Financial Analysis. Considering the fact that the cost of goods and services and the cost of delivering college programs continue to rise, the college's continued commitment to control expenditures has helped to maintain the stability of the college's financial position.

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

#### Capital Assets

##### FYE 2012

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

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

##### FYE 2011

As of August 31, 2011 and 2010, the college district had invested \$63.8 million and \$57.1 million, respectively, in capital assets. Net of accumulated depreciation, the college district's net capital assets at August 31, 2011 totaled \$46.7 million and totaled \$41.2 million at August 31, 2010. The approximate \$5.5 million increase was largely due to the following:

- Additional upgrades in San Angelo at the West Texas Training Center which is a leased facility; including the completion of a much needed parking lot.
- Technology and instructional equipment upgrades at the Big Spring and San Angelo campuses for several instructional and training programs; much of which were funded with grants or donated funds.
- The continued progress of the many projects funded by the \$21,550,000 General Obligation Bond, Series 2007. These projects continue to be on or ahead of schedule.
- Additional upgrades in San Angelo at the St. Johns Hospital site which is a leased facility; including equipment purchases and renovations for the allied health programs on the 3<sup>rd</sup> floor.
- A pavilion for the agriculture programs which was funded by a local private foundation.

See note 5 to the financial statements for detailed information on capital assets changes.

#### Debt Administration

##### FYE 2012

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

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

##### FYE 2011

The college district's long-term debt was comprised of capital lease agreements, a note payable, the general obligation bond issued August 2007, and a consolidated revenue bond issued November 2009. The current portion was \$928,966 and the non-current portion was \$21,845,294 for a total of \$22,774,260 at August 31, 2011. The college entered into operating lease agreements beginning September 1, 2008 for two facilities in San Angelo with the lease with Shannon Medical Center being amended twice for additional space effective July 2009 and July 2011. The college also entered into operating leases beginning September 2009, September 2010, and October 2010 for copiers with various terms under long-term, non-cancelable agreements. See Notes 6, 7, 8, 9, 10 and 11 to the financial statements for detailed information.

The college district continued to maintain a bond rating of "A3" with Moody's Investors Services on the Combined Revenue Bond, Series 2004. The college district was assigned a rating of "A" by Standard and Poor's and Fitch Ratings on the General Obligation Bond, Series 2007; however, in March 2010 Fitch Ratings recalibrated the rating to "AA-", and in September 2010, Standard and Poor's upgraded the rating to "AA-." The district continues to maintain the upgraded rating on the General Obligation Bond, Series 2007.

### Currently Known Facts, Decisions, or Conditions

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

<u>Category</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Unduplicated Credit Enrollment	6,207	6,494	5,761	5,073	4,757	4,457	4,191	3,894
Associate Degrees & Certificates	775	645	629	443	420	455	407	428
Targeted Technical Degrees & Certificates	55	55	49	24	37	36	40	32
Allied Health/Nursing Degrees & Certificates	135	146	139	129	118	115	113	121

As illustrated by the table above, the college has generally experienced an increase in credit enrollment and in total degrees and certificates awarded. Credit enrollment has increased by approximately 59% since 2005, and the total number of degrees and certificates awarded has increased by approximately 66% since 2005. This upward trend reflects the college's commitment and efforts in meeting the Closing the Gaps initiative and will have a positive impact on the college in the future.

### Contacting the District's Financial Management

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

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

Howard County Junior College District  
STATEMENTS OF NET ASSETS  
Exhibit 1  
August 31,

	2012	2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 13,961,501	\$ 13,583,087
Accounts receivable, net	2,529,793	2,263,760
Prepaid expenses	1,067,099	496,592
Inventories for resale	25,740	14,300
Total current assets	17,584,133	16,357,739
<b>Noncurrent Assets</b>		
Restricted cash equivalents	-	497,150
Capital assets, net of accumulated depreciation	47,401,847	46,748,323
Total noncurrent assets	47,401,847	47,245,473
<b>TOTAL ASSETS</b>	64,985,980	63,603,212
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	1,449,157	2,326,724
Accrued liabilities	1,469,694	1,319,818
Deposits payable	44,614	48,568
Deferred revenue	1,536,244	1,332,381
Accrued compensable absences	189,275	200,177
Bonds and notes payable – current portion	981,873	908,962
Capital lease agreements – current portion	16,549	20,004
Total current liabilities	5,687,406	6,156,634
<b>Noncurrent liabilities</b>		
Bonds and notes payable, noncurrent portion	20,960,417	21,837,744
Capital lease agreements, noncurrent portion	45,133	7,550
Total noncurrent liabilities	21,005,550	21,845,294
<b>TOTAL LIABILITIES</b>	26,692,956	28,001,928
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	25,695,916	23,786,191
Restricted for:		
Nonexpendable		
Student aid	1,217,687	1,177,680
Expendable		
Student aid	500,842	482,147
Instructional programs	91,455	84,542
Capital projects	936,404	1,506,321
Debt service	856,970	699,692
Other	120,233	70,796
Unrestricted	8,873,517	7,793,915
<b>TOTAL NET ASSETS (Schedule D)</b>	<b>\$ 38,293,024</b>	<b>\$ 35,601,284</b>

The accompanying notes are an integral part of these statements.



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

	2012	2011
<b>REVENUES</b>		
Operating revenues		
Tuition and fees (net of discounts of \$4,946,746 and \$4,154,939)	\$ 4,163,082	\$ 3,539,834
Federal grants and contracts	2,857,420	2,405,435
State grants and contracts	756,890	1,203,469
Local grants and contracts	6,209	31,254
Nongovernmental grants and contracts	1,032,383	1,579,904
Sales and services of educational activities	349,216	338,381
Auxiliary enterprises (net of discounts of \$1,093,951 and \$966,257)	366,615	423,853
Other operating revenues	807,062	556,058
Total operating revenues (Schedule A)	10,338,877	10,078,188
<b>EXPENSES</b>		
Operating expenses		
Instruction	10,773,476	12,249,845
Public service	923,413	1,119,832
Academic support	2,434,859	1,590,954
Student services	2,303,594	2,685,368
Institutional support	6,505,326	6,151,810
Operation and maintenance of plant	3,090,782	3,527,994
Scholarships and fellowships	4,153,859	5,018,877
Auxiliary enterprises	1,588,690	1,555,125
Depreciation	1,765,896	1,357,850
Total operating expenses (Schedule B)	33,539,895	35,257,655
Operating loss	(23,201,018)	(25,179,467)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	12,326,329	13,496,753
Property taxes for operations	4,258,586	4,388,681
Property taxes for debt service	1,773,050	1,724,889
Payments in lieu of taxes	138,196	134,825
Federal revenue, non operating	7,145,347	7,291,166
Investment income (net of investment expenses)	33,473	16,493
Interest on capital related debt	(1,020,991)	(698,967)
Gain (loss) on disposal of fixed assets	4,109	(594)
Other non-operating revenues	388,333	404,833
Net non-operating revenues (Schedule C)	25,046,432	26,758,079
Income before other revenue	1,845,414	1,578,612
Other revenue		
Capital contributions	846,326	879,103
Increase in net assets	2,691,740	2,457,715
Net assets – beginning of year	35,601,284	33,143,569
Net assets – end of year	\$ 38,293,024	\$ 35,601,284

The accompanying notes are an integral part of these statements.

