

NORTH CENTRAL TEXAS COLLEGE
ANNUAL FINANCIAL AND COMPLIANCE REPORT
For the Years Ended August 31, 2012 and 2011

(This page left blank intentionally)

**NORTH CENTRAL TEXAS COLLEGE
ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011
TABLE OF CONTENTS**

	PAGES	EXHIBIT OR SCHEDULE
ORGANIZATIONAL DATA	1	
FINANCIAL SECTION		
Independent Auditors' Report	2-3	
Management's Discussion and Analysis	4-9	
 <u>BASIC FINANCIAL STATEMENTS</u>		
Statement of Net Assets	10	Exhibit 1
Statement of Financial Position-North Central Texas College Foundation, Inc.	11	
Statement of Revenues, Expenses and Changes in Net Assets	12	Exhibit 2
Statement of Activities-North Central Texas College Foundation, Inc.	13	
Statement of Cash Flows	14	Exhibit 3
Notes to the Basic Financial Statements	15-31	
 <u>SCHEDULES</u>		
Schedule of Operating Revenues	32	Schedule A
Schedule of Operating Expenses by Object	33	Schedule B
Schedule of Non-Operating Revenues and Expenses	34	Schedule C
Schedule of Net Assets by Source and Availability	35	Schedule D
Schedule of Expenditures of Federal Awards	36-37	Schedule E
Schedule of Expenditures of State Awards	38	Schedule F
 <u>SINGLE AUDIT REPORTS SECTION</u>		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	39-40	
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State of Texas Single Audit Circular	41-42	
Schedule of Findings and Questioned Costs	43	
Summary of Prior Year Audit Findings	44	

(This page left blank intentionally)

**NORTH CENTRAL TEXAS COLLEGE
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR 2011-2012**

ORGANIZATIONAL DATA

BOARD OF REGENTS AND OFFICERS

OFFICERS

Bill Ledbetter
David Flusche
Ken Coolen

Chairman
Vice Chairman
Secretary

Members

		Term Expires <u>in May of</u>
Bill Ledbetter	Gainesville, Texas	2017
David Flusche	Muenster, Texas	2017
Richard Haayen	Gainesville, Texas	2017
Ken Coolen	Gainesville, Texas	2013
Patsy Wilson	Gainesville, Texas	2015
Christy Morris	Gainesville, Texas	2013
Karla Metzler	Gainesville, Texas	2015

Principal Administrative Officers

Dr. Eddie Hadlock
Dr. Janie Neighbors
Dr. Brent Wallace
Dr. Billy Roessler
Debbie Sharp
Dr. Steve Broyles
Emily Klement
Roy Culberson

President
Vice President of Financial Services
Vice President of Instruction
Vice President of Student Services
Vice President of Institutional Advancement
Dean of Administrative Services
Dean of Bowie & Graham Campuses
Dean of Corinth & Flower Mound Campuses

(This page left blank intentionally)



INDEPENDENT AUDITOR'S REPORT

To the Board of Regents
North Central Texas College
Gainesville, TX 76240

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of North Central Texas College (the College) as of and for the years ended August 31, 2012 and 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North Central Texas College's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

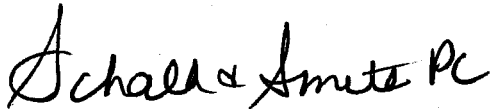
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of North Central Texas College as of August 31, 2012 and 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2012, on our consideration of the North Central Texas College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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 opinions on the financial statements that collectively comprise the North Central Texas College's financial statements as a whole. The accompanying schedule of

expenditures of federal awards and schedule of expenditures of state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Single Audit Circular*, and is also not a required part of the financial statements. The supplementary schedules of operating revenues, operating expenses by object, non-operating revenues and expenses, net assets by source and availability, schedule of expenditures of federal awards and schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Schalk & Smith PC
November 1, 2012

Management's Discussion and Analysis

This section of North Central Texas College's annual financial report presents a discussion and analysis of the College's financial performance during the fiscal year ended August 31, 2012. Please read it in conjunction with the College's financial statements, which follow this section.

Overview of the Financial Statements

This annual report consists of four parts – *management discussion and analysis, the basic financial statements, required supplementary information, and schedules of federal and state grant and contract expenditures.*

The basic financial statements, according to GASB 34, Par. 138, under Business-type Activity include two kinds of statements that present different views of the College:

The *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Net Assets* are College-wide financial statements that provide both long-term and short-term information about the College's overall financial status. The remaining financial statements are *Statement of Cash Flows, Schedule of Operating Revenues, Schedule of Operating Expenses by Object, Schedule of Non-Operating Revenues and Expenses, Schedule of Net Assets by Source and Availability, Schedule of Expenditures of Federal Awards, and Schedule of Expenditures of State Awards* that provide more detail on the specific revenue generated and expenditures made during the past year of operation.

The *Statement of Net Assets* reports the total net assets available to finance future services (GASB 34, Par. 430). As a business-type activity, the College reports in the single column, entity-wide format. GASB 34 specifies the elements of the statement of net assets to be classified as current assets, non-current assets, current liabilities, non-current liabilities, and net assets. Net assets are to be classified as invested in capital assets, net of related debt.

The *Statement of Revenues, Expenses, and Changes in Net Assets* is a statement of activities and reports the effect of non-operating (general maintenance ad-valorem tax) revenues, defined as the amounts of the functions that are not supported by charges to users (state appropriations and student tuition and fees). Revenues are presented as operating (program) revenue, non-operating (general) revenue, and other revenues, expenses, gains and losses. Expenses are reported by function, except those that meet the definition of special or extraordinary items (GASB 34 Par. 41). Functional expenses are defined as the "direct" expense specifically associated with a function and would not include allocations of indirect expenses. The functional categories for expenses are instruction, research, public service, academic support, institutional support, operation and maintenance of plant, scholarships and fellowships, auxiliary enterprises, and depreciation expense.

The primary purpose of the *Statement of Cash Flows* is to provide relevant information about the cash receipts and cash payments of an entity during the fiscal period. The statement explains the changes during the period in cash and cash equivalents regardless of whether there are restrictions on their use. The total amount of cash and cash equivalents at the beginning and end of the period shown in the statement are easily traceable to similarly titled items or subtotals shown on the Statement of Net Assets. First, the statement reports the effects during the period of operations, capital financing, non-capital financing, and investing transactions. Secondly, related information reports the investing, capital, and financing transactions that affect financial position but do not directly affect cash flows during the period. Finally, a reconciliation of operating income to net cash from operating activities is provided.

The *Schedule of Operating Revenues* provides a detail presentation of all operating revenue regardless of source. Sources of operating revenue are state appropriations, tuition, fees, scholarship allowances and discounts, other operating revenue from grants and contracts, and auxiliary enterprises.

The *Schedule of Operating Expenses by Object* displays operating expenses split between restricted and unrestricted categories. Educational activities are reported as instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, and scholarship and fellowships. Auxiliary enterprises expenses and depreciation expense are also reported on this schedule.

The *Schedule of Non-Operating Revenues and Expenses* shows maintenance ad valorem taxes, investment income, and other non-operating revenues as well as, interest on capital related debt, loss on disposal of capital assets and other non-operating revenues.

The *Schedule of Net Assets by Source and Availability* shows details by source for unrestricted, restricted expendable, restricted non-expendable, and capital assets net of depreciation and related debt for current funds, endowment funds, and plant funds. The schedule also shows net increase or decrease by category.

The *Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State Awards* are schedules that satisfy the A-133 requirements and the State of Texas Single Audit Circular requirements.

Financial information for the component unit, North Central Texas College Foundation, Inc., is reported separately from the financial information presented for the primary government. Complete financial statements for the component unit are available from the Office of the Vice-President of Financial Services, North Central Texas College, upon request.

Condensed Comparative Financial Information

A comparative analysis of financial statement data is presented for the College.

Analysis of the College's Overall Financial Position

The overall financial position of the College is very good. There was a significant increase in many critical areas during the past year. The combined fall credit and noncredit head count enrollment has grown from 5,180 in 2002 to 10,418 in 2012. The enrollment growth has also resulted in an increase in net student tuition and fees. Student tuition and fee revenue has increased from \$3,871,000 in 2002 to \$12,585,175 in 2012. While the College has grown substantially over the last few years, the state appropriations have not grown at a comparable rate, thus the growth the College has experienced is not being funded through state appropriations. Although state funding has increased from \$7,370,000 in 2002 to \$11,269,594 in 2012, the portion of state funding has decreased from 38.3% of the budget in 2002 to 24.6% in 2012.

An additional positive trend is the growth of the tax base valuation of the district. The College taxing district is Cooke County, Texas. Ad valorem taxes are assessed and collected by the College based on the valuation of real property and minerals on January 1. The trend from 2000 until 2012 has been a continual increase in taxable assessed valuation from \$1,288,353,176 in 2000 to \$2,594,930,083 in 2012. Total tax collections have increased from \$1,332,078 in 2000 to \$2,161,310 in 2012. The combined maintenance and operations and debt service tax was \$0.12727 for the fiscal year ended August 31, 1997. After retirement of a general obligation tax bond in 1999, the College was able to reduce the total tax levy on local taxpayers to \$0.10110.

The approved maintenance and operations tax rate per \$100 of valuation has decreased further to \$0.071700 in 2012.

