

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND
NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
AUGUST 31, 2012 AND 2011*

PREPARED BY:

*ADMINISTRATIVE SERVICES DEPARTMENT
NORTHEAST TEXAS COMMUNITY COLLEGE
MOUNT PLEASANT, TEXAS*

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Northeast Texas Community College
Mt. Pleasant, Texas
Organizational Data
For the Fiscal Year 2012

Board of Trustees

Officers

Dr. Dan McCauley-Mount Pleasant, TX	(2012-2018)	Board Chairman
Mr. Jerry Massey-Pittsburg, TX	(2010-2016)	Board Vice Chairman
Mr. Sid Greer-Daingerfield, TX	(2012-2018)	Board Secretary

Members

Mr. Bill Priefert, Mount Pleasant, TX	(2008-2014)
Mr. John Bryan, Naples, TX	(2008-2014)
Mr. Chuck Johns, Pittsburg, TX	(2008-2014)
Gov. Bill Ratliff, Mount Pleasant, TX	(2012-2014)

Principal Administrative Officers

Dr. Brad Johnson	President
Dr. Ron Clinton	Executive Vice President for Instruction
Dr. Judy Traylor	Vice President for Student and Outreach Services
Dr. Jonathan McCullough	Vice President for Institutional Advancement
Ms. M. Beth Thompson	Vice President for Administrative Services

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

December 4, 2012

*Board of Trustees
Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas*

Members of the Board:

We have audited the statements of net assets of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of August 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of Northeast Texas Community College and Northeast Texas Community College Foundation Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Uniform Grant Management Standards* issued by the State of Texas. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of August 31, 2012 and 2011, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012 on our consideration of Northeast Texas Community College and Northeast Texas Community College Foundation Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3-10 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 principally 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 audits were conducted for the purpose of forming opinions on the basic financial statements of Northeast Texas Community College and Northeast Texas Community College Foundation Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations and State of Texas Uniform Grant Management Standards*, and are not a required part of the financial statements. The Supplemental Schedules are likewise presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. These additional schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, 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.

Wilf Henderson, P.C.

WILF & HENDERSON, P. C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A)

This section of Northeast Texas Community College's Annual Financial Report presents management's discussion and analysis of the College's financial activity during fiscal years ending 2010, 2011, and 2012. Since this management's discussion and analysis is designed to focus on current activities, resulting change, decisions or conditions of facts, please read it in conjunction with the College's basic financial statements (pages 11-16) and the footnotes (pages 17-37). The College endeavors to present an objective and easily readable analysis of the overall financial activities to students and the public. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

Management Discussion & Analysis (MD&A) compares the current year to the previous year and the previous year to the preceding year based on information presented in the financial statements.

College Foundation as a Discrete Component Unit

The College is considered to be a special purpose primary government according to the definition of GASB 14, and therefore, the College is the prime focus for this financial presentation. However, the Northeast Texas Community College Foundation is organized for the exclusive support of the Northeast Texas Community College. For this reason, the College's Foundation is included in this report, albeit as a discrete component. Any management discussion relating to the College's Foundation is considered for its significance in articulating the College's Annual Financial Report.

Statement of Net Assets (Balance Sheet)

The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers a fiscal snapshot of the College for the current fiscal year ended. The Statement of Net Assets combines and consolidates current financial resources (short-term spendable resources) with capital assets. It presents end-of-year data concerning:

- Assets (current, capital and other non-current),
- Liabilities (current and non-current), and
- Net Assets.

**Statement of Net Assets
For the Years Ended August 31, 2012, 2011, and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Assets</u>			
Current	\$ 7,003,229	\$ 6,296,340	\$ 5,211,320
Net Capital Assets	36,330,720	36,288,477	26,307,582
Other Non-Current	<u>2,121,481</u>	<u>1,913,485</u>	<u>2,820,817</u>
Total Assets	<u>45,455,430</u>	<u>44,498,302</u>	<u>34,339,719</u>
<u>Liabilities</u>			
Current	5,447,652	5,628,035	5,386,032
Non-Current	<u>24,612,457</u>	<u>25,348,224</u>	<u>17,914,273</u>
Total Liabilities	<u>30,060,109</u>	<u>30,976,259</u>	<u>23,300,305</u>
<u>Net Assets</u>	<u>\$ 15,395,321</u>	<u>\$ 13,522,043</u>	<u>\$ 11,039,414</u>