Howard County Junior College District  
STATEMENTS OF CASH FLOWS

Exhibit 3

Year ended August 31,

	2012	2011
Cash flows from operating activities		
Receipts from students and other customers	\$ 4,022,931	\$ 4,366,839
Receipts of grants and contracts	4,857,828	5,288,959
Other receipts	1,195,395	960,891
Payments to or on behalf of employees	(18,518,202)	(18,465,111)
Payments to suppliers for goods and services	(8,524,937)	(8,047,485)
Payments of scholarships	(4,153,859)	(5,018,877)
Net cash used by operating activities	(21,120,844)	(20,914,784)
Cash flows from noncapital financing activities		
Property tax receipts and payments in lieu of taxes	4,405,078	4,513,063
Receipts of state appropriations	11,420,498	11,925,453
Receipts of non-operating federal revenue	7,219,228	7,297,306
Net cash provided by noncapital financing activities	23,044,804	23,735,822
Cash flows from capital and related financing activities		
Property tax receipts	1,773,722	1,717,463
Capital contracts, grants, and gifts	846,326	879,103
Proceeds on issuance of capital debt	176,000	-
Payments from accounts payable related to fixed asset additions	(504,914)	(1,736,858)
Purchases of capital assets	(2,364,488)	(6,088,354)
Payments on capital debt and leases	(948,295)	(970,116)
Interest payments on capital debt and leases	(1,054,520)	(1,086,386)
Net cash used by capital and related financing activities	(2,076,169)	(7,285,148)
Cash flows from investing activities		
Investment earnings	33,473	16,493
Decrease in cash and cash equivalents	(118,736)	(4,447,617)
Cash and cash equivalents – September 1	14,080,237	18,527,854
Cash and cash equivalents – August 31	\$ 13,961,501	\$ 14,080,237
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (23,201,018)	\$ (25,179,467)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	1,765,896	1,357,850
Other revenue	388,333	404,833
Payments made directly by state for benefits	905,831	1,571,300
Changes in assets and liabilities:		
Receivables, net	(348,882)	(96,798)
Inventories	(11,440)	4,100
Other assets	(589,508)	440,214
Accounts payable	(372,653)	414,394
Accrued liabilities	153,590	(68,439)
Deferred revenue	203,863	222,096
Deposits held for others	(3,954)	8,370
Compensated absences	(10,902)	6,763
Net cash used by operating activities	\$ (21,120,844)	\$ (20,914,784)
Noncash investing, capital, and financing activities:		
Acquisition of capital assets through accounts payable	\$ -	\$ 504,914
Acquisition of capital assets through capital leases	60,527	-
Gain on cancellation of capital leases	(9,704)	-
Acquisition of capital assets through capitalized interest	-	345,449
Amortization of bond issuance costs, deferred loss on refunding, and bond premium	29,815	37,306
Net effect of noncash transactions	\$ 80,638	\$ 887,669

The accompanying notes are an integral part of these statements.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 1 – REPORTING ENTITY

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Guidelines*

The significant accounting policies followed by Howard County Junior College District in preparing these financial statements are in accordance with the Texas Higher Education Coordinating Board's *Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The District applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The District has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The District is reported as a special-purpose government engaged in business-type activities.

B. *Tuition Discounting*

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code Sec. 56.033). When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act Program Funds

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

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. *Tuition Discounting - continued*

Other tuition discounts

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

C. *Basis of Accounting*

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

D. *Budgetary Data*

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

E. *Cash and cash equivalents*

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

F. *Investments*

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. The governing board has designated public funds investment pools comprised of \$517,246 and \$516,686 as of August 31, 2012 and 2011, respectively, to be cash equivalents.

G. *Inventories*

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

H. *Restricted cash equivalents*

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

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. *Capital assets*

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

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

J. *Capitalization of interest costs on borrowings*

The District capitalizes interest costs on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the years ended August 31, 2012 and 2011, the District capitalized \$0 and \$345,449 of interest, respectively, in connection with various capital expansion projects. The total amount of interest cost incurred for the year ended August 31, 2012 and 2011 was \$1,020,991 and \$1,044,416, respectively.

K. *Deferred revenues*

Tuition and fees of \$1,076,816 and \$1,027,227, federal grants of \$87,698 and \$10,986, state grants of \$203,582 and \$80,606, and private grants of \$168,148 and \$213,562 have been reported as deferred revenues at August 31, 2012 and 2011, respectively.

L. *Estimates*

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

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

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

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

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 3 – AUTHORIZED INVESTMENTS

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) 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 and approved by Board policy.

NOTE 4 – DEPOSITS AND INVESTMENTS

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

	2012	2011
Bank Deposits		
Demand deposits	\$ 13,434,295	\$ 13,056,679
Cash on hand	9,960	9,722
Total Cash and Deposits	\$ 13,444,255	\$ 13,066,401
<u>Reconciliation of deposits and investments to Exhibit 1, as of August 31,</u>		
<u>Total deposits and investments:</u>	2012	2011
Per Exhibit 1:		
Cash and cash equivalents	\$ 13,961,501	\$ 13,583,087
Restricted cash equivalents	-	497,150
Total deposits and investments	\$ 13,961,501	\$ 14,080,237
Per Note 4:		
Deposits and cash on hand	\$ 13,444,255	\$ 13,066,401
Investments	517,246	1,013,836
Total	\$ 13,961,501	\$ 14,080,237

As of August 31, 2012, the District had the following investments and maturities:

		Investment Maturities (in Years)
Investment Type	Fair Value	Less than 1
Investment Pool	\$ 517,246	\$ 517,246

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

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

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

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 5 – CAPITAL ASSETS

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

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

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 5 – CAPITAL ASSETS – Continued