While the Texas Tax Code, Title 1 Property Tax Code, Chapter 26, Assessments section 26012 states "Maintenance and Operations Assessments" can be used for any lawful purpose other than debt service for which a taxing unit may spend property tax revenues, NCTC has chosen to more narrowly define what it considers maintenance and operations. NCTC has identified a group of maintenance and operational accounts (for the Gainesville Campus only) for which taxpayers are expected to provide the necessary support. Historically, the tax revenues have not been sufficient to cover the maintenance and operational cost for the Gainesville Campus, thus the balance has been paid for from other unrestricted funds. NCTC Board of Regents approved a tax freeze for the over 65 and the disabled property tax owners, effective 2005.

Net assets may serve over time as a useful indicator of an entity's financial position. In the case of the College, assets exceeded liabilities by \$40,461,642 as of August 31, 2012.

Table I
Net Assets

	Business-type Activities 2012	Business-type Activities 2011	Business-type Activities 2010
Current and other assets	\$ 26,032,956	\$ 24,240,412	\$ 22,935,895
Capital assets	26,905,029	27,626,391	27,683,066
Total assets	<u>52,937,985</u>	<u>51,866,803</u>	<u>50,618,961</u>
Long-term liabilities	6,961,241	7,905,000	8,460,000
Other liabilities	5,515,102	5,774,941	5,057,401
Total liabilities	<u>12,476,343</u>	<u>13,679,941</u>	<u>13,517,401</u>
Net Assets:			
Invested in capital assets net of related debt	19,404,031	19,166,391	18,688,066
Restricted	1,686,788	2,155,978	2,215,516
Unrestricted	19,370,823	16,864,493	16,197,978
Total net assets	<u>\$ 40,461,642</u>	<u>\$ 38,186,862</u>	<u>\$ 37,101,560</u>

Investments in capital assets (e.g., land, buildings, furniture, and equipment) less any related debt used to acquire those assets that is still outstanding is \$19,404,031. The College uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the College's net assets (approximately 4.17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$16,370,823) may be used to meet the College's ongoing obligations. This surplus is not an indication that the College has significant resources available to meet financial obligations next year, but rather the result of having long-term commitments that are less than currently available resources.

The College's total net assets have increased by \$2,274,780. The total cost of all business-type activities was \$41,963,683. The amount that our taxpayers paid for these activities through property taxes was \$2,183,511 or 5.2%.

**Table II
Changes in Net Assets**

	Business-type Activities 2012	Business-type Activities 2011	Business-type Activities 2010
Revenues:			
Operating Revenues:			
Tuition & Fees	\$ 12,585,175	\$ 11,403,453	\$ 10,499,461
Federal Grants & Contracts	3,109,181	3,141,917	2,602,920
State Grants & Contracts	783,825	813,770	1,028,265
Private Grants	398,822	420,801	207,302
Sales & Services of Educational Activities	193,629	168,970	185,991
Auxiliary Enterprises (net)	720,232	2,156,428	3,321,425
Other Operating Revenues	400,978	654,488	319,640
Non-operating Revenues:			
State Appropriations	11,269,594	12,082,436	12,288,931
Property Taxes	2,183,511	2,162,597	2,153,148
Federal Grants & Contracts	12,538,836	11,575,271	9,026,496
Gifts	-	-	-
Investment Income (net)	46,653	79,014	71,165
Gain on Disposal of Fixed Assets	-	-	49,233
Other Non-operating Revenues	8,027	14,813	2,136
Total Revenues	44,238,463	44,673,958	41,756,113
Operating Expense:			
Instruction	17,555,187	17,983,585	15,511,438
Research	121,242	163,526	127,005
Public Service	678,050	709,604	1,085,808
Academic Support	2,549,274	2,606,129	2,608,443
Student Services	2,863,291	2,649,014	2,475,047
Institutional Support	4,549,799	4,154,440	3,290,250
Operation & Maintenance of Plant	3,370,414	4,184,840	3,403,423
Scholarship & Fellowship	8,135,579	6,873,801	5,513,789
Auxiliary Enterprises	830,649	2,792,326	4,213,129
Depreciation	1,086,235	1,078,725	1,022,263
Non-operating Expense:			
Interest on Capital Related Debt	212,064	392,666	414,495
Other	11,899	-	-
Total Expenses	41,963,683	43,588,656	39,665,090
Increase in Net Assets	2,274,780	1,085,302	2,091,023
Beginning Net Assets	38,186,862	37,101,560	34,684,065
Prior Period Adjustment	-	-	326,472
Ending Net Assets	\$ 40,461,642	\$ 38,186,862	\$ 37,101,560

Significant Capital Assets and Long-term Debt Activity

There were changes in the long-term debt of the College during the year ended August 31, 2012. A bond payment was made on the 2004 Series Revenue Bonds in the amount of \$310,000. The 1998 Bonds were refinanced in September 2011 by issuing the 2011 Tuition and Combined Fee Revenue Refunding Bonds in the amount of \$4,065,000. At the time of the issuance of the new

bonds, the College used \$304,955 of 1998 sinking fund monies to provide additional funds for the refunding. The refunding of the 1998 bonds reduced the college's debt service payments over the next 12 years by approximately \$1,074,281. This savings includes a contribution of \$304,955 from the 1998 reserve fund that was due at closing. A bond payment was made in 2012, leaving a remaining outstanding debt requirement on the 2011 Series Revenue Bonds of \$3,705,000.

Discussion of Current Known Facts, Decisions, or Conditions

Enrollment for credit and non-credit headcount continues to increase. Headcount for the Fall term has grown from 5,180 in 2002 to 10,418 in 2011. All indications are that enrollment will continue to increase due mainly to the growth along the I-35 corridor. The College has two of its campuses located along this interstate. In addition to the headcount growth, the College is realizing an increase in the number of contact hours generated by student enrollment. Contact hours are used in the state funding formula, and increased from 898,000 in Fall 2002 to 1,563,692 in Fall 2011.

In September 2012, the Board of Regents authorized renovations of furniture, fixtures and equipment for up to two buildings on the Gainesville campus.

The Flower Mound campus was initially operated under a lease with Eagle Parker Square, LLC. In August 2012, the property sold and the College entered into a lease/purchase agreement with New Hope CEFFC through May 2032. The College has the option to purchase beginning in 2022; if that option is not exercised prior to completion of the lease agreement, the property ownership will transfer to the College in 2032 for the purchase price of \$1.

Other Capital Assets and Long-term Debt Activity

With the advent of GASB 34/35, the College has a significant change in reporting capital assets at year-end. For 2012, depreciation expense of \$1,086,235 was recorded. The capitalization policy of recording capital assets when the item value is \$5,000 or greater and has a useful life of greater than one year became effective with the year ended August 31, 2002.

The College has two Revenue Bonds outstanding as of August 31, 2012 as follows:

- 1) The 2011 Series issue was for \$4,065,000. The new 2011 Series were used, along with \$304,955, to refund the 1998 Series with an outstanding balance at the time of \$3,705,000. A payment of \$360,000 was made during the year and the balance outstanding at year-end was \$3,705,000. The bonds will mature May 2022. The bond covenant requires funds be set-aside in an interest and sinking fund and a reserve fund. The interest and sinking fund requirement is \$106,32, and the reserve fund requirement is \$428,110. At August 31, 2011, the amount set aside was adequate.
- 2) In 2004, NCTC issued \$6,000,000 in Revenue Bonds. The balance outstanding at year-end was \$3,915,000. The bonds will mature October 2022. The bond covenant requires funds be set-aside in an interest and sinking fund and a reserve fund. The interest and sinking fund requirement is \$122,481 and the reserve fund requirement is \$448,750. At August 31, 2012, the amount set aside was adequate.

Revenues sufficient to make all required payments of principal and interest have been properly recorded. During the current fiscal year, Moody's Investor Services announced they had improved the College's bond rating from A2 to A1. The College has never defaulted on any outstanding bond issue.

Contacting the College's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Vice-President of Financial Services, North Central Texas College, 1525 West California St., Gainesville, Texas 76240.

BASIC FINANCIAL STATEMENTS

NORTH CENTRAL TEXAS COLLEGE
STATEMENT OF NET ASSETS
AUGUST 31, 2012 AND AUGUST 31, 2011

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 21,838,787	\$ 17,943,202
Long-term investments-current portion	-	-
Accounts receivable (net)	2,028,746	3,991,017
Inventories	6,385	7,025
Other assets	452,790	426,231
Total Current Assets	24,326,708	22,367,475
Noncurrent Assets		
Restricted cash and cash equivalents	1,591,005	1,872,937
Deferred charges	115,243	-
Capital assets (net) (see note 5)	26,905,029	27,626,391
Total Noncurrent Assets	28,611,277	29,499,328
TOTAL ASSETS	\$ 52,937,985	\$ 51,866,803
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 278,125	\$ 786,678
Accrued liabilities	58,976	53,668
Funds held for others	68,138	76,734
Deferred revenues	4,379,512	4,232,610
Bonds payable-current portion	655,000	555,000
Total Current Liabilities	5,439,751	5,704,690
Noncurrent Liabilities		
Deposits	75,351	70,251
Bonds payable	6,961,241	7,905,000
Total Noncurrent Liabilities	7,036,592	7,975,251
TOTAL LIABILITIES	12,476,343	13,679,941
NET ASSETS		
Invested in capital assets, net of related debt	19,404,031	19,166,391
Restricted for		
Expendable		
Student aid	943,609	938,846
Instructional programs	214,263	431,076
Unexpended bond proceeds	-	-
Debt service	528,916	786,056
Unrestricted	19,370,823	16,864,493
TOTAL NET ASSETS	\$ 40,461,642	\$ 38,186,862

The Notes to Financial Statements are an integral part of this statement.