The definition of current assets means the ability of the College to pay obligations out of the proceeds of current operations. The total assets include the College's capital assets (net of depreciation). The capital assets include buildings, facilities and other improvements, furniture, machinery, vehicles and other equipment, and telecommunications and peripheral equipment. In determining the net capital assets, the College went into considerable detail in identifying the historical costs and the net accumulated depreciation of each asset category based on its useful life and residual values. In following the above guidelines, the College can provide more useful information about the long-term effects of short-term decisions, primarily by including the cost of consuming the capital assets used in providing services.

Net assets are divided into three major categories:

- ✓ The first asset category, invested in capital assets net of related debt, provides the College's equity in property, plant and equipment.
- ✓ The next asset category is restricted net assets, which is divided into two categories, permanent and temporary. Restricted permanent is maintained only in the College's Foundation, is non-expendable and used only for investment purposes. Temporary restricted assets are maintained both by the College and the Foundation and are used for purposes determined by donors and/or external entities.
- ✓ The third asset category is the unrestricted assets and is available to both the College and the Foundation for any lawful purpose.

As of August 31, 2012, 2011, and 2010, the College's net assets were \$15,395,321, \$13,522,043, and, \$11,039,414 respectively. From the data presented, readers of the Statement of Net Assets are able to determine the Net Assets available to continue the operations of the institution. They are also able to determine how much the College owes vendors, investors and lending institutions.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets focus on both the gross costs and the net costs of College activities that are supported mainly by state appropriation, property taxes, tuition and fees, and other revenues. The outcome of the total activities presented in the Statement of Revenues, Expenses, and Changes in Net Assets influenced the above Statement of Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the College.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Non-operating revenues are revenues received for which goods and services are not provided. For example, Ad Valorem taxes for maintenance and operations of the College and for payment of general obligation bonds are non-operating revenues because there is no direct correlation between these revenues and the goods and services that the College provides.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended August 31, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
SUMMARY OF REVENUES AND EXPENSES			
Total, Operating Revenues	\$ 7,229,053	\$ 6,645,207	\$ 7,660,382
Total, Operating Expenses	<u>22,800,260</u>	<u>23,887,348</u>	<u>22,990,682</u>
Total, Operating (Loss)	(15,571,207)	(17,242,141)	(15,330,300)
Net Non-Operating Revenues	16,586,940	17,645,980	16,370,046
Capital Contributions	<u>857,545</u>	<u>2,078,790</u>	<u>65,641</u>
Increase (Decrease) in Net Assets	1,873,278	2,482,629	1,105,387
Net Assets at Beginning of Year	<u>13,522,043</u>	<u>11,039,414</u>	<u>9,934,027</u>
Net Assets - End of Year	<u>\$ 15,395,321</u>	<u>\$ 13,522,043</u>	<u>\$ 11,039,414</u>

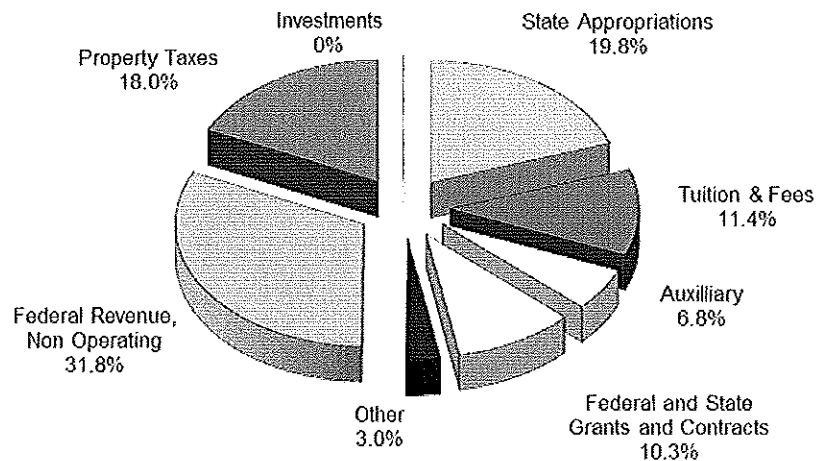
Operating and Non-Operating Revenues

In an effort to further expand and enhance the interpretation of the College's financial reports, we recapped the operating and non-operating revenues to show, graphically, the significance of revenue sources and how it relates to the overall revenue representation:

Revenues: Operating and Non-Operating
For the Years Ended August 31, 2012, 2011 and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues:			
Net tuition and fees	\$ 2,899,761	\$ 2,494,140	\$ 3,302,945
Federal grants and contracts	1,467,176	1,363,871	1,291,366
State grants and contracts	669,743	840,004	1,041,996
Non-governmental grants and contracts	142,309	104,131	148,346
Sales and services of educational activities	75,154	120,592	95,277
Net auxiliary enterprises	1,425,999	1,202,538	1,266,202
Other operating revenues	<u>548,911</u>	<u>519,931</u>	<u>514,250</u>
Total, Operating Revenues	<u>7,229,053</u>	<u>6,645,207</u>	<u>7,660,382</u>
Net Non-Operating Revenues:			
State appropriations	5,026,300	5,247,990	5,292,271
Property taxes	4,574,382	4,643,303	4,748,097
Federal revenue, non-operating	8,071,822	8,853,884	7,120,003
Investment and other Income	<u>6,735</u>	<u>12,086</u>	<u>21,917</u>
Total, Non-Operating Revenues	<u>17,679,239</u>	<u>18,757,263</u>	<u>17,182,288</u>
Capital Contributions	<u>857,545</u>	<u>2,078,790</u>	<u>65,641</u>
Total Revenues, Operating and Non-Operating	<u>\$ 25,765,837</u>	<u>\$ 27,481,260</u>	<u>\$ 24,908,311</u>

Revenue by Source
Operating & Non-Operating



In comparing the fiscal periods ended August 21, 2012 and 2011:

- Net Tuition and fee revenues increased \$405,621 as a result of increased tuition and fees of \$643,701 due to increased fee structures offset by an increase in scholarship allowances in the amount of \$238,080.
- The Northeast Texas Community College Foundation, as a component of the College, contributed a total of \$260,989 in scholarships for 253 students.
- State allocations decreased primarily as a result of decreased benefits allocations of \$579,077 offset by increased general appropriations of \$357,468 resulting from increased enrollment.
- Property tax revenues decreased as a result of a settlement on property values requiring a refund of past tax receipts in the approximate amount of \$49,100.
- Federal revenue non-operating decreased \$782,062 primarily as a result of decreased Pell benefits.

In comparing the fiscal periods ended August 31, 2011 and 2010:

- Net tuition and fee revenues decreased \$808,805 as a result of increased scholarship allowances in the amount of \$1,270,272 offset by increased enrollment providing an additional \$431,467 in tuition and fees
- The Northeast Texas Community College Foundation, as a component of the College, contributed a total of \$219,596 in scholarships for 293 students.
- Federal revenue non-operating increased \$1,733,881 primarily as a result in increased Pell benefits and increased number of Pell awards.
- Capital contributions increased because contributions in aid of construction increased \$1,317,000 as a result of increased Federal and state grants for the acquisition of capital assets.

In comparing the fiscal periods ended August 31, 2010 and 2009:

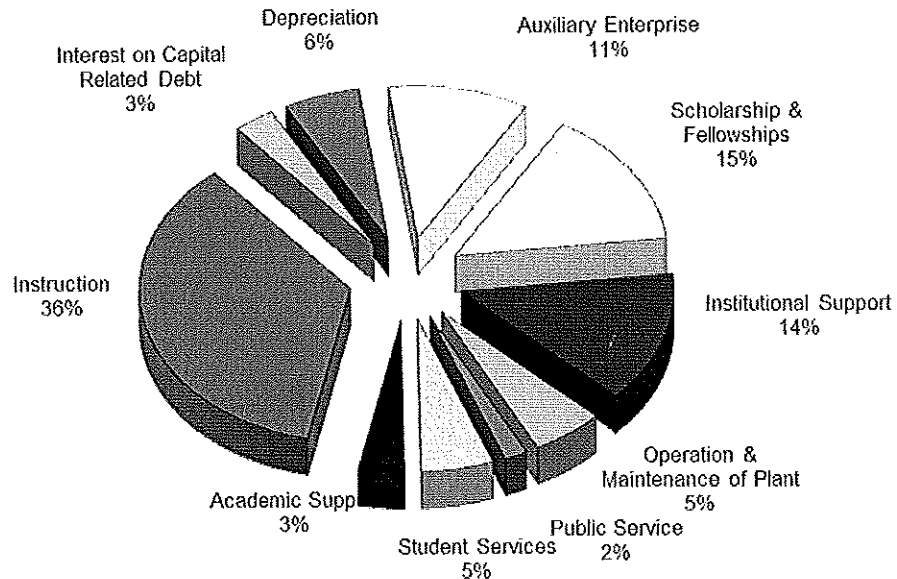
- Net tuition and fee revenues increased \$452,527 as a result of increased enrollment.
- The Northeast Texas Community College Foundation, as a component of the College, contributed a total of \$226,292 in scholarships for 381 students.
- Property taxes increased \$370,094 primarily as a result of increases in the taxable value of properties in the tri-county area and increase in tax rate.
- Federal revenue non-operating increased \$3,264,289 as a result of increased Pell benefits and increased number of Pell awards.
- Investment and other income decreased \$36,056 as a result of lower market rates for short term investments.

Additionally, the same methodology is being presented for the operating and non-operating expenses to illustrate the use of the College's resources:

**Expenses: Operating and Non-Operating
For the Years Ended August 31, 2012, 2011, and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Expenses:			
Instruction	\$ 8,369,000	\$ 8,428,098	\$ 7,890,682
Public service	408,761	360,005	223,874
Academic support	833,158	947,280	950,571
Student services	1,292,790	1,503,051	1,961,510
Institutional support	3,264,824	3,134,828	2,935,471
Operation and maintenance of plant	1,277,409	1,382,906	1,607,839
Scholarship & fellowships	3,462,673	4,721,044	4,392,840
Auxiliary enterprise	2,512,559	2,323,460	2,160,867
Depreciation	1,379,086	1,086,676	867,028
Total, Operating Expenses	<u>22,800,260</u>	<u>23,887,348</u>	<u>22,990,682</u>
Non-Operating Expenses:			
Interest on capital related debt	1,012,178	1,082,044	920,504
(Gain) Loss on disposal of capital assets	45,508	(1,029)	820,356
Other non-operating expenses	34,613	30,268	21,382
Total, non-operating expenses	<u>1,092,299</u>	<u>1,111,283</u>	<u>1,762,242</u>
Total Expenses, Operating and Non-Operating	<u>\$ 23,892,559</u>	<u>\$ 24,998,631</u>	<u>\$ 24,752,924</u>

**Expenses by Source
Operating & Non-Operating**



In comparing the fiscal periods ended August 31, 2012 and 2011:

- Overall, benefits costs paid by the state but not paid by the College created a reduction in benefit costs of \$178,343. See note 20 to the financial statements for further discussion.
- Instructional expense decreased \$59,098 primarily due to decreased benefit allocations of \$89,655 offset by increased instructional supplies and restricted capital expenditures of \$33,897.
- Public service increased \$48,756 primarily due to increases in other operating expenditures due to expansion of the SBDC program in the surrounding area.
- Academic support decreased \$114,122 primarily due to decreased benefit allocations of \$28,843 and decreased salaries of \$79,958 due to lapsed salaries for open positions.
- Student services decreased \$210,261 primarily due to decreased restricted salaries of \$200,841 as a result of a grant period ending.
- Institutional support increased \$129,996 primarily due to increased salaries of \$91,959 for the College's Title III grant and an increase of \$54,997 in other operating expenses primarily for software licenses and maintenance and bank fees.
- Operation of maintenance and plant decreased \$105,497 primarily due to decreased salaries of \$47,254 due to outsourcing functions and reorganization within the department and a decrease of \$42,612 in operating expenses as a result of receipt of insurance proceeds for storm damage exceeding the cost of repairs.
- Scholarships and fellowships decreased \$1,258,371 as a result of decreased availability of financial aid awards for both Federal and State sources.
- Auxiliary enterprise expense increased \$189,099 as a result of increased salaries of \$63,524 and operating costs of \$114,116 primarily related to the addition of a new 110 bed dorm.
- Depreciation expense increased \$292,410 as a result of new buildings completed in the prior year being depreciated for a full year in the current period.