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

	Balance September 1, 2010	Increases	Decreases	Balance August 31, 2011
Not depreciated:				
Land	\$ 371,871	\$ -	\$ -	\$ 371,871
Construction in process	8,758,485	4,939,609	(11,392,990)	2,305,104
Subtotal	<u>9,130,356</u>	<u>4,939,609</u>	<u>(11,392,990)</u>	<u>2,676,975</u>
Buildings and other capital assets				
Buildings and building improvements	36,396,603	7,460,550	-	43,857,153
Leasehold improvements	2,377,840	745,372	-	3,123,212
Other real estate improvements	<u>2,882,292</u>	<u>4,516,590</u>	<u>-</u>	<u>7,398,882</u>
Total buildings and other real estate improvements	41,656,735	12,722,512	-	54,379,247
Library books	879,149	18,196	(4,378)	892,967
Furniture, machinery, and equipment	<u>5,413,513</u>	<u>651,390</u>	<u>(178,902)</u>	<u>5,886,001</u>
Total buildings and other capital assets	<u>47,949,397</u>	<u>13,392,098</u>	<u>(183,280)</u>	<u>61,158,215</u>
Accumulated depreciation				
Buildings and building improvements	(10,555,664)	(657,133)	-	(11,212,797)
Leasehold improvements	(225,696)	(159,138)	-	(384,834)
Other real estate improvements	<u>(727,621)</u>	<u>(142,680)</u>	<u>-</u>	<u>(870,301)</u>
Total buildings and other real estate improvements	(11,508,981)	(958,951)	-	(12,467,932)
Library books	(720,313)	(19,088)	3,784	(735,617)
Furniture, machinery, and equipment	<u>(3,682,409)</u>	<u>(379,811)</u>	<u>178,902</u>	<u>(3,883,318)</u>
Total buildings and other capital assets	<u>(15,911,703)</u>	<u>(1,357,850)</u>	<u>182,686</u>	<u>(17,086,867)</u>
Net capital assets	<u>\$ 41,168,050</u>	<u>\$ 16,973,857</u>	<u>\$(11,393,584)</u>	<u>\$ 46,748,323</u>

NOTE 6 – 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
Leases, bonds and notes					
Leases	\$ 27,554	\$ 60,527	\$ (26,399)	\$ 61,682	\$ 16,549
Bonds	22,480,000	-	(875,000)	21,605,000	915,000
Unamortized bond premium	158,978	-	(48,816)	110,162	-
Notes payable	<u>107,728</u>	<u>176,000</u>	<u>(56,600)</u>	<u>227,128</u>	<u>66,873</u>
Total long-term liabilities	<u>\$ 22,774,260</u>	<u>\$ 236,527</u>	<u>\$(1,006,815)</u>	<u>\$ 22,003,972</u>	<u>\$ 998,422</u>



Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 6 – LONG-TERM LIABILITIES - Continued

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
Leases, bonds and notes					
Leases	\$ 45,509	\$ -	\$ (17,955)	\$ 27,554	\$ 20,004
Bonds	23,400,000	-	(920,000)	22,480,000	875,000
Deferred amount on refunding	(90)	-	90	-	-
Unamortized bond premium	215,749	-	(56,771)	158,978	-
Notes payable	139,889	-	(32,161)	107,728	33,962
Total long-term liabilities	<u>\$ 23,801,057</u>	<u>\$ -</u>	<u>\$(1,026,797)</u>	<u>\$ 22,774,260</u>	<u>\$ 928,966</u>

NOTE 7 – DEBT AND LEASE OBLIGATIONS

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

For the year ending <u>August 31,</u>	<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 915,000	\$ 998,581
2014	955,000	958,397
2015	1,000,000	916,381
2016	1,045,000	871,301
2017	1,090,000	823,116
2018-2022	6,245,000	3,321,071
2023-2027	7,970,000	1,604,550
2028-2030	<u>2,385,000</u>	<u>95,535</u>
	<u>\$ 21,605,000</u>	<u>\$ 9,588,932</u>

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

For the year ending <u>August 31,</u>	
2013	\$ 22,476
2014	16,206
2015	15,636
2016	15,636
2017	<u>6,368</u>
	76,322
Less interest portion	<u>14,640</u>
Present value of net minimum lease payments	61,682
Less current portion	<u>16,549</u>
Noncurrent portion	<u>\$ 45,133</u>

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 8 – BONDS PAYABLE

General information related to bonds payable is summarized below:

- Consolidated Fund Revenue Bonds, Series 2009.
  - Renovations, remodel and construction of student housing facilities
  - Issued November 1, 2009.
  - \$3,570,000; all authorized bonds have been issued.
  - Source of revenue for debt service – tuition pledge, building use fee, student services fee, lab fee, gross revenue of Auxiliary Services, other fees, and investment earnings on all investments.
  - \$3,450,000 and \$3,570,000 outstanding as of August 31, 2012 and 2011, respectively.

The range of installment payments on an annual basis is from \$164,220 to \$283,745 with an interest rate of 4.60%, with the final installment due October 1, 2029.

- General Obligation Bonds, Series 2007.
  - Renovation, construction, and equipment of college buildings.
  - Issued August 28, 2007.
  - \$21,550,000; all authorized bonds have been issued.
  - Source of revenue for debt service – continuing direct annual ad valorem tax levied by the District on all taxable property therein.
  - \$18,155,000 and \$18,910,000 outstanding as of August 31, 2012 and 2011, respectively.

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

NOTE 9 – CAPITAL LEASE AGREEMENTS

Certain leases to finance the purchase of equipment are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such equipment under capital leases as of August 31, 2012 and 2011, is \$84,296 and \$87,912, respectively, and accumulated amortization on those assets is \$25,795 and \$65,184, respectively, as of August 31, 2012 and 2011. Amortization expense on assets recorded under capital leases is included with depreciation expense.

NOTE 10 – OPERATING LEASE AGREEMENTS

The District entered into leases beginning September 1, 2008 for two facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2024 and one provides for a five-year renewal option. The District also entered into leases beginning in September 2009 for copiers under various terms under long-term, non-cancelable operating lease agreements. The leases expire in 2014. Lease expenses under these leases were \$208,444 and \$161,679 for the years ended August 31, 2012 and 2011, respectively.

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

Howard County Junior College District  
 NOTES TO THE FINANCIAL STATEMENTS  
 August 31, 2012 and 2011

NOTE 10 – OPERATING LEASE AGREEMENTS - Continued

For the year ending		
<u>August 31,</u>		
2013	\$	208,568
2014		169,905
2015		166,371
2016		166,371
2017		166,371
2018-2022		166,375
2023-2024		<u>2</u>
	\$	<u>1,043,963</u>

NOTE 11 – NOTES PAYABLE

The District has notes payable consisting of the following at August 31, 2012:

5.50% note payable, payable in semi-annual installments of \$19,760, maturing April 2014, collateralized by the District’s bank deposits	\$ 73,768
5.00% note payable, payable in semi-annual installments of \$8,013, maturing December 2016, collateralized by the District’s bank deposits	63,824
5.50% note payable, payable in quarterly installments of \$5,648, maturing February 2017, collateralized by trailers	<u>89,536</u>
	227,128
Less current maturities	<u>66,873</u>
	\$ <u>160,255</u>

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

<u>Year ending August 31,</u>	
2013	\$ 66,873
2014	70,428
2015	34,392
2016	36,264
2017	<u>19,171</u>
	<u>\$ 227,128</u>

NOTE 12 – ENDOWMENTS

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

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 12 – ENDOWMENTS – Continued

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

At August 31, 2011, net appreciation on investment of donor-restricted endowments available for authorization for expenditure was \$962, of which \$960 was restricted for student aid, instruction, and athletics.