NORTH CENTRAL TEXAS COLLEGE FOUNDATION, INC.
A COMPONENT UNIT OF NORTH CENTRAL TEXAS COLLEGE
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2012

	TOTAL	TOTALS
ASSETS		8/31/2011
Current Assets		
Cash and Cash Equivalents	\$ 52,324	\$ 347,585
Investments	2,158,290	1,394,945
Unconditional Promises to Give	-	-
Interest Receivable	42,230	36,304
Total Current Assets	2,252,844	1,778,834
Permanently Restricted Endowment	4,166,931	3,576,203
TOTAL ASSETS	\$ 6,419,775	\$ 5,355,037
LIABILITIES & NET ASSETS		
Liabilities		
Accounts Payable	\$ -	\$ -
Scholarships Payable	290,189	293,407
Deferred Support	-	-
Total Liabilities/Current Liabilities	290,189	293,407
Net Assets		
Unrestricted	16,084	13,346
Temporarily Restricted	1,946,571	1,472,081
Permanently Restricted	4,166,931	3,576,203
Total Net Assets	6,129,586	5,061,630
TOTAL LIABILITIES AND NET ASSETS	\$ 6,419,775	\$ 5,355,037

See accompanying notes and independent auditor's report.

NORTH CENTRAL TEXAS COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2012 AND AUGUST 31, 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Operating Revenues		
Tuition and fees (net of discounts of \$6,383,115 and \$5,137,528 respectively)	\$ 12,585,175	\$ 11,403,453
Federal grants and contracts	3,109,181	3,141,917
State grants and contracts	783,825	813,770
Private grants	398,822	420,801
Sales and services of educational activities	193,629	168,970
Investment income (program restricted)	-	-
Auxiliary enterprises (net of discounts \$231,373 and \$1,524,102 respectively)	720,232	2,156,428
Other operating revenues	400,978	654,488
Total Operating Revenues (Schedule A)	<u>18,191,842</u>	<u>18,759,827</u>
EXPENSES		
Operating Expenses		
Instruction	17,555,187	17,983,585
Research	121,242	163,526
Public service	678,050	709,604
Academic support	2,549,274	2,606,129
Student services	2,863,291	2,649,014
Institutional support	4,549,799	4,154,440
Operation and maintenance of plant	3,370,414	4,184,840
Scholarship and fellowships	8,135,579	6,873,801
Auxiliary enterprises	830,649	2,792,326
Depreciation	1,086,235	1,078,725
Total Operating Expenses (Schedule B)	<u>41,739,720</u>	<u>43,195,990</u>
OPERATING INCOME (LOSS)	<u>(23,547,878)</u>	<u>(24,436,163)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	11,269,594	12,082,436
Maintenance ad-valorem taxes		
Taxes for maintenance and operations	2,182,708	2,162,218
Taxes for general obligation bonds	803	379
Federal Revenue, non-operating	12,538,836	11,575,271
Gifts	-	-
Investment income (net of investment expenses)	46,653	79,014
Interest on capital related debt	(212,064)	(392,666)
Gain (Loss) Loss on disposal of fixed assets	-	-
Other non-operating revenues	8,027	14,813
Other non-operating expenses	(11,899)	-
Net Non-Operating Revenues (Schedule C)	<u>25,822,658</u>	<u>25,521,465</u>
INCREASE (DECREASE) IN NET ASSETS	2,274,780	1,085,302
NET ASSETS-BEGINNING OF YEAR	<u>38,186,862</u>	<u>37,101,560</u>
NET ASSETS-END OF YEAR	<u>\$ 40,461,642</u>	<u>\$ 38,186,862</u>

The Notes to Financial Statements are an integral part of this statement.

NORTH CENTRAL TEXAS COLLEGE FOUNDATION, INC.
A COMPONENT UNIT OF NORTH CENTRAL TEXAS COLLEGE
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2012

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTALS</u>	<u>8/31/2011</u>
SUPPORT AND REVENUE:					
Support:					
Donations	\$ 3,910	\$ 684,286	\$ -	\$ 688,196	\$ 579,894
Endowments Received	-	-	156,859	156,859	107,500
Fund Raising	6,107	146,092	-	152,199	139,914
Total Support	<u>10,017</u>	<u>830,378</u>	<u>156,859</u>	<u>997,254</u>	<u>827,308</u>
Revenue:					
Interest and Dividends	485	663,297	-	663,782	281,303
Gain (Loss) on Sale of Assets	-	7,950	-	7,950	(4,195)
Unrealized Gain (Loss)	-	162,071	-	162,071	(18,031)
Net Assets that Reached Endowment Status	-	(433,869)	433,869	-	-
Net Assets Released from Restrictions-Satisfaction of Program Restrictions	755,337	(755,337)	-	-	-
Total Revenue	<u>755,822</u>	<u>(355,888)</u>	<u>433,869</u>	<u>833,803</u>	<u>259,077</u>
TOTAL SUPPORT AND REVENUE	<u>765,839</u>	<u>474,490</u>	<u>590,728</u>	<u>1,831,057</u>	<u>1,086,385</u>
EXPENSES:					
Program Services:					
Scholarships	533,850	-	-	533,850	500,157
Departmental Expenses	229,055	-	-	229,055	115,608
Amortization of Bond Premium	-	-	-	-	-
Total Program Services	<u>762,905</u>	<u>-</u>	<u>-</u>	<u>762,905</u>	<u>615,765</u>
Support Services:					
Management and General	120	-	-	120	145
Fund Raising	76	-	-	76	114
Total Support Services	<u>196</u>	<u>-</u>	<u>-</u>	<u>196</u>	<u>259</u>
TOTAL EXPENSES	<u>763,101</u>	<u>-</u>	<u>-</u>	<u>763,101</u>	<u>616,024</u>
EXCESS SUPPORT AND REVENUE OVER EXPENSES	<u>2,738</u>	<u>474,490</u>	<u>590,728</u>	<u>1,067,956</u>	<u>470,361</u>
NET ASSETS, BEGINNING OF YEAR	<u>13,346</u>	<u>1,472,081</u>	<u>3,576,203</u>	<u>5,061,630</u>	<u>4,591,269</u>
NET ASSETS, END OF YEAR	<u>\$ 16,084</u>	<u>\$ 1,946,571</u>	<u>\$ 4,166,931</u>	<u>\$ 6,129,586</u>	<u>\$ 5,061,630</u>

See accompanying notes and independent auditor's report.

NORTH CENTRAL TEXAS COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2012 AND AUGUST 31, 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and customers	\$ 14,992,586	\$ 13,119,760
Receipts of appropriations, grants and contracts	5,179,029	4,682,088
Other receipts	-	-
Payments to or on behalf of employees	(20,246,491)	(19,867,795)
Payments to suppliers	(19,106,620)	(18,868,037)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(19,181,496)</u>	<u>(20,933,984)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Ad valorem tax revenues	2,199,016	2,168,351
State appropriations	9,584,810	9,592,079
Non-operating federal revenue	12,538,836	11,575,271
Gifts and grants (Other than capital)	-	-
Other cash receipts (payments)	(3,872)	14,813
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>24,318,790</u>	<u>23,350,514</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(364,873)	(1,022,048)
Proceeds from sale of capital assets	-	-
Proceeds from bonds payable	-	-
Payment of bond issuance costs	(119,002)	-
Principal paid on debt	(840,000)	(535,000)
Interest paid on debt	(246,419)	(399,375)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,570,294)</u>	<u>(1,956,423)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	-	-
Investment earnings	46,653	79,012
Purchases of investments	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>46,653</u>	<u>79,012</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,613,653	539,119
CASH AND CASH EQUIVALENTS - SEPTEMBER 1	19,816,139	19,277,020
CASH AND CASH EQUIVALENTS - AUGUST 31	<u>\$ 23,429,792</u>	<u>\$ 19,816,139</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (23,547,878)	\$ (24,436,163)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Payments made directly by state for benefits	1,684,784	2,490,357
Depreciation expense	1,086,235	1,078,725
Changes in assets and liabilities:		
Receivables, net	1,946,767	(1,722,912)
Inventories	639	869,823
Other assets	(26,559)	81,937
Accounts payable	(468,890)	120,738
Deferred revenue	152,002	576,524
Deposits held for others	(8,596)	6,987
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (19,181,496)</u>	<u>\$ (20,933,984)</u>

The Notes to Financial Statements are an integral part of this statement.

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

1. REPORTING ENTITY

North Central Texas College (the College), was established in 1924 as Gainesville Junior College, in accordance with the laws of the State of Texas, to serve the educational needs of Cooke County and the surrounding area. The College is considered to be a special purpose, primary government, according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. While the College receives funding from local, state, 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 Board of Regents (the Board), a seven-member group constituting an on-going entity, is the level of government that has governance responsibilities over all activities, programs, and facilities of the College. The Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operation and primary accountability for fiscal matters.