In comparing the fiscal periods ended August 31, 2011 and 2010:

- Instruction expense increased \$447,416 primarily as a result of increased salary cost due to salary increases and increased overload pay for full time faculty to cover additional class offerings as a result of increased enrollment.
- Public service increased \$136,131 as a result of increased State and Federal grant awards.
- Student services decreased \$458,459 as a result of decreased State and Federal grant awards offset by an increase in unrestricted student services salaries and benefits due to re-organization to better serve students.
- Institutional support increased \$199,357 primarily as a result of an additional Federal grant award and increased salaries and benefit costs.
- Operation and maintenance of Plant decreased \$224,933 primarily as a result of decreased maintenance employee headcount and decreased non capital repair expenditures.
- Scholarships and fellowships increased \$328,204 primarily as a result of increased number of students receiving awards and increased levels of awards.
- Auxiliary enterprises increased \$162,593 primarily as a result of increased cost of textbooks and increased sales volume.
- Depreciation expense increased \$219,648 primarily as a result of the completion of several building projects during the fiscal period.

In comparing the fiscal periods ended August 31, 2010 and 2009:

- Instruction expense increased \$650,321 primarily as a result of increased salary cost for new positions, salary increases and increased cost of benefits.
- Student services decreased \$271,826 primarily as a result a decrease in the number of grants awarded to the college for these activities.
- Scholarships and fellowships increased \$2,254,593 primarily as a result of increased number of students receiving awards and increased levels of awards.
- Auxiliary enterprises increased \$327,797 primarily as a result of increased cost of textbooks and increased sales volume.

Analysis of Net Assets

Total Net Assets of \$15,395,321 is comprised of the investment in capital assets net of related debt of \$11,041,130, reserve for debt service of \$826,539, and unrestricted net assets of \$3,527,652. The debt service reserve is set-aside in the event the pledge revenues in interest and sinking fund are not sufficient to pay the debt service payment in the future. The unrestricted net assets are the inception-to-date net of current and non-current revenues and expenses.

Net Assets For the Years Ended August 31, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Investment in Capital Assets, Net of Related Debt	\$ 11,041,130	\$ 10,207,345	\$ 8,292,685
Restricted for debt service	826,539	559,076	710,185
Temporarily Restricted	-	-	-
Unrestricted	<u>3,527,652</u>	<u>2,755,622</u>	<u>2,036,544</u>
Total Net Assets	<u>\$ 15,395,321</u>	<u>\$ 13,522,043</u>	<u>\$ 11,039,414</u>

Long Term Debt

In the fiscal period ended August 31, 2012, the college issued \$5,741,765 Limited Tax Refunding Bonds to be used to advance refund a portion of the 2003 Series Limited Tax Bonds.

In the fiscal period ended August 31, 2011, the college entered into private placement financing arrangements to fund the building of new student housing with 112 beds and a new physical fitness facility. The college issued \$6,132,000 in Revenue Financing System Revenue Bonds with a fixed interest rate of 4.09% for ten years and a 25 year amortization to finance the student housing project. The college also issued \$1,471,000 in Limited Tax Bonds with a fixed interest rate of 3.72% for ten years and a 25 year amortization to finance the physical fitness facility. The college also entered into a Time Warrant payable to a bank in the amount of \$500,000 for the purchase of an instructional facility. The warrant is due in 9 semi-annual payments of \$22,029 with a final payment of \$385,635 on March 1, 2016.

The College has revenue bonds, general obligation bonds, and other notes payable for which contractual payments have been made in the fiscal periods ended August 31, 2012 and 2011.

See note 7- Bonds and Notes Payable of the financial statements for further information about long-term debt activity.

Capital Assets

In the fiscal period ended August 31, 2012, the College expended approximately \$473,000 in Federal and State grant funds to purchase equipment for use in our workforce education programs. The foundation expended approximately \$384,600 to complete the equipment and construction for the new building for use in workforce instruction. In addition these funds were used to make improvements to the College's agriculture and performing arts facilities.

In the fiscal period ended August 31, 2011, the College expended approximately \$467,500 in general revenue bonds and \$743,000 in grant funds to complete the construction of the new agriculture instructional facility. The college expended \$5,736,000 in general revenue bonds to construct a 112 bed dorm facility. The college expended \$1,471,000 in general obligation funds to construct a new physical fitness facility. The college expended \$500,000 in Time Warrant funds to purchase a new building to be used for workforce instruction. The foundation contributed approximately \$608,800 to make capital improvements to this new building.