NOTE 13 – RETIREMENT PLAN

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

**Teacher Retirement System of Texas**

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

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The State funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4 percent for fiscal years 2012 and 2011. State law provides for a state contribution rate of 6.0 percent for fiscal year 2012 and 6.644 percent for fiscal year 2011. In certain instances the reporting district is required to make all or a portion of the state's contribution for fiscal years 2012 and 2011.

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. The District has calculated that as of August 31, 2012, the contribution that has not been paid to TRS on behalf of District employees to be immaterial to the financial statements.

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 13 – RETIREMENT PLAN - Continued

**Optional Retirement Plan**

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

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.0 percent and 6.65 percent, respectively. The District contributes 1.31 percent for employees who were participating in the optional retirement program prior to September 1, 1995, 0.58 percent for employees hired September 1, 2007 and after. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense to the State for the District was \$640,702 and \$802,413 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 District.

The total payroll for all District employees was \$15,124,468 and \$15,602,627 for the fiscal years ended August 31, 2012 and 2011, respectively. The total payroll of employees covered by the Teacher Retirement System was \$7,831,222 and \$8,106,394, and the total payroll of employees covered by the Optional Retirement System was \$5,779,177 and \$5,989,925 for the fiscal years ended August 31, 2012 and 2011, respectively.

NOTE 14 – DEFERRED COMPENSATION PROGRAM

District employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants. The District had no employees participating in the program during the years ended August 31, 2012 and 2011.

NOTE 15 – COMPENSABLE ABSENCES

All full-time, exempt, and non-exempt employees working full-time for twelve months are entitled to accrue paid vacation time from the date of employment. On September 1, current employees are credited 80 hours to be used during the year. Employees hired after September 1 accrue vacation time at 6.67 hours each month worked. The monthly vacation credit may be pro-rated if the employee's regular work week is less than 40 hours. The District's policy allows employees to carry their accrued leave forward from one fiscal year to the next fiscal year with a maximum accrual of 160 hours per employee. The District recognizes the accrued liability at August 31, 2012 and 2011 of \$189,275 and \$200,177, respectively, for the unpaid annual leave in the Unrestricted Current Fund. Sick leave is earned at the rate of 8 hours per month and may be pro-rated if the employee's work week is less than 40 hours. Sick leave is paid only when an employee is off due to illness. The maximum sick leave that may be accumulated is 720 hours. The District's policy is to recognize the cost of sick leave when paid. The liability is not recorded in the financial statements because experience indicates the expenditure for sick leave to be minimal.

Howard County Junior College District  
 NOTES TO THE FINANCIAL STATEMENTS  
 August 31, 2012 and 2011

NOTE 16 – DISAGGREGATION OF RECEIVABLES BALANCES

Receivables at August 31 were as follows:

	2012	2011
Student receivables	\$ 1,676,640	\$ 1,277,106
Taxes receivable	324,737	355,116
Federal receivable	408,173	545,277
Accounts receivable	494,999	482,427
Gross receivables	2,904,549	2,659,926
Less: allowance for uncollectible accounts	(374,756)	(396,166)
Net total receivables	\$ 2,529,793	\$ 2,263,760

NOTE 17 – CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal and non-federal contract and grant awards, funds expended, but not collected, are reported as Accounts Receivable on Exhibit 1. For federal and non-federal contract and grant awards, funds collected, but not expended, are reported as Deferred Revenue on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2012 and 2011 for which monies have not been received nor funds expended totaled \$8,363,423 and \$3,640,296, respectively. Of these amounts, \$8,159,842 and \$3,510,522 were from Federal Contract and Grant Awards and \$203,581 and \$129,774 were from State Contract and Grant Awards for the fiscal years ended August 31, 2012 and 2011, respectively.

NOTE 18 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries appropriate commercial insurance. For the years ended August 31, 2012 and 2011, the District also participated in a pool for its workers' compensation program.

Beginning in the year 2000, the District elected participation in the Texas Public and Junior Community College Employee Benefits Consortium. This pool is exclusively for public community and junior college entities thus providing a preferred risk pool for workers' compensation coverage. Under this agreement, the pool retains liability for claims under \$750,000 or less per incident and purchases commercial insurance for claims in excess of the liability retained by the pool. The reinsurance covers losses to the specific and aggregate statutory limits required by the State of Texas. There was no significant reduction in insurance coverage from the year ended August 31, 2011 to the year ended August 31, 2012, and no settlements exceeded insurance for any of the past three fiscal years.

The claims liability of \$45,760 and \$37,284 reported in accrued liabilities at August 31, 2012 and 2011, respectively, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated based on actuarial calculations. Changes in the fund's claims liability amount in fiscal years 2012 and 2011 were:

Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 18 – RISK MANAGEMENT - Continued

	August 31, 2012	August 31, 2011
Balance at beginning of year	\$ 37,284	\$ 61,919
Current year claims and changes in estimates	51,796	(8,641)
Claims paid	(43,320)	(15,994)
Balance at end of year	\$ 45,760	\$ 37,284

NOTE 19 – POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State's contribution per full-time employee was \$531 per month for the year ended August 31, 2012, and totaled \$905,831 for the year. The cost of providing those benefits for 73 retirees was \$480,203 and for 249 active employees was \$425,628 for the year ended August 31, 2012. The State's contribution per full-time employee was \$506 per month for the year ended August 31, 2011, and totaled \$1,571,300 for the year. The cost of providing those benefits for 77 retirees was \$403,391 and for 276 active employees was \$1,167,909 for the year ended August 31, 2011.

NOTE 20 – PROPERTY TAXES

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

As of August 31,:

	2012			2011		
Assessed valuation of the District	\$ 3,211,744,897	258,128,920	429,485,651	\$ 2,850,356,877	287,364,666	434,079,083
Less: Abatements						
Less: Exemptions						
Net assessed valuation of the District	\$ 2,524,130,326			\$ 2,128,913,128		
	2012			2011		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized Tax Rate per \$100 Valuation (Maximum per enabling legislation)	0.700000	0.000000	0.700000	0.700000	0.000000	0.700000
Assessed Tax Rate per \$100 Valuation	0.168320	0.070187	0.238507	0.204912	0.080706	0.285618

Howard County Junior College District  
 NOTES TO THE FINANCIAL STATEMENTS  
 August 31, 2012 and 2011

NOTE 20 – PROPERTY TAXES - Continued

Taxes levied for the years ended August 31, 2012 and 2011, were \$6,021,915 and \$6,082,313, respectively. 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.