The facilities utilized in the College system are located on five distinct campuses, Gainesville in Cooke County, Corinth in Denton County, Flower Mound in Denton County, Bowie in Montague County, and Graham in Young County. The College's primary campus rests on 132 acres of land located in the southwest section of Gainesville, Texas, on U.S. Highway 51. In January 2000, the College opened two extension centers located at Corinth and at Bowie. The Gainesville and Corinth campuses are capitalized assets of the College. The Bowie campus is operated under a lease with the Bowie 4B Sales Tax Corporation; the lease is discussed elsewhere in these disclosures. The fourth campus was opened in Graham, in Young County; citizens of Graham Independent School District passed a Branch Campus Maintenance Tax in November, 2009 with tax revenue beginning in 2010-2011. The fifth campus Flower Mound, opened in January 2011 in leased facilities.

The College offers academic and professional courses for students who plan to transfer to senior colleges and universities to continue to work toward a baccalaureate degree and technical and vocational courses to develop occupational skills and continuing education courses for adults. The College has several secondary instruction sites in North Texas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants: Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.0333). When the student uses the award for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

Title IV, Higher Education Act (HEA) Program Funds: Certain Title IV HEA Program funds are received by the College to pass through to the student. These funds are initially received by the College and recorded as restricted revenue. When the student uses the award for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Other Tuition Discounts: The College awards tuition and fee scholarships from institutional funds to students who qualify. When the student uses the award for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Basis of Accounting

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

Budgetary Data

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

Cash and Cash Equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The board of regents has designated public funds investment pools comprised of \$16,078,373 and \$11,937,911 at 8/31/2012 and 8/31/2011, respectively to be cash equivalents. The College sets aside resources for the repayment of the bonds. These assets are classified as restricted cash on the statement of net assets because their use is limited by applicable bond covenants and they are maintained in separate bank accounts.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories

Inventories of the College consist of consumable fuel and cosmetology stock. Inventories are valued at cost, using the average cost method of valuation, and are charged to expense as consumed or sold. Inventory at year-end consisted of the following amounts:

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

	<u>August 31, 2012</u>	<u>August 31, 2011</u>
Fuel	\$ 868	\$ 668
Cosmetology Stock	5,517	6,357
	<u>\$ 6,385</u>	<u>\$ 7,025</u>

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or estimated fair market value at the date donated. The College's capitalization policy includes all real or personal property with a value of \$5,000 or more and an estimated life in excess of 2 years. Renovations of \$100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged to operating expense in the year in which the expense is incurred.

The College reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets applying the half-year convention. The following lives are used:

Buildings	50 years
Facilities and Other Improvements	20 years
Furniture, Machinery, Vehicles and Other Equipment	10 years
Telecommunications and Peripheral Equipment	5 years
Library Books	15 years

Deferred Revenues

Deferred revenues at August 31, 2012 and 2011 were as follows:

	<u>August 31, 2012</u>	<u>August 31, 2011</u>
Tuition	\$ 3,973,344	\$ 4,232,610
State Grant	406,168	-
	<u>\$ 4,379,512</u>	<u>\$ 4,232,610</u>

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.

Operating and Non-Operating Revenue and Expense Policy

The College distinguishes operating revenues and expenses from non-operating items. The College reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. As of July 17, 2011, the operation of the bookstore is no longer performed by the college.

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

Net Assets

When the College incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first.

3. AUTHORIZED INVESTMENTS

The Board has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act. The investments of the College are in compliance with the adopted investment policies.

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

4. DEPOSITS AND INVESTMENTS

The College's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the College's agent bank approved pledged securities in an amount sufficient to protect College funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) assurance.

Cash and Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits might not be recovered. The College does not have a policy for custodial credit risk. At August 31, 2012 and 2011, the carrying amounts of the College's bank deposits were \$7,347,604 and \$7,872,747, respectively, and total bank balances equaled \$8,425,564 and \$8,807,886. Bank balances of \$1,002,648 and \$1,002,067 were covered by FDIC, and \$7,820,336 and \$7,805,819 were covered by collateral pledged in the College's name for the years ended August 31, 2012 and 2011, respectively.

The Foundation does not have a policy for custodial credit risk. At August 31, 2012 and 2011, the carrying amounts of the Foundation's bank deposits were \$52,324 and \$347,585, respectively, and total bank balances equaled \$61,086 and \$350,681. During the year ended August 31, 2012, bank balances were underpledged for a total of 61 days. During the year ended August 31, 2011, bank balances were underpledged for a total of 60 days.

Public Funds Investment Pool

The College's temporary investments consist of balances held by the Texas Local Government Investment Pool (TexPool). The State Comptroller of Public Accounts exercises oversight responsibility of TexPool. Oversight includes the ability to significantly influence operations, designations of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

TexPool operates in a manner consistent with SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The College considers TexPool balances to be cash equivalents.

Cash and Cash Equivalents

Cash, deposits, and cash equivalents consist of the following:

	The College (Primary Government)		The Foundation (Discretely Presented Component Unit)	
	Statement of Net Assets - Exhibit 1		Statement of Financial Position	
	8/31/2012	8/31/2011	8/31/20112	8/31/2011
Bank Deposits				
Demand Deposits	\$ 3,318,138	\$ 3,848,136	\$ 52,324	\$ 275,585
Time Deposits	4,029,466	4,024,609	-	72,000
Total Bank Deposits	<u>7,347,604</u>	<u>7,872,745</u>	<u>52,324</u>	<u>347,585</u>
Petty Cash and Cash on Hand	3,815	5,483	-	-
Total Cash and Deposits	<u>7,351,419</u>	<u>7,878,228</u>	<u>52,324</u>	<u>347,585</u>
Cash Equivalents				
TexPool	<u>16,078,373</u>	<u>11,937,911</u>	<u>-</u>	<u>-</u>
Total Cash, Deposits, and Cash Equivalents	<u>\$ 23,429,792</u>	<u>\$ 19,816,139</u>	<u>\$ 52,324</u>	<u>\$ 347,585</u>

Investments

During the fiscal year ended August 31, 2012 and 2011, the College did not sell any investments. The calculation of realized gains is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and disposed of in the current year may have been recognized as an increase or decrease in the fair value of investments reported in a prior year. The accumulated unrealized gain on investments held at August 31, 2012 and 2011, was \$0 and \$0, respectively.

During the fiscal year ended August 31, 2012, the Foundation sold several investments. The calculation of the realized gain is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and disposed of in the current year may have been recognized as an increase or decrease in the fair value of investments reported in a prior year. The accumulated unrealized gains on investments held at August 31, 2012 and 2011, were \$365,723 and \$203,652, respectively.

As of August 31, 2012 and 2011, the College (Primary Government) had the following investments and maturities:

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

Investment Type	Fair Value	Investment Maturities in Years			
	8/31/2012	Less Than 1	1 to 5	5 to 10	10 to 15
TEXPOOL Investment Pool	\$ 16,078,373	\$ 16,078,373	\$ -	\$ -	\$ -
Certificates of Deposit	4,029,466	4,029,466			
Total Investments	\$ 20,107,839	\$ 20,107,839	\$ -	\$ -	\$ -

Investment Type	Fair Value	Investment Maturities in Years			
	8/31/2011	Less Than 1	1 to 5	5 to 10	10 to 15
TEXPOOL Investment Pool	\$ 11,937,911	\$ 11,937,911	\$ -	\$ -	\$ -
Certificates of Deposit	4,024,609	4,024,609			
Total Investments	\$ 15,962,520	\$ 15,962,520	\$ -	\$ -	\$ -

As of August 31, 2012 and 2011, the Foundation (Discretely Presented Component Unit) had the following investments and maturities:

Investment Type	Fair Vaue	Investment Maturities in Years			
	8/31/2012	Less Than 1	1 to 5	5 to 10	10 to 15
U. S. Government Agencies	\$2,661,924	\$ -	\$ 758,108	\$1,611,766	\$ 292,050
Corporate Bonds & Notes	698,793	-	461,650	237,143	-
U. S. Government S/T Funds	2,317,836	2,317,836	-	-	-
Money Market & Cash Equivalents	643,975	643,975	-	-	-
Total Investments	\$6,322,528	\$ 2,961,811	\$1,219,758	\$1,848,909	\$ 292,050

Investment Type	Fair Value	Investment Maturities in Years			
	8/31/2011	Less Than 1	1 to 5	5 to 10	10 to 15
U. S. Government Agencies	\$ 688,729	\$ -	\$ 457,172	\$ 230,760	\$ 797
Corporate Bonds & Notes	1,748,948	-	651,423	829,746	267,779
U. S. Government S/T Funds	2,082,007	2,082,007	-	-	-
Money Market & Cash Equivalents	451,464	451,464	-	-	-
Total Investments	\$4,971,148	\$ 2,533,471	\$1,108,595	\$1,060,506	\$ 268,576

Reconciliation of Deposits and Investments for the College (Primary Government) to Statement of Net Assets - Exhibit 1

	Carrying Amounts	
	8/31/2012	8/31/2011
Total Long-Term Investments	\$ -	\$ -
Total Cash and Deposits	7,351,419	7,878,228
Total Cash Equivalents	16,078,373	11,937,911
Total Deposits and Investments	\$ 23,429,792	\$ 19,816,139
Per Statement of Net Assets - Exhibit 1:		
Cash and Cash Equivalents	\$ 21,838,787	\$ 17,943,202
Long-Term Investments-Current Portion	-	-
Restricted Cash and Cash Equivalents	1,591,005	1,872,937
Total Deposits and Investments	\$ 23,429,792	\$ 19,816,139

Reconciliation of Deposits and Investments for the Foundation (Discretely Presented Component Unit) to Statement of Financial Position

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

	Carrying Amounts	
	8/31/2012	8/31/2011
U.S. Government Agencies	\$ 698,793	\$ 688,729
Corporate Bonds & Notes	2,664,617	1,748,948
Mutual Funds	2,317,836	2,082,007
Money Martket & Cash Equivalentts	643,975	451,464
Total Investments	6,325,221	4,971,148
Total Cash and Deposits	52,324	347,585
Total Deposits and Investments	\$ 6,377,545	\$ 5,318,733
Per Statement of Financial Position:		
Cash and Cash Equivalentts	\$ 52,324	\$ 347,585
Investments	2,158,290	1,394,945
Restricted Permanent Endowment	4,166,931	3,576,203
Total Deposits and Investments	\$ 6,377,545	\$ 5,318,733

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the College was exposed to the following specific investment risks at year-end and, if so, the reporting of certain related disclosures:

- a. Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. For the years ended August 31, 2012 and 2011, neither the College nor the Foundation was significantly exposed to credit risk.
- b. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of an entities investment in a single issuer. For the years ended August 31, 2012 and 2011, neither the College nor the Foundation was significantly exposed to a concentration of credit risk.
- c. Interest Rate Risk - This is the risk that changes in the interest rates will adversely affect the fair value of an investment. For the years ended August 31, 2012 and 2011, neither the College nor the Foundation was significantly exposed to an interest rate risk.
- d. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. For the years ended August 31, 2012 and 2011, neither the College nor the Foundation was exposed to a foreign currency risk.