See note 6-Capital Assets of the financial statements for further information about capital asset activity.

On February 22, 2011, Standard & Poor's affirmed the College's Revenue Financing debt rating at BBB. On April 26, 2010, Standard & Poor's rated the College's General Obligation Financing debt at A. Management does not believe it has any debt limitations that may affect the financing of planned facilities or services.

Statement of Cash Flows

The final statement presented by the Northeast Texas Community College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts:

Part 1 deals with operating cash flows and shows the net cash used in the operating activities of the institution. The bulk of receipts from students and other customers, appropriations, grants and contracts, and other proceeds help the College cover its payments for payroll, scholarships, loans, and other cash payments.

Part 2 shows the cash flow from non-capital and related financing activities. Part of the ad-valorem local tax revenues pays for maintenance and operations of the College and the rest is for the settlement of general obligation bonds (note 7).

Part 3 reflects the cash flows from capital and related financing activities. It shows payments made on expenses and interest on capital related debt, purchase of capital assets and payments on capital debt and leases.

Part 4 shows the cash flows from investing activities where proceeds from sale and purchase of investments including investment earnings are reflected.

Part 5 reconciles the net cash used in the operating income or loss that is reflected on the Statement of Net Assets under the line item 'Cash and Cash Equivalents'.

Financial Condition and Outlook

The college has been able to increase its unrestricted fund balance \$772,030 in the current year. Given the current economic climate, we anticipate continued downward pressure on our ability to earn interest on our temporary investments. We also anticipate no increase in collected tax revenues over the next two to three years as a result of flattened appraisal values as a result of economic conditions coupled with the college's having reached its tax rate cap of .10 per \$100 valuation. We also expect no increases in state funding as a result of decreased available general state revenues over the next three years. We anticipate adjusting our ongoing operating spending to compensate for these reduced revenues. The college experienced a level enrollment in the Fall of 2012 and does not anticipate significant growth in enrollment levels in the next few years.

FINANCIAL STATEMENTS

NORTHEAST TEXAS COMMUNITY COLLEGE
EXHIBIT 1
STATEMENTS OF NET ASSETS
August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	\$ 4,295,904	\$ 3,263,196
Accounts receivable (Note 10)	1,460,859	1,528,629
Inventories	597,086	542,775
Prepaid expense	357,923	344,395
Due from component unit	291,457	617,345
Total Current Assets	<u>7,003,229</u>	<u>6,296,340</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 4)	674,564	1,029,911
Unrestricted long-term investments (Note 4)	99,000	
Restricted long-term investments (Note 4)	627,196	356,892
Notes receivable (net of allowance for doubtful accounts of \$80,267 in 2012 and 2011)	-	-
Deferred charges	676,905	477,772
Other assets	43,816	48,910
Capital assets, net of accumulated depreciation (Note 6)	36,330,720	36,288,477
Total Noncurrent Assets	<u>38,452,201</u>	<u>38,201,962</u>
Total Assets	<u><u>45,455,430</u></u>	<u><u>44,498,302</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable (Note 10)	838,488	736,890
Accrued liabilities (Note 10)	332,455	220,273
Accrued compensated absences (Note 9)	87,380	100,709
Deposits payable (Note 10)	145,142	131,955
Funds held for others	127,368	95,816
Deferred revenues	2,511,848	2,937,535
Notes and leases payable - current portion (Note 7)	133,711	162,091
Bonds payable - current portion (Note 7)	1,271,260	1,242,766
Total Current Liabilities	<u>5,447,652</u>	<u>5,628,035</u>
Noncurrent Liabilities		
Bonds payable (Note 7)	22,771,032	23,839,513
Premium on Bonds Payable	467,988	-
Notes and leases payable (Note 7)	1,373,437	1,508,711
Total Noncurrent Liabilities	<u>24,612,457</u>	<u>25,348,224</u>
Total Liabilities	<u><u>30,060,109</u></u>	<u><u>30,976,259</u></u>
NET ASSETS		
Invested in capital assets, net of related debt	11,041,130	10,207,345
Restricted for		
Expendable		
Debt service	826,539	559,076
Temporarily	-	-
Unrestricted	3,527,652	2,755,622
Total Net Assets	<u><u>\$ 15,395,321</u></u>	<u><u>\$ 13,522,043</u></u>