	2012			2011		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current taxes collected	\$ 4,179,658	\$ 1,742,714	\$ 5,922,372	\$ 4,272,070	\$ 1,682,188	\$ 5,954,258
Delinquent taxes collected	55,611	20,681	76,292	77,136	28,717	105,853
Penalties and interest collected	<u>37,841</u>	<u>13,435</u>	<u>51,276</u>	<u>43,687</u>	<u>13,473</u>	<u>57,160</u>
Total collections	<u>\$ 4,273,110</u>	<u>\$ 1,776,830</u>	<u>\$ 6,049,940</u>	<u>\$ 4,392,893</u>	<u>\$ 1,724,378</u>	<u>\$ 6,117,271</u>

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

NOTE 21 – COMMITMENTS AND CONTINGENCIES

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

Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material adverse effect on the District's financial position at August 31, 2012.

The District has received appropriations from the State for the operation of the Southwest Collegiate Institute for the Deaf. The acceptance of these funds requires compliance with special purchasing regulations, and is subject to audit by the State. Any disallowed expenditures would have to be reimbursed by the District. However, in the opinion of management, the possible reimbursements, if any, will not have a material adverse effect on the District's financial position at August 31, 2012.

NOTE 22 – INCOME TAXES

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



Howard County Junior College District  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2012 and 2011

NOTE 23 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

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

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

The District's contributions to SRHP for the years ended August 31, 2012, 2011, and 2010 were \$77,783, \$82,845, and \$79,070, respectively, which equaled the required contributions each year.

**SUPPLEMENTARY INFORMATION**

## SCHEDULES

Howard County Junior College District  
SCHEDULE OF OPERATING REVENUES  
Schedule A  
Year Ended August 31, 2012  
(With Memorandum Totals for the Year Ended August 31, 2011)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>
<b>Tuition</b>				
State Funded Credit Courses				
In-District Resident Tuition	\$ 938,783	\$ -	\$ 938,783	\$ -
Out-of-District Resident Tuition	6,070,828	-	6,070,828	-
TPEG-credit (set aside)*	79,384	-	79,384	-
Non-Resident Tuition	706,042	-	706,042	-
State Funded Continuing Education	242,478	-	242,478	-
TPEG-non-credit (set aside)*	16,424	-	16,424	-
Non-State Funded Continuing Education	14,825	-	14,825	-
Total tuition	<u>8,068,764</u>	<u>-</u>	<u>8,068,764</u>	<u>-</u>
<b>Fees</b>				
Building use fee	-	-	-	525,742
General fees	149,732	-	149,732	-
Student service fee	-	-	-	176,178
Laboratory fee	189,412	-	189,412	-
Total fees	<u>339,144</u>	<u>-</u>	<u>339,144</u>	<u>701,920</u>
<b>Scholarship allowances and discounts</b>				
Scholarship allowances	(246,878)	(302,072)	(548,950)	(109,673)
Remissions and exemptions	(755,906)	-	(755,906)	636
TPEG allowances	-	(52,413)	(52,413)	-
Federal grants to students	-	(3,365,484)	(3,365,484)	-
Other state	-	(114,956)	(114,956)	-
Total scholarship allowances	<u>(1,002,784)</u>	<u>(3,834,925)</u>	<u>(4,837,709)</u>	<u>(109,037)</u>
<b>Total net tuition and fees</b>	<u>7,405,124</u>	<u>(3,834,925)</u>	<u>3,570,199</u>	<u>592,883</u>
<b>Other operating revenues</b>				
Federal grants and contracts	-	2,857,420	2,857,420	-
State grants and contracts	-	756,890	756,890	-
Local grants and contracts	-	6,209	6,209	-
Nongovernmental grants and contracts	90,000	942,383	1,032,383	-
Sales and services of educational activities	349,216	-	349,216	-
Investment income (program restricted)	-	6,378	6,378	-
Other operating revenues	797,708	2,621	800,329	355
<b>Total other operating revenues</b>	<u>1,236,924</u>	<u>4,571,901</u>	<u>5,808,825</u>	<u>355</u>
<b>Auxiliary enterprises</b>				
Intercollegiate athletics	-	-	-	65,883
Diagnostic center	-	-	-	8,980
Residential life, net of discounts of \$1,037,501 and \$902,407	-	-	-	157,321
Bookstore, net of discounts of \$56,450 and \$63,850**	-	-	-	134,431
<b>Total net auxiliary enterprises</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>366,615</u>
<b>Total operating revenues (Exh. 2)</b>	<u>\$ 8,642,048</u>	<u>\$ 736,976</u>	<u>\$ 9,379,024</u>	<u>\$ 959,853</u>

\* In accordance with Education Code 56.033, \$95,808 and \$91,723 of tuition was set aside for Texas Public Education Grants (TPEG)

\*\* The bookstore auxiliary operations are outsourced.

2012	2011
<u>Total</u>	<u>Total</u>
\$ 938,783	\$ 962,650
6,070,828	4,844,290
79,384	73,203
706,042	438,598
242,478	274,627
16,424	18,520
14,825	15,524
8,068,764	6,627,412
525,742	565,824
149,732	114,450
176,178	188,674
189,412	198,413
1,041,064	1,067,361
(658,623)	(989,963)
(755,270)	(601,392)
(52,413)	(108,511)
(3,365,484)	(2,440,629)
(114,956)	(14,444)
(4,946,746)	(4,154,939)
4,163,082	3,539,834
2,857,420	2,405,435
756,890	1,203,469
6,209	31,254
1,032,383	1,579,904
349,216	338,381
6,378	1,335
800,684	554,723
5,809,180	6,114,501
65,883	63,687
8,980	20,760
157,321	196,783
134,431	142,623
366,615	423,853
\$ 10,338,877	\$ 10,078,188
(Exhibit 2)	(Exhibit 2)

Howard County Junior College District  
SCHEDULE OF OPERATING EXPENSES BY OBJECT  
Schedule B  
Year ended August 31, 2012  
(With Memorandum Totals for the Year ended August 31, 2011)