5. CAPITAL ASSETS - COMPARATIVE

Capital assets activity for the years ended August 31, 2012 and 2011 was as follows:

NORTH CENTRAL TEXAS COLLEGE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

<u>August 31, 2012</u>	Balance 9/1/2011	Increases	Decreases	Balance 8/31/2012
Not Depreciated:				
Land	\$ 1,491,594		\$ -	\$ 1,491,594
Other Capital Assets:				
Buildings and Improvements	30,622,272	-	-	30,622,272
Equipment	3,473,553	280,657	-	3,754,210
Library Books	1,658,294	16,621	-	1,674,915
Automobiles	546,375	32,870	-	579,245
Subtotal	<u>36,300,494</u>	<u>330,148</u>	<u>-</u>	<u>36,630,642</u>
Accumulated Depreciation:				
Buildings and Improvements	(6,720,676)	(678,729)	-	(7,399,405)
Equipment	(2,046,174)	(233,956)	-	(2,280,130)
Library Books	(1,076,742)	(135,170)	34,723	(1,177,189)
Automobiles	(322,105)	(38,378)	-	(360,483)
Subtotal	<u>(10,165,697)</u>	<u>(1,086,233)</u>	<u>34,723</u>	<u>(11,217,207)</u>
Net Other Capital Assets	26,134,797	(756,085)	34,723	25,413,435
Net Capital Assets	<u>\$ 27,626,391</u>	<u>\$ (756,085)</u>	<u>\$ 34,723</u>	<u>\$ 26,905,029</u>

<u>August 31, 2011</u>	Balance 9/1/2010	Increases	Decreases	Balance 8/31/2011
Not Depreciated:				
Land	\$ 1,491,594		\$ -	\$ 1,491,594
Construction in Progress	4,070,054	(4,070,054)	-	-
Subtotal	<u>5,561,648</u>	<u>(4,070,054)</u>	<u>-</u>	<u>1,491,594</u>
Other Capital Assets:				
Buildings and Improvements	26,016,951	4,605,321	-	30,622,272
Equipment	3,130,526	364,746	(21,719)	3,473,553
Library Books	1,609,503	48,791	-	1,658,294
Automobiles	538,434	53,560	(45,619)	546,375
Subtotal	<u>31,295,414</u>	<u>5,072,418</u>	<u>(67,338)</u>	<u>36,300,494</u>
Accumulated Depreciation:				
Buildings and Improvements	(6,045,953)	(674,723)	-	(6,720,676)
Equipment	(1,831,406)	(236,487)	21,719	(2,046,174)
Library Books	(964,681)	(131,748)	19,687	(1,076,742)
Automobiles	(331,956)	(35,768)	45,619	(322,105)
Subtotal	<u>(9,173,996)</u>	<u>(1,078,726)</u>	<u>87,025</u>	<u>(10,165,697)</u>
Net Other Capital Assets	22,121,418	3,993,692	19,687	26,134,797
Net Capital Assets	<u>\$ 27,683,066</u>	<u>\$ (76,362)</u>	<u>\$ 19,687</u>	<u>\$ 27,626,391</u>

6. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Current and noncurrent receivables at August 31, 2012 and 2011 were as follows:

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

	<u>The College (Primary Government)</u>		<u>The Foundation (Component Unit)</u>	
	8/31/2012	8/31/2011	8/31/2012	8/31/2011
Accounts Receivable	\$ 411,797	\$ 1,258,753	\$ -	\$ -
Taxes Receivable	126,065	145,221	-	-
Federal Receivable	614,836	1,113,442	-	-
State & Local Receivable	14,937	(513)	-	-
Student Receivables	2,211,204	2,457,203	-	-
Interest Receivable	-	-	42,230	36,304
Other Receivable	9,941	5,316	-	-
Insurance Proceeds	-	-	-	-
Subtotal	<u>3,388,780</u>	<u>4,979,422</u>	<u>42,230</u>	<u>36,304</u>
Allowance for Doubtful Accounts	(1,360,034)	(988,405)	-	-
Total Receivables	<u>\$ 2,028,746</u>	<u>\$ 3,991,017</u>	<u>\$ 42,230</u>	<u>\$ 36,304</u>

Accounts payables and accrued liabilities at August 31, 2012 and 2011, were as follows:

	<u>The College (Primary Government)</u>		<u>The Foundation (Component Unit)</u>	
	8/31/2012	8/31/2011	8/31/2012	8/31/2011
Vendors Payable	\$ 122,532	\$ 588,672	\$ -	\$ -
Students Payable	7,990	28,961	290,189	293,407
Other Payable	70,819	57,906	-	-
Interest Payable	76,784	111,139	-	-
Total Accounts Payable	<u>278,125</u>	<u>786,678</u>	<u>290,189</u>	<u>293,407</u>
Accrued Liabilities:				
Salaries & Benefits Payable	58,976	53,668	-	-
Total Payables	<u>\$ 337,101</u>	<u>\$ 840,346</u>	<u>\$ 290,189</u>	<u>\$ 293,407</u>

7. BONDS PAYABLE

Bonds payable at August 31, 2012 were comprised of the following individual issues:

NCTC District Tuition and Combined Fee Revenue Bonds, Series 2004

- For the construction, improvement, and renovation of buildings, structures, or facilities, including a Performing Arts Center on the Gainesville campus
- Issue date February 15, 2004
- Original amount issued \$6,000,000; amount authorized \$10,000,000
- Source of revenue for debt service-Tuition and Fees
- Payable in annual installments varying from \$165,000 to \$470,000
- Interest rates from 3.875% to 5%
- Final installment due May 2022

NCTC District Tuition and Combined Fee Revenue Refunding Bonds. Series 2011

- For the refunding of the Series 1998 Bonds
- Issue date October 1, 2011
- Original amount authorized and issued \$4,065,000
- Source of revenue for debt service-Tuition and Fees
- Payable in annual installments varying from \$330,000 to \$415,000

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

- Interest rates from 2% to 3%
- Final installment due May 2022

Activity in bonds payable for the years ended August 31, 2012 and 2011, was as follows:

	Beginning Balance	Activity		Ending Balance	Current Portion
		Additions	Reductions		
<u>August 31, 2012</u>					
Revenue Bonds:					
1998 Series	\$ 4,235,000	\$ -	\$(4,235,000)	\$ -	\$ -
2004 Series	4,225,000	-	(310,000)	3,915,000	325,000
2011 Series	-	4,065,000	(360,000)	3,705,000	330,000
Deferred Loss on Refunding	-	(69,206)	6,291	(62,915)	-
Premium on Bonds	-	65,072	(5,916)	59,156	-
	<u>\$ 8,460,000</u>	<u>\$4,060,866</u>	<u>\$(4,904,625)</u>	<u>\$ 7,616,241</u>	<u>\$ 655,000</u>
<u>August 31, 2011</u>					
Revenue Bonds:					
1998 Series	\$ 4,470,000	\$ -	\$ (235,000)	\$ 4,235,000	\$ 245,000
2004 Series	4,525,000	-	(300,000)	4,225,000	310,000
	<u>\$ 8,995,000</u>	<u>\$ -</u>	<u>\$ (535,000)</u>	<u>\$ 8,460,000</u>	<u>\$ 555,000</u>

Debt service requirements at August 31, 2012 are summarized below:

Fiscal Year	Principal	Interest	Total Requirements
August 31,			
2013	655,000	260,212	915,212
2014	675,000	240,612	915,612
2015	700,000	218,737	918,737
2016	720,000	196,357	916,357
2017	745,000	172,881	917,881
2018-2022	4,125,000	462,759	4,587,759
Total Requirements	<u>\$ 7,620,000</u>	<u>\$ 1,551,558</u>	<u>\$ 9,171,558</u>

8. LEASE OBLIGATIONS

Bowie Campus Lease: The Bowie campus in Montague County is operated under a lease with Bowie 4B Sales Tax Corporation (the Corporation); sales tax revenues from the City of Bowie provide for the construction and maintenance of the facility. Per the lease agreement with the Corporation, the College leases the facility from the Corporation at a rate of \$1 per year until the debt associated with the facility is paid in full. At that time, the College has the option to purchase the facility at a cost of \$1. In addition to the rent, the College pays to the Corporation a "Building Usage Fee"; the amount is calculated based on student enrollment at the Bowie campus at \$25 per student. The Building Usage Fee is payable twice per year; on or before October 1 based on the Fall semester enrollment and on or before March 1 based on the Spring semester enrollment.