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

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
STATEMENTS OF NET ASSETS
August 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents (Note 4)	\$ 777,281	\$ 1,433,628
Investments (Note 4)	-	25,000
Accounts receivable (Note 10)	746,063	280,320
Total Current Assets	<u>1,523,344</u>	<u>1,738,948</u>
Noncurrent Assets		
Long - term investments (Note 4)	2,321,217	2,108,474
Property, plant, and equipment, net of accumulated depreciation (Note 6)	500,521	528,143
Other assets	29,100	29,100
Total Noncurrent Assets	<u>2,850,838</u>	<u>2,665,717</u>
 Total Assets	 <u><u>4,374,182</u></u>	 <u><u>4,404,665</u></u>
 LIABILITIES		
Current Liabilities		
Accounts payable (Note 10)	16,662	14,850
Deferred revenue	104,435	193,156
Due to Northeast Texas Community College	291,457	617,345
Total Current Liabilities	<u>412,554</u>	<u>825,351</u>
Total Liabilities	<u><u>412,554</u></u>	<u><u>825,351</u></u>
 Net assets:		
Restricted		
Nonexpendable:		
Permanently	2,006,794	1,897,592
Expendable:		
Temporarily	1,372,864	1,144,280
Unrestricted	581,970	537,442
Total Net Assets	<u><u>\$ 3,961,628</u></u>	<u><u>\$ 3,579,314</u></u>

The accompanying Notes to the Financial Statements are an integral part of these financial statements.

NORTHEAST TEXAS COMMUNITY COLLEGE
EXHIBIT 2
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended August 31, 2012 and 2011

REVENUES	<u>2012</u>	<u>2011</u>
Operating Revenues		
Tuition and fees (net of grant and scholarship allowances of \$4,389,480, 2012 and \$4,151,400, 2011)	\$ 2,899,761	\$ 2,494,140
Federal grants and contracts	1,467,176	1,363,871
State grants and contracts	669,743	840,004
Non-Governmental grants and contracts	142,309	104,131
Sales and services of educational activities	75,154	120,592
Auxiliary enterprises (net of grant and scholarship allowances of \$1,478,596, 2012 and \$1,192,897, 2011)	1,425,999	1,202,538
Other operating revenues	548,911	519,931
Total Operating Revenues (Schedule A)	<u>7,229,053</u>	<u>6,645,207</u>
 EXPENSES		
Operating Expenses		
Instruction	8,369,000	8,428,098
Public service	408,761	360,005
Academic support	833,158	947,280
Student services	1,292,790	1,503,051
Institutional support	3,264,824	3,134,828
Operation and maintenance of plant	1,277,409	1,382,906
Scholarships and fellowships	3,462,673	4,721,044
Auxiliary enterprises	2,512,559	2,323,460
Depreciation	1,379,086	1,086,676
Total Operating Expenses (Schedule B)	<u>22,800,260</u>	<u>23,887,348</u>
 Operating Income (Loss)	<u>(15,571,207)</u>	<u>(17,242,141)</u>
 NON-OPERATING REVENUES (EXPENSES)		
State allocations	5,026,300	5,247,990
Ad-valorem taxes		
Taxes for maintenance & operations	3,458,064	3,610,446
Taxes on general obligations bonds	1,116,318	1,032,857
Federal revenue, non operating	8,071,822	8,853,884
Investment income (net of investment expenses)	6,735	12,086
Interest on capital related debt	(1,012,178)	(1,082,044)
Gain (Loss) on disposal of capital assets	(45,508)	1,029
Other non - operating expenses	(34,613)	(30,268)
Net non-operating revenues (Schedule C)	<u>16,586,940</u>	<u>17,645,980</u>
 Capital Contributions		
Component Unit	384,551	761,767
Federal contributions in aid of construction	132,309	1,096,288
State contributions in aid of construction	340,685	220,735
	<u>857,545</u>	<u>2,078,790</u>
 Increase (Decrease) in Net Assets	1,873,278	2,482,629
 Net Assets - Beginning of Year	<u>13,522,043</u>	<u>11,039,414</u>
 Net Assets - End of Year	<u>\$ 15,395,321</u>	<u>\$ 13,522,043</u>

The accompanying "Notes to the Financial Statement" are an integral part of this statement.