	Operating Expenses			2012 Total	2011 Total	
	Salaries and Wages	Benefits State	Local			Other Expenses
Unrestricted - Educational Activities						
Instruction	\$ 8,109,185	\$ -	\$ 763,744	\$ 1,059,758	\$ 9,932,687	\$ 10,215,458
Academic support	825,704	-	71,249	255,636	1,152,589	1,158,115
Student services	1,362,582	-	117,756	317,710	1,798,048	2,028,635
Institutional support	2,697,774	-	1,502,067	1,566,251	5,766,092	5,298,585
Operation and maintenance of plant	822,825	-	253,445	2,003,400	3,079,670	3,456,608
Scholarships and fellowships	-	-	-	43,553	43,553	-
Total Unrestricted - Educational Activities	<u>13,818,070</u>	<u>-</u>	<u>2,708,261</u>	<u>5,246,308</u>	<u>21,772,639</u>	<u>22,157,401</u>
Restricted - Educational Activities						
Instruction	34,055	645,778	3,166	157,790	840,789	2,034,387
Public service	525,999	-	110,059	287,355	923,413	1,119,832
Academic support	354,023	75,933	75,549	776,765	1,282,270	432,839
Student services	191,762	113,894	60,150	139,740	505,546	656,733
Institutional support	-	698,916	-	40,318	739,234	853,225
Operation and maintenance of plant	-	12,012	-	(900)	11,112	71,386
Scholarships and fellowships	-	-	-	4,110,306	4,110,306	5,018,877
Total Restricted - Educational Activities	<u>1,105,839</u>	<u>1,546,533</u>	<u>248,924</u>	<u>5,511,374</u>	<u>8,412,670</u>	<u>10,187,279</u>
Total Educational Activities	14,923,909	1,546,533	2,957,185	10,757,682	30,185,309	32,344,680
Auxiliary Enterprises	110,574	-	28,520	1,449,596	1,588,690	1,555,125
Depreciation Expense - Buildings and other real estate improvements	-	-	-	1,334,630	1,334,630	958,951
Depreciation Expense - Equipment and furniture	-	-	-	431,266	431,266	398,899
Total Operating Expenses	<u>\$15,034,483</u>	<u>\$1,546,533</u>	<u>\$2,985,705</u>	<u>\$13,973,174</u>	<u>\$33,539,895</u>	<u>\$35,257,655</u>
				(Exhibit 2)	(Exhibit 2)	

Howard County Junior College District  
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES  
Schedule C  
Year Ended August 31, 2012  
(With Memorandum Totals for the Year Ended August 31, 2011)

	Unrestricted	Restricted	Auxiliary Enterprises	2012 Total	2011 Total
<b>NON-OPERATING REVENUES</b>					
State appropriations					
Education and general state support	\$10,747,709	\$ -	\$ -	\$10,747,709	\$11,109,988
State group insurance	-	905,831	-	905,831	1,571,300
State retirement matching	-	640,702	-	640,702	802,413
Professional nursing shortage reduction	-	32,087	-	32,087	13,052
Total state appropriations	10,747,709	1,578,620	-	12,326,329	13,496,753
Property taxes for operations	4,258,586	-	-	4,258,586	4,388,681
Property taxes for debt service	-	1,773,050	-	1,773,050	1,724,889
Payments in lieu of taxes	138,196	-	-	138,196	134,825
Federal revenue, non operating	-	7,145,347	-	7,145,347	7,291,166
Investment income (net of investment expenses)	30,291	3,182	-	33,473	16,493
Gain on disposal of fixed assets	4,109	-	-	4,109	-
Other non-operating revenue	321,828	31,887	34,618	388,333	404,833
Total non-operating revenues	15,500,719	10,532,086	34,618	26,067,423	27,457,640
<b>NON-OPERATING EXPENSES</b>					
Interest on capital related debt	(1,020,991)	-	-	(1,020,991)	(698,967)
Loss on disposal of fixed assets	-	-	-	-	(594)
Total non-operating expenses	(1,020,991)	-	-	(1,020,991)	(699,561)
Net non-operating revenues	<u>\$14,479,728</u>	<u>\$10,532,086</u>	<u>\$ 34,618</u>	<u>\$25,046,432</u> (Exhibit 2)	<u>\$26,758,079</u> (Exhibit 2)

Howard County Junior College District  
SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY  
Schedule D  
August 31, 2012  
(With Memorandum Totals for August 31, 2011)

	Detail by Source				Capital Assets Net of Depreciation & Related Debt	Total
	Unrestricted	Restricted		Total		
		Expendable	Non- Expendable			
Current:						
Unrestricted	\$ 6,814,880	\$ -	\$ -	\$ -	\$ 6,814,880	
Restricted	-	1,648,934	-	-	1,648,934	
Auxiliary enterprises	2,058,637	-	-	-	2,058,637	
Endowment:						
True endowment	-	-	1,217,687	-	1,217,687	
Plant:						
Debt service	-	856,970	-	-	856,970	
Investment in plant	-	-	-	25,695,916	25,695,916	
Total Net Assets, August 31, 2012	\$ 8,873,517	\$ 2,505,904	\$ 1,217,687	\$ 25,695,916	\$ 38,293,024	(Exhibit 1)
Total Net Assets, August 31, 2011	7,793,915	2,843,498	1,177,680	23,786,191	35,601,284	(Exhibit 1)
Net Increase (Decrease) in Net Assets	\$ 1,079,602	\$ (337,594)	\$ 40,007	\$ 1,909,725	\$ 2,691,740	(Exhibit 2)



Available for  
Current Operations

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<u>Yes</u>	<u>No</u>
\$ 6,814,880	\$ -
1,648,934	-
2,058,637	-
-	1,217,687
-	856,970
-	<u>25,695,916</u>
\$ 10,522,451	\$ 27,770,573
<u>9,937,721</u>	<u>25,663,563</u>
<u>\$ 584,730</u>	<u>\$ 2,107,010</u>

Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Schedule E  
For the Year Ended August 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass-Through Disbursements
<b>U.S. Department of Education</b>			
Direct Programs:			
Student Financial Aid Cluster			
SEOG 11/12	84.007		\$ 77,703
Subtotal SEOG			<u>77,703</u>
Federal College Workstudy Program 10/11	84.033		6,737
Federal College Workstudy Program 11/12	84.033		51,648
Subtotal Federal College Workstudy Program			<u>58,385</u>
PELL 10/11	84.063		(335)
PELL 11/12	84.063		6,999,064
PELL 12/13	84.063		10,530
Subtotal PELL			<u>7,009,259</u>
Direct Student Loans	84.268		3,296,815
Subtotal Direct Student Loans			<u>3,296,815</u>
READE 10/11	84.031S	P031S100004	187,017
READE 11/12	84.031S	P031S100004	321,379
Subtotal Reaching Excellence for All in Development Education			<u>508,396</u>
eSTART 11/12	84.031C	P031C110093	644,277
Subtotal eSTART			<u>644,277</u>
Pass through from:			
Texas Education Agency			
Adult Basic Education 225 BS – 11/12	84.002	124100017110395	88,265
Adult Basic Education 231 BS – 11/12	84.002	124100017110395	159,347
Adult Basic Education 225 BS – 12/13	84.002	134100017110449	19,993
Adult Basic Education 231 BS – 12/13	84.002	134100017110449	10,570
Adult Basic Education 231 Admin SA – 11/12	84.002	124100017110416	11,603
Adult Basic Education 225 SA – 11/12	84.002	124100017110416	75,227
Adult Basic Education 231 SA – 11/12	84.002	124100017110416	320,083
Adult Basic Education 231 SA – 12/13	84.002	134100017110458	16,663
Adult Basic Education 225 SA – 12/13	84.002	134100017110458	8,074
Adult Basic Education Admin SA – 12/13	84.002	134100017110458	2,320
Subtotal Texas Education Agency			<u>712,145</u>
Angelo State University			
ASU-HC Cooperative H S I-Stem Program 11/12	84.031C	P031C110142-12	202,507
Subtotal Angelo State University			<u>202,507</u>
Texas Higher Education Coordinating Board			
Annual Perkins 11/12	84.048	124247	254,546
Subtotal Texas Higher Education Coordinating Board			<u>254,546</u>
Rehabilitation Services American Indians with Disabilities			
Pueblo of Jemez	84.250		5,341
Subtotal Rehabilitation Services AIWD			<u>5,341</u>
Total U.S. Department of Education			<u>12,769,374</u>