Flower Mound Campus Lease: The Flower Mound Campus in Denton County was initially operated under a lease with Eagle Parker Square, LLC. In August 2012, the property sold and the College entered into a lease/purchase agreement with New Hope CEFFC through May, 2032. The College has the option to purchase beginning in 2022; if that option is not exercised prior to completion of the

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

lease agreement, the property ownership will transfer to the College in 2032 for the purchase price of \$1. Payment of the lease is made semiannually.

Graham Campus Lease: The Graham campus in Young County is operated under a lease with the City of Graham. Per the lease agreement with the City, the College leases the facilities at a rate of \$10 per year. The primary term of the lease is for a five year period. The lease may be renewed and extended for three additional five-year periods. Payment of the \$10 lease rate is due before September 1st of each lease year.

Other Leases: The College leases various copiers and other equipment under noncancelable operating (noncapitalized) leases that have an initial term in excess of one year. The College also entered into leases for classroom space on the Corinth campus. The current year's lease expense for the equipment and classroom space was \$985,764.

Minimum future requirements as of August 31, 2012 were as follows:

<u>Fiscal Year</u> <u>August 31,</u>	<u>Future Minimum</u> <u>Lease Payments</u>
2013	\$ 1,302,719
2014	1,301,859
2015	1,305,075
2016	1,389,045
2017	1,451,510
2018-2022	6,830,942
2023-2027	3,934,575
2028-2032	4,254,500
Total	<u>\$ 21,770,225</u>

9. ADVANCE REFUNDING BONDS

- Refunded \$4,235,000 of District Revenue Bonds, Series 1998
- Issued refunding bonds on 10/1/2011
- \$4,065,000, all authorized bonds have been issued
- NCTC District Tuition and Combined Fee Revenue Refunding Bonds. Series 2011
- Average interest rate of bonds refunded—4.75%
- Net proceeds from Refunding Series \$4,011,276 after payment of \$53,724 in underwriting fees, insurance, and other issuance costs
- Additional \$292,930 of Series 1998 sinking fund monies were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 1998 bonds.
- The 1998 Series bonds are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant Fund Group.
- Advance refunding of the 1998 Series bonds reduced the college's debt service payments over the next 12 years by approximately \$1,074,281
- Economic Gain--\$522,470, difference between the net present value of the old and new debt service payments, excluding the reserve fund contribution
- Accounting Loss--\$69,206 as a result of the advance refunding

10. DEFEASED BONDS OUTSTANDING

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

Bond Issue	Year Refunded	Par Value Outstanding
Series 1998	2011	\$ 3,990,000

11. EMPLOYEES RETIREMENT PLAN

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

Teacher Retirement System of Texas (TRS)

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

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

Optional Retirement Plan

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

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

The retirement expense to the State for the College was \$800,004 and \$876,920 for the fiscal years ended August 31, 2012 and 2011, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll of all College employees was \$17,928,675 and \$17,934,484 for fiscal years August 31, 2012 and 2011, respectively. The total payroll of employees covered by the TRS was

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

\$10,300,023 and \$11,452,266; and the total payroll of employees covered by the ORP was \$3,095,782 and \$3,488,050 for fiscal years August 31, 2012 and 2011, respectively.

10. DEFERRED COMPENSATION PLAN

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The total of deferred salaries of employees since the inception of the program is not determinable.

As of August 31, 2012, the College had 22 employees participating in the program. A total of \$90,244 in payroll deductions were invested in approved plans during the fiscal year.

As of August 31, 2011, the College had 27 employees participating in the program. A total of \$102,564 in payroll deductions were invested in approved plans during the fiscal year.

11. COMPENSATED ABSENCES

Full-time employees earn vacation leave at the rate of 1.25 days per month for each month of employment with the College. The College's policy is that an employee may not carry vacation leave forward from one fiscal year to another fiscal year. Accordingly, the College did not recognize an accrued liability for the unpaid vacation leave in the financial statements.

A liability for accrued sick leave, which is earned at a rate of 80 hours per year and can be accumulated up to 45 days (60 days after 10 years of service), is not recorded. It is the policy of the College to not record accrued sick leave as a component of compensation expense because the benefits become compensation when the sick leave is utilized, not when accumulated. Upon termination, an employee does not receive payment for any accumulated sick leave.

12. PENDING LAWSUITS AND CLAIMS

None

13. CONTRACT AND GRANT AWARDS

Contracts 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 contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the 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 \$3,835,608 and \$2,543,969, respectively. Of this amount, \$3,561,614 and \$2,499,099 were from Federal Contract and Grant awards, respectively and \$273,994 and \$44,870 were from State Contract and Grant awards. There were no amounts from Local or from Private Contract and Grant Awards.

14. SELF-INSURED PLANS

The College maintains a self-insured arrangement for coverage in the area of unemployment compensation. The unemployment compensation plan is on a pay-as-you-go basis. Payments for incurred claims are charged to current funds expenditures. Prior to 1998, the College maintained a self-insured arrangement for coverage in the area of workers' compensation insurance. The College

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

has funds available to cover claims incurred in the period the institution was in this plan. Claims Administrative Services, Inc. of Tyler, Texas administers the plan.

15. POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State of Texas provides certain health care and life insurance benefits to active and retired employees. Almost all 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 \$438.30 and \$413.26 per month for employee-only coverage for the years ended August 31, 2012 and 2011, respectively. The cost of providing these benefits and the total number of employees participating in the plan and contributions were as follows:

	August 31, 2012		August 31, 2011	
	Number of Employees	Contribution	Number of Employees	Contribution
Active Employees	259	\$ 394,547	252	\$ 1,208,121
Retired Employees	81	490,233	83	405,317
	<u>340</u>	<u>\$ 884,780</u>	<u>335</u>	<u>\$ 1,613,438</u>

16. AD VALOREM TAX

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

Net assessed valuation at August 31 was as follows:

	Fiscal Year 2012	Fiscal Year 2011
Assessed Valuation	\$ 3,285,804,829	\$ 3,321,064,295
Less: Exemptions & Abatements	(690,874,746)	(734,917,157)
Net Assessed Valuation	<u>\$ 2,594,930,083</u>	<u>\$ 2,586,147,138</u>

The tax rates per \$100 valuation were as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	Current Operations	Debt Service	Current Operations	Debt Service
Authorized	0.20000	0.50000	0.20000	0.50000
Assessed	0.07170	0.00000	0.07120	0.00000

Taxes levied for the years ended August 31, 2012 and 2011, were \$2,157,384 and \$2,138,179, respectively, including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Tax collections for the years ended August 31, 2012 and 2011, were 98.4% and 98.7%, respectively, of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

	Current Operations	Debt Service	Total
<u>Fiscal Year Ended August 31, 2012</u>			
Current Taxes Collected	\$ 2,123,068	\$ -	\$ 2,123,068
Delinquent Taxes Collected	47,064	603	47,667
Penalties & Interest Collected	28,082	200	28,282
Total Collections	<u>\$ 2,198,214</u>	<u>\$ 803</u>	<u>\$ 2,199,017</u>
<u>Fiscal Year Ended August 31, 2011</u>			
Current Taxes Collected	\$ 2,109,483	\$ -	\$ 2,109,483
Delinquent Taxes Collected	41,515	261	41,776
Penalties & Interest Collected	17,975	118	18,093
Total Collections	<u>\$ 2,168,973</u>	<u>\$ 379</u>	<u>\$ 2,169,352</u>

17. BRANCH CAMPUS MAINTENANCE TAX

A branch campus maintenance tax has been established by election has been levied by Graham Independent School District in Young County, Texas. It 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 Graham Independent School District. Collections are transferred to the College to be used for the operation of a Branch Campus at Graham. This revenue is reported under Local Grants and Contracts.

	Collections (including penalties and interest)	
	<u>August 31, 2012</u>	<u>August 31, 2011</u>
Young County	\$ 366,810	\$ 365,526

18. INCOME TAXES

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

19. COMPONENT UNITS

GASB 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB 14*, gives guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. It requires reporting as a component unit if the organization raises and holds economic resources for the direct benefit of the governmental unit. GASB 39 has been applied as required in the preparation of these financial statements and component unit information included if necessary.

The following component units are included in these financial statements:

Mary Josephine Cox Estate Trust: The Mary Josephine Cox Estate is a Trust (an Endowment Fund) (the Trust) that has been granted tax-exempt status pursuant to the provisions of the Internal Revenue Code Section 501(c)(3). The resources of the Trust are to be used to provide scholarships to North Central Texas College for Cooke County, Texas residents that meet certain specified criteria.

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

The Trust owns real property located in Texas and Oklahoma. The Texas property is the site of an agricultural experiment farm. The Oklahoma property is leased to a farmer/rancher.

For the fiscal years 2012 and 2011, the Trust was totally managed by the Administration of the College and falls under the direct oversight of the College's Board of Regents. For the years ended August 31, 2012 and 2011, the Trust is presented using the blended method of inclusion.