(continued)

Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Schedule E  
For the Year Ended August 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass-Through Disbursements
<b>U.S. Department of Agriculture</b>			
Pass through from:			
Texas Health & Human Services Commission			
Child & Adult Care Food Program	10.558	TX-114-0006	28,685
Subtotal Texas Health & Human Services Commission			<u>28,685</u>
Total U.S. Department of Agriculture			<u>28,685</u>
<b>U.S. Department of Defense</b>			
Direct Programs:			
Navy Tuition Assistance	12.000		904
Air Force Tuition Assistance	12.000		27,966
Marines Tuition Assistance	12.000		762
Military Spouse Career Advancement SA	12.000		4,860
Total U.S. Department of Defense			<u>34,492</u>
<b>U.S. Department of Labor</b>			
WIA Cluster			
Pass through from:			
Workforce Solutions Permian Basin			
Workforce Investment Act - Other	17.000		6,347
Workforce Investment Act - Big Spring	17.258		5,043
Workforce Investment Act - San Angelo	17.258		18,836
Subtotal Workforce Solutions Permian Basin			<u>30,226</u>
Pass through from:			
Workforce Solutions Permian Basin			
ARRA - Propelling Green Career Pathways 10/11	17.275		13,524
Total U.S. Department of Labor			<u>43,750</u>
<b>National Science Foundation</b>			
Pass through from:			
University of Texas of El Paso			
Alliance for Minority Participation Phase IV, 10/11	47.076	HRD-0703584	3,563
Alliance for Minority Participation Phase IV, 11/12	47.076	HRD-0703584	6,793
Total National Science Foundation			<u>10,356</u>
<b>U.S. Department of Veterans Affairs</b>			
Direct Programs:			
Vocational Rehab for Disabled Veterans BS	64.116		7,015
Vocational Rehab for Disabled Veterans SA	64.116		13,299
Subtotal Vocational Rehab for Disabled Veterans			<u>20,314</u>
Post 9/11 Veterans Education Assistance BS	64.130		26,811
Post 9/11 Veterans Education Assistance SA	64.130		160,585
Subtotal Post 9/11 Veterans Education Assistance			<u>187,396</u>
Total U.S. Department of Veterans Affairs			<u>207,710</u>

(continued)

Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Schedule E  
For the Year Ended August 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass-Through Disbursements
<b>U.S. Department of Health and Human Services</b>			
Pass through from:			
Texas Education Agency			
TANF – BS 11/12	93.558	123625017110370	16,816
TANF – SA 11/12	93.558	123625017110391	48,279
Subtotal Texas Education Agency			<u>65,095</u>
Greater Opportunities of the Permian Basin			
Headstart Tuition Assistance	93.600		1,172
Headstart 11/12	93.600		106,898
Headstart Play Space 11/12	93.600	C142	4,994
Subtotal Greater Opportunities of the Permian Basin			<u>113,064</u>
West Texas Opportunities, Inc.			
Community Services Block Grant	93.667		641
Subtotal West Texas Opportunities, Inc.			<u>641</u>
Total U.S. Department of Health and Human Services			<u>178,800</u>
<b>Corporation for National &amp; Community Service</b>			
Direct Programs:			
AmeriCorps	94.006		17,420
Total Corporation for National & Community Service			<u>17,420</u>
Total Federal Financial Assistance			<u>\$ 13,290,587</u>

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED  
Schedule E  
For the Year Ended August 31, 2012

**Note 1: Financial assistance reconciliation**

Federal revenues per Schedule A:	
Federal grants and contracts	\$ 2,857,420
Add: Non-operating federal revenue from Schedule C	7,145,347
Less: Federal assistance classified as vendors	(8,995)
Add: Direct student loans	<u>3,296,815</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 13,290,587</u>

**Note 2: Significant accounting policies used in preparing the schedule**

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

**Note 3. Expenditures not subject to federal single audit**

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

**Note 4. Nonmonetary federal assistance received**

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

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

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

Howard County Junior College District  
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS  
Schedule F  
For the Year Ended August 31, 2012

State Grantor/Program Title	Contract/ Award Number	Expenditures
<b>Texas Education Agency</b>		
TxVSN 10/11 (Spring 2011)		\$ 4,916
Adult Basic Education SA 10/11	110100017110344	7,613
Adult Basic Education BS 11/12	120100017110395	46,298
Adult Basic Education SA 11/12	120100017110416	105,574
Total Texas Education Agency		<u>164,401</u>
<b>Texas Higher Education Coordinating Board</b>		
Toward EXcellence, Access and Success (TEXAS) Grant - Initial 11/12		46,736
Toward EXcellence, Access and Success (TEXAS) Grant - Returning 11/12		26,540
Total TEXAS Grant		<u>73,276</u>
Texas Education Opportunity Grant – Initial 11/12		42,421
Texas Education Opportunity Grant – Returning 11/12		11,340
Total TEOG		<u>53,761</u>
Professional Nursing Shortage Yr 2 09/10		14,485
Professional Nursing Shortage Yr 3 10/11		7,510
Professional Nursing Shortage Yr 4 11/12		10,092
At-Risk Student Tracking & Intervention Project 11/12	05668	43,780
Texas Tomorrow Fund		28,754
Texas College Work Study Program 11/12		13,728
Early High School Graduates		5,343
Total Texas Higher Education Coordinating Board		<u>250,729</u>
<b>Department of Assistive and Rehabilitative Services</b>		
DARS – Howard College BS		13,188
DARS – Howard College SA		28,266
DARS – SWCID		92,738
Total Department of Assistive and Rehabilitative Services		<u>134,192</u>
<b>Texas Workforce Commission</b>		
Skills for Small Business	1111SSD000	779
Total Texas Workforce Commission		<u>779</u>
<b>Total State of Texas Financial Assistance</b>		<u><u>\$ 550,101</u></u>

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District  
 SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS - CONTINUED  
 Schedule F  
 For the Year Ended August 31, 2012

**Note 1. State Assistance Reconciliation**

State Revenues – Per Schedule A:	
State of Texas Financial Assistance	
Per Schedule of Expenditures of State of Texas Awards	\$ 550,101
State Financial Assistance	
State exemptions revenue included in “Net Tuition and Fees” in Schedule A	
Early High School Graduates	(5,343)
State appropriated funds not included in Schedule A	
Professional Nursing Shortage Reduction	(32,087)
State aid from other states not included as State of Texas financial assistance	
Vocational Rehabilitation	<u>244,219</u>
Total State Grants and Contracts Revenues per Schedule A	<u>\$ 756,890</u>

**Note 2.**

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

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

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

We have audited the financial statements of Howard County Junior College District (the District) as of and for the year ended August 31, 2012, and have issued our report thereon dated December 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants 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 District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

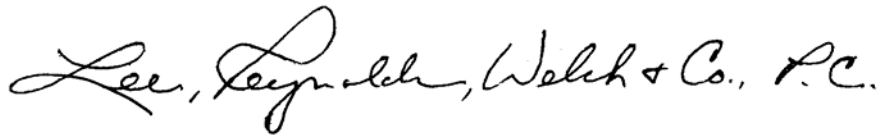
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Big Spring, Texas  
December 26, 2012

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

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

Compliance

We have audited the compliance of Howard County Junior College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs and the requirements in the grant documents that could have a direct and material effect on the District's major State of Texas programs for the year ended August 31, 2012. The District's major federal and State of Texas programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and State of Texas programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District'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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133, and the State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or State of Texas program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and State of Texas programs for the year ended August 31, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular and which is described in the accompanying schedule of findings and questioned costs as item 12-1.

## Internal Control Over Compliance

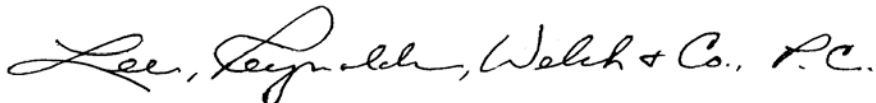
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and State of Texas programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal or State of Texas 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 and the State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 12-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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



Big Spring, Texas  
December 26, 2012

Howard County Junior College District  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended August 31, 2012

**Section I – Summary of Auditors’ Results**

*Financial Statements*

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_ yes X none reported

Noncompliance material to financial statements noted? \_\_ yes X no

*Federal and State of Texas Awards*

Internal control over major programs

- Material weakness(es) identified? \_\_ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes \_\_ none reported

Type of auditors’ 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? X yes \_\_ no

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

Identification of major federal programs:

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

Howard County Junior College District  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
 For the Year Ended August 31, 2012

**Section I – Summary of Auditors’ Results - Continued**

Identification of major State of Texas programs:

<u>Contract Number</u>	<u>Name of State of Texas Program</u>
N/A	Toward Excellence, Access and Success Grant – Initial
N/A	Toward Excellence, Access and Success Grant – Returning
N/A	Texas Education Opportunity Grant – Initial
N/A	Texas Education Opportunity Grant – Returning
05668	At-Risk Student Tracking & Intervention Project
N/A	Department of Assistive and Rehabilitative Services

Dollar threshold used to distinguish between type A and type B federal programs: \$ 398,718  
 Dollar threshold used to distinguish between type A and type B state programs: \$ 300,000

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

**Section II – Financial Statement Findings**

No matters were reported.

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

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

Criteria: There are numerous reporting requirements for Student Financial Aid Programs. Such provisions include:

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

Howard County Junior College District  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
For the Year Ended August 31, 2012

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

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

Criteria – continued:	<ul style="list-style-type: none"><li>• Direct Loans, CFDA #84.268 - Under 34 CFR 685.309, a school must notify NSLDS within 30 days, or include in the school’s next Roster File within 60 days, changes in a student’s status as a result of a student’s not enrolling or ceasing to be enrolled on at least a half-time basis.</li></ul>
Condition and context:	<p>The following summarizes the results of compliance testing performed for the requirements mentioned above:</p> <ul style="list-style-type: none"><li>• Pell, CFDA #84.063 – Of the 28 students tested that received Pell disbursements, 27 had disbursement dates reported to COD that did not match the actual disbursement date on the students’ accounts.</li><li>• Direct Loans, CFDA #84.268 – Seven graduates and five withdrawal students from the 11/12 school year were tested for timely status change reporting to NSLDS. Three of the status changes reported had not been reported timely to NSLDS.</li></ul>
Questioned costs:	None.
Cause:	The District does not have adequate internal controls over the reporting function.
Effect:	The District is not in compliance with the various reporting regulations for the Student Financial Aid Programs.
Recommendation:	We recommend the District review and implement improved procedures and internal controls for reporting student financial aid information and reconciling according to established student financial aid program guidelines. Internal controls should contain a system for monitoring information reported to ensure corrections, if needed, can be executed within the reporting timelines.

Howard County Junior College District  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
For the Year Ended August 31, 2012

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

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

Views of responsible officials and planned corrective action:

Agree.

*PELL, CFDA #84.063:* The issue that we are experiencing is as follows: The disbursement date reported to COD is the date of the initial disbursement which is applied no more than ten days before the first class day. The college only credits enough funds to cover the initial cost of tuition and fees. Since the full award is not applied at initial disbursement, subsequent disbursements are required. As additional disbursements and/or adjustments are applied to student's accounts the subsequent disbursements must be reported via batch. The date of the batch may not always coincide with actual date of disbursement. It is our understanding that this situation is common within the Community College sector. We have discussed this matter with our software provider, and their suggestion to correct this problem would entail the development of a new program for the software system. The college will pursue this option with the software provider.

*Direct Loans, CFDA #84.268:* The staff understands the importance of reporting requirements and will make every effort to be in compliance with all reporting requirements. We currently utilize a Third-Party servicer to upload enrollment information. We will begin researching other reporting options so that we may maintain compliance.

Contact: Liz Adamson

Implementation date: Immediately, Winter 2012



Howard County Junior College District  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended August 31, 2012

**Federal and State Award Findings and Questioned Costs**

**Finding 11-1 – U. S. Department of Education, Student Financial Aid Programs, CFDA #84.033, 84.268, 84.007, 84.063, 84.375**

Condition and context: The following summarizes the results of compliance testing performed for the requirements mentioned above:

- Pell, CFDA #84.063 – The disbursement date reported to COD was a date selected at the beginning of the semester versus the actual disbursement date of funds. The fall enrollment date was reported as August 16<sup>th</sup> versus the beginning of the fall term of August 25<sup>th</sup>.
- Direct Loans, CFDA #84.268 – Seven graduates and three withdrawal students from the 10/11 school year were tested for timely status change reporting to NSLDS. Two of the status changes reported had not been reported timely to NSLDS.

Status: See current year finding 12-1.

**Finding 11-2 – State of Texas, Texas Workforce Commission, Skills Development – Martifer Energy, Contract/Award Number 1209SDF000**

Condition and context: The District claimed administrative expenses consisting of salaries of employees who worked on the grant of \$51,739. The District had not maintained documentation that complied with the requirements of OMB Circular A-21 to support the administrative expenses.

Status: Corrected.