North Central Texas College Foundation, Inc.: The North Central Texas College Foundation, Inc. (the Foundation) is a nonprofit corporation that has been granted tax-exempt status pursuant to the provision of Internal Revenue Code Section 501(c)(3). The Foundation's purposes are to foster a positive public image for the College and to solicit philanthropic support for the College that will enhance the continued growth and welfare of the College. The Foundation is organizationally and fiscally separate from the College, but utilizes the name and mission of the College and operates only under the approval and sanction of the College's Board of Regents.

Because the Foundation has a separate Board of Directors, the financial activities of the Foundation for the years ended August 31, 2012 and 2011 are reflected in the financial statements of the College using the discrete method of inclusion. The separate financial statements of the Foundation can be obtained from the Office of the President of North Central Texas College.

20. COMMITMENTS AND CONTINGENT LIABILITIES

Grants: The College participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the College, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Funding Shortfall: Texas Constitution article 15, section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system,": referring to the State's Teacher Retirement System (TRS) including the related faculty Optional Retirement Program (ORP). During the 2011 legislative session, the Texas Legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted general revenue appropriation for each year of the biennium state budget. There is no pending litigation concerning this issue to construe the constitutional funding requirements; or to hold that the State biennium appropriations satisfy those requirements; or to attempt to collect any shortfall contributions from any community college district.

The College has calculated that as of August 31, 2012, the contribution that has not been paid to TRS on behalf of College employees is \$228,640.

21. RISK MANAGEMENT

The College is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012 and 2011, the College purchased commercial insurance to cover general liabilities. There were no significant

NORTH CENTRAL TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

22. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

ERS issues a publicly available financial report that includes the 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 College's contributions to SRHP for the years ended August 31, 2012, 2011 and 2010 were \$490,233, \$405,317, and \$412,721, respectively, which equaled the required contributions each year.

23. SUBSEQUENT EVENTS

The College's management has evaluated subsequent events through November 1, 2012, the date which the financial statements were available for issue. There were no material subsequent events.

(This page left blank intentionally)

SCHEDULES

NORTH CENTRAL TEXAS COLLEGE
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2012
(With Memorandum Totals for the Year Ended August 31, 2011)

					TOTALS		
	UNRESTRICTED	RESTRICTED	TOTAL EDUCATIONAL ACTIVITIES	AUXILIARY ENTERPRISES	MEMORANDUM ONLY	2012	2011
TUITION							
State funded credit courses							
In-district resident tuition	\$ 1,173,456	\$ -	\$ 1,173,456	\$ -	\$ 1,173,456	\$ 761,854	
Out-of-district resident tuition	11,685,830	-	11,685,830	-	11,685,830	10,459,153	
TPEG credit (set aside)*	412,521	-	412,521	-	412,521	396,163	
State funded continuing education	830,346	-	830,346	-	830,346	930,146	
Non-resident tuition	675,380	-	675,380	-	675,380	664,394	
Non-state funded continuing education	496,509	-	496,509	-	496,509	523,207	
TOTAL TUITION	<u>15,274,042</u>	<u>-</u>	<u>15,274,042</u>	<u>-</u>	<u>15,274,042</u>	<u>13,734,917</u>	
FEES							
General fees	2,648,598	-	2,648,598	-	2,648,598	1,865,370	
Distance education fees	616,677	-	616,677	-	616,677	542,869	
Student service fees	-	-	-	191,687	191,687	174,185	
Laboratory fees	237,286	-	237,286	-	237,286	223,640	
TOTAL FEES	<u>3,502,561</u>	<u>-</u>	<u>3,502,561</u>	<u>191,687</u>	<u>3,694,248</u>	<u>2,806,064</u>	
SCHOLARSHIP ALLOWANCES AND DISCOUNTS							
Scholarship allowances	(45,825)	(4,521)	(50,346)	(249,982)	(300,328)	(260,032)	
Remissions and exemptions-state	(552,099)	-	(552,099)	-	(552,099)	(359,274)	
TPEG allowances	-	(385,203)	(385,203)	-	(385,203)	(227,707)	
Federal grants to students	-	(4,980,623)	(4,980,623)	-	(4,980,623)	(4,166,764)	
Texas grants	-	(164,862)	(164,862)	-	(164,862)	(123,751)	
TOTAL SCHOLARSHIP ALLOWANCES AND DISCOUNTS	<u>(597,924)</u>	<u>(5,535,209)</u>	<u>(6,133,133)</u>	<u>(249,982)</u>	<u>(6,383,115)</u>	<u>(5,137,528)</u>	
TOTAL NET TUITION AND FEES	<u>18,178,679</u>	<u>(5,535,209)</u>	<u>12,643,470</u>	<u>(58,295)</u>	<u>12,585,175</u>	<u>11,403,453</u>	
ADDITIONAL OPERATING REVENUES							
Federal grants and contracts	-	3,109,181	3,109,181	-	3,109,181	3,141,917	
State grants and contracts	-	783,825	783,825	-	783,825	813,770	
Private grants	366,810	32,012	398,822	-	398,822	420,801	
Sales and services of educational activities	80,186	-	80,186	113,443	193,629	168,970	
Investment income (program restricted)	-	-	-	-	-	-	
Other operating revenues	400,978	-	400,978	-	400,978	654,488	
TOTAL OTHER OPERATING REVENUES	<u>847,974</u>	<u>3,925,018</u>	<u>4,772,992</u>	<u>113,443</u>	<u>4,886,435</u>	<u>5,199,946</u>	
AUXILIARY ENTERPRISES							
Residential life	-	-	-	456,183	456,183	460,908	
Scholarship allowances and discounts	-	-	-	(231,373)	(231,373)	(263,827)	
Net Residential Life	-	-	-	224,810	224,810	197,081	
Bookstore	-	-	-	495,422	495,422	3,219,622	
Scholarship allowances and discounts	-	-	-	-	-	(1,260,275)	
Net Bookstore	-	-	-	495,422	495,422	1,959,347	
TOTAL NET AUXILIARY ENTERPRISE	<u>-</u>	<u>-</u>	<u>-</u>	<u>720,232</u>	<u>720,232</u>	<u>2,156,428</u>	
TOTAL OPERATING REVENUES	<u>\$ 19,026,653</u>	<u>\$ (1,610,191)</u>	<u>\$ 17,416,462</u>	<u>\$ 775,380</u>	<u>\$ 18,191,842</u>	<u>\$ 18,759,827</u>	
					(Exhibit 2)	(Exhibit 2)	

* In accordance with Education Code 56.033, \$412,521 and \$396,163 for years ended August 31, 2012 and 2011, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

NORTH CENTRAL TEXAS COLLEGE
SCHEDULE OF OPERATING EXPENSES BY OBJECT
FOR THE YEAR ENDED AUGUST 31, 2012
(With Memorandum Totals For the Year Ended August 31, 2011)

	OPERATING EXPENSE			TOTALS MEMORANDUM ONLY	
	SALARIES AND WAGES	BENEFITS		2012	2011
		STATE	LOCAL		
UNRESTRICTED EDUCATIONAL ACTIVITIES					
Instruction	\$ 10,895,057	\$ -	1,370,228	\$ 1,894,472	\$ 14,159,757
Research	59,317	-	7,460	48,386	115,163
Public service	250,947	-	31,561	188,277	470,785
Academic support	1,768,316	-	222,394	377,331	2,368,041
Student services	1,437,802	-	180,827	234,436	1,853,065
Institutional support	1,715,598	-	215,764	2,426,543	4,357,905
Operation and maintenance of plant	444,588	-	107,675	2,809,886	3,362,149
Scholarship and fellowships	-	-	-	-	-
TOTAL UNRESTRICTED EDUCATIONAL ACTIVITIES	<u>16,571,625</u>	<u>-</u>	<u>2,135,909</u>	<u>7,979,331</u>	<u>26,686,865</u>
RESTRICTED EDUCATIONAL ACTIVITIES					
Instruction	564,764	1,212,050	-	1,618,616	3,395,430
Research	-	6,079	-	-	6,079
Public service	128,896	50,925	-	27,444	207,265
Academic support	-	181,233	-	-	181,233
Student services	396,639	220,315	-	393,272	1,010,226
Institutional support	14,922	176,972	-	-	191,894
Operation and maintenance of plant	-	-	-	8,265	8,265
Scholarship and fellowships	157,778	-	-	7,977,801	8,135,579
TOTAL RESTRICTED EDUCATIONAL ACTIVITIES	<u>1,262,999</u>	<u>1,847,574</u>	<u>-</u>	<u>10,025,398</u>	<u>13,135,971</u>
AUXILIARY ENTERPRISES	<u>94,051</u>	<u>-</u>	<u>37,338</u>	<u>699,260</u>	<u>830,649</u>
DEPRECIATION EXPENSE					
Buildings and other real estate improvements	-	-	-	678,730	678,730
Equipment and furniture	-	-	-	407,505	407,505
TOTAL OPERATING EXPENSES	<u>\$ 17,928,675</u>	<u>\$ 1,847,574</u>	<u>\$ 2,173,247</u>	<u>\$ 19,790,224</u>	<u>\$ 41,739,720</u>
				(Exhibit 2)	(Exhibit 2)

NORTH CENTRAL TEXAS COLLEGE
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2012
(With Memorandum Totals for the Year Ended August 31, 2011)

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>AUXILIARY ENTERPRISES</u>	TOTALS MEMORANDUM ONLY	
				<u>2012</u>	<u>2011</u>
NON-OPERATING REVENUES					
State Appropriations:					
Education and general state support	\$ 9,584,810	\$ -	\$ -	\$ 9,584,810	\$ 9,592,078
State group insurance	-	884,780	-	884,780	1,613,438
State retirement matching	-	800,004	-	800,004	876,920
Other	-	-	-	-	-
Total State Appropriations	9,584,810	1,684,784	-	11,269,594	12,082,436
Maintenance ad valorem taxes	2,182,708	-	-	2,182,708	2,162,218
Debt service ad valorem taxes	-	803	-	803	379
Federal Revenue, non-operating	-	12,538,836	-	12,538,836	11,575,271
Gifts	-	-	-	-	-
Investment income	44,166	2,487	-	46,653	79,014
Gain on disposal of capital assets	-	-	-	-	-
Other non-operating revenues	-	8,027	-	8,027	14,813
TOTAL NON-OPERATING REVENUES	<u>11,811,684</u>	<u>14,234,937</u>	<u>-</u>	<u>26,046,621</u>	<u>25,914,131</u>
NON-OPERATING EXPENSES					
Interest on capital related debt	-	212,064	-	212,064	392,666
Loss on disposal of capital assets	-	-	-	-	-
Other non-operating expenses	-	11,899	-	11,899	-
TOTAL NON-OPERATING EXPENSES	<u>-</u>	<u>223,963</u>	<u>-</u>	<u>223,963</u>	<u>392,666</u>
NET NON-OPERATING REVENUES	<u>\$ 11,811,684</u>	<u>\$ 14,010,974</u>	<u>\$ -</u>	<u>\$ 25,822,658</u> (Exhibit 2)	<u>\$ 25,521,465</u> (Exhibit 2)

NORTH CENTRAL TEXAS COLLEGE
SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY
FOR THE YEAR ENDED AUGUST 31, 2012
 (With Memorandum Totals For the Year Ended August 31, 2011)

CURRENT	DETAIL BY SOURCE					AVAILABLE FOR CURRENT OPERATIONS		
	UNRESTRICTED	RESTRICTED		NON-EXPEND	CAPITAL ASSETS NET OF DEPREC & RELATED DEBT	TOTAL	YES	NO
		EXPENDABLE	NON-EXPEND					
Unrestricted Board Designated Restricted	\$ 9,584,224	\$ -	\$ -	-	\$ -	\$ 9,584,224	\$ -	-
Auxiliary Enterprises	2,281,863	214,263	-	-	-	2,496,126	-	214,263
ENDOWMENT								
Restricted Investment in Plant	-	943,609	-	-	-	943,609	-	943,609
PLANT								
Unexpended Renewals Debt Service Investment in Plant	7,504,736	-	-	-	222,304	7,727,040	-	222,304
	-	528,916	-	-	-	528,916	-	528,916
	-	-	-	19,181,727	-	19,181,727	-	19,181,727
TOTAL NET ASSETS AUGUST 31, 2012	19,370,823	1,686,788	-	-	19,404,031	40,461,642	11,866,087	28,595,555
						(Exhibit 1)		
TOTAL NET ASSETS AUGUST 31, 2011	16,864,493	2,155,978	-	-	19,166,391	38,186,862	7,142,835	29,958,725
						(Exhibit 1)		
NET INCREASE (DECREASE) IN NET ASSETS	\$ 2,506,330	\$ (469,190)	\$ -	\$ -	\$ 237,640	\$ 2,274,780	\$ 4,723,252	\$ (1,363,170)
						(Exhibit 2)		

NORTH CENTRAL TEXAS COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012

Schedule E

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	PASS-THROUGH DISBURSEMENTS & EXPENDITURES
U.S. Department of Education			
Direct Programs:			
SEOG	84.007	N/A	\$ 112,387
Federal College Work-Study Program	84.033	N/A	85,403
Federal Pell Grant Program	84.063	N/A	12,341,046
Direct Student Loans	84.268	N/A	10,522,284
Higher Institutional Aid	84-031A	PO31A060171	14,503
Student Support Services (TRIO)	84.042A	P042A100964	241,231
Pass-through From:			
Texas Higher Education Coordinating Board			
Carl Perkins Voc. Ed.	84.048A	114233	301,954
Teacher Quality Type B	84.367B	461	178,198
Teacher Quality Type B	84.367B	494	39,758
Subtotal			<u>217,956</u>
College Across Challenge Grant	84.378	P378A100023	243,454
University of Texas			
Mathematics and Science Partnerships	84.366B	N/A	(201)
Mathematics and Science Partnerships	84.366B	UTA12-000422	9,141
Mathematics and Science Partnerships	84.366B	UTA12000444	7,216
Mathematics and Science Partnerships	84.366B	UTA11-000210	401,080
Mathematics and Science Partnerships	84.366B	UTA11-000157	114,940
Subtotal			<u>532,176</u>
Grayson County College			
Carl Perkins-Tech Prep Grant	84.243A	124258	-
Total U.S. Department of Education			<u>24,612,394</u>
Department of Justice			
Grants to Reduce Domestic Violence	16.525	2011WAAX0022	37,366
Department of Labor			
Pass-through From:			
Technology Based Learning	17.268	HG181630960A48	187,411
Technology Based Learning	17.268	HG227351260A48	109,207
Subtotal			<u>296,618</u>
Navarro College			
Community Based Job Training	17.269	CB17302-08-60-A-48	60,834
Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry	17.275	GJ200421060A48	1,054,843
Total U.S. Department of Labor			<u>1,412,295</u>
General Services Administration			
Federal Surplus Property	39.003	21240	8,265
Small Business Administration			
Pass-through From:			
Dallas County Community College District			
Small Business Development Grant	59.037	1-603001-0152	94,817
U.S. Department of Energy			
State Energy Program	81.041	CS0091	5,164
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$ 26,170,301</u></u>

See notes to schedule on following page.

NORTH CENTRAL TEXAS COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012

Note 1: Federal Financial Assistance Reconciliation:

Federal Grants and Contracts Revenue per Schedule A	\$	15,648,017
Add: Direct Student Loans		10,522,284
Total Federal Revenues per Schedule of Federal Awards	\$	<u>26,170,301</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule:

The expenditures included in the schedule are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the College for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the general purpose 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 College has followed all applicable guidelines issued by various entities in the preparation of the schedule.

NORTH CENTRAL TEXAS COLLEGE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012

STATE GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	PASS-THROUGH GRANTOR'S NUMBER	PASS-THROUGH DISBURSEMENTS AND EXPENDITURES
Pass-through From:		
Texas Higher Education Coordinating Board		
Texas Grant	N/A	520,785
State Work Study	N/A	27,362
State Work Study Mentorship	2483	4,212
Nursing Innovation Excellence	N/A	-
DOR Performance	A147-10	108,111
JET Healthcare	4776-11	-
JET Oil & Gas	4814-6	-
JET Scholarship	3572.33	-
TEA Dropout Prevention	SAS #141-10	35,737
CCDEIP	N/A	6,054
Pass-through From:		
Dallas Community College		
Small Business Development State Grant	N/A	81,564
TOTAL STATE ASSISTANCE		\$ 783,825

Note 1: State Financial Assistance Reconciliation:

State Revenues per Schedule of Expenditures of State Awards	\$ 783,825
Reconciling Items: N/A	-
Total State Revenues per Schedule A	\$ 783,825

Note 2: Significant Accounting Policies Used in Preparing the Schedule

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

SINGLE AUDIT SECTION

(This page left blank intentionally)



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

To the Board of Regents
North Central Texas College
Gainesville, TX 76240

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of North Central College (the College), as of and for the year ended August 31, 2012 and 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated November 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

We noted certain matters that we reported to the management of the College in a separate letter dated November 1, 2012.

This report is intended solely for the information and use of management, the Board of Regents, others within the entity and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Schalk & Smith PC". The signature is written in a cursive, flowing style.

Schalk & Smith, PC
November 1, 2012



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

To the Board of Regents
North Central Texas College
Gainesville, TX 76240

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

Internal Control Over Compliance

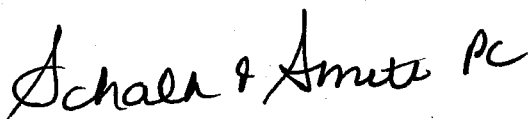
Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management of employees, in the normal course of performing their assigned

functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, 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.

This report is intended solely for the information and use of management, the College's Board of Regents, others within the entity, 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 black ink that reads "Schalk & Smith PC". The signature is written in a cursive, flowing style.

Schalk & Smith, PC
November 1, 2012

NORTH CENTRAL TEXAS COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: UNQUALIFIED

Internal control over financial reporting:

- Material weakness identified? _____yes X no
- Significant deficiency identified? _____yes X none reported
- Noncompliance material to financial statements noted? _____yes X no

Federal & State Awards

Internal control over major programs:

- Material weakness identified? _____yes X no
- Significant deficiency identified? _____yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 or the State of Texas Audit Circular:

_____yes X no

Identification of Major Programs:

Federal:

- Financial Aid Cluster CFDA #84.007; 84.033; 84.063; 84,268
- Competitive Grants for Worker Training CFDA #17.275
- Carl Perkins Voc. Ed CFDA #84.048A

State:

- Texas Grant

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

Auditee qualified as low-risk auditee? _____X_____yes _____no

Section II – Financial Statement Findings-NONE

Section III – Federal Award findings and Questioned Costs-NONE

**NORTH CENTRAL TEXAS COLLEGE
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2012**

NONE