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Operating Revenues		
Federal Grants and Contracts	\$ 809,999	\$ 1,035,377
State Grants and Contracts	376,538	655,853
Local Grants and Contracts	518,055	392,603
Total Operating Revenues	<u>1,704,592</u>	<u>2,083,833</u>
EXPENSES		
Operating Expenses		
Public Service	2,334,684	3,010,486
Scholarships	260,989	219,596
Depreciation	47,622	47,621
Total Operating Expenses	<u>2,643,295</u>	<u>3,277,703</u>
Operating (Loss)	<u>(938,703)</u>	<u>(1,193,870)</u>
Non-Operating Revenues		
Investment income	94,045	60,417
Net non-operating revenues	<u>94,045</u>	<u>60,417</u>
(Loss) Before Other Revenues, Expenses, Gains, Losses	<u>(844,658)</u>	<u>(1,133,453)</u>
OTHER REVENUES, (EXPENSES), GAINS, LOSSES		
Additions to Endowments	25,764	5,925
Gains on investments	74,332	170,105
Contributions	1,126,876	1,398,233
Total Other Revenues, Expenses, Gains, Losses	<u>1,226,972</u>	<u>1,574,263</u>
Increase (Decrease) in Net Assets	382,314	440,810
Net Assets - Beginning of Year	<u>3,579,314</u>	<u>3,138,504</u>
Net Assets - End of Year	<u>\$ 3,961,628</u>	<u>\$ 3,579,314</u>

The accompanying Notes to the Financial Statements are an integral part of these financial statements.

NORTHEAST TEXAS COMMUNITY COLLEGE
EXHIBIT 3
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Receipts from students and other customers	\$ 3,454,368	\$ 4,643,104
Receipts of grants and contracts for operating activities	2,814,799	1,357,395
Other receipts	630,928	648,494
Payments to or on behalf of employees	(8,441,567)	(8,696,670)
Payments to suppliers for goods or services	(8,810,816)	(8,475,135)
Payments of scholarships	(3,462,673)	(5,078,163)
Net cash provided (used) by operating activities	<u>(13,814,961)</u>	<u>(15,600,975)</u>
Cash Flows From Noncapital Financing Activities		
State allocations	4,786,161	4,735,707
Federal revenues	8,005,434	9,109,412
Ad valorem tax revenues	4,598,502	4,640,226
Net cash provided (used) by non-capital financing activities	<u>17,390,097</u>	<u>18,485,345</u>
Cash Flows From Capital and Related Financing Activities		
Interest and other expense on capital related debt	(845,336)	(691,836)
Purchases of capital assets	(1,096,057)	(10,236,436)
Proceed from sale of assets	13,772	5,608
Capital contributions	472,994	1,892,790
Proceeds on issuance of capital debt	22,894	7,603,000
Payments on capital debt and leases	(1,103,973)	(1,078,925)
Net cash provided (used) by capital and related financing activities	<u>(2,535,706)</u>	<u>(2,505,799)</u>
Cash Flows From Investing Activities		
Proceeds from sale and maturity of investments	-	442,322
Investment earnings	7,235	12,086
Purchases of investments	(369,304)	-
Net cash provided (used) by investing activities	<u>(362,069)</u>	<u>454,408</u>
Increase (Decrease) in cash and cash equivalents	677,361	832,979
Cash and cash equivalents - September 1,	<u>4,293,107</u>	<u>3,460,128</u>
Cash and cash equivalents - August 31,	<u>\$ 4,970,468</u>	<u>\$ 4,293,107</u>
Noncash investing, capital, and financing activities		
Purchase of building with note payable	-	500,000
Contributions of Capital Assets	384,551	186,000
Proceeds from refunding bond issue (see note 7)	9,807,673	-
Funds deposited with escrow agent for bond refunding (see note 7)	(9,807,673)	-
Total Noncash investing, capital, and financing activities	<u>\$ 384,551</u>	<u>\$ 686,000</u>
Reconciliation of operating income to net cash provided		
by operating activities:		
Operating income (loss)	\$ (15,571,207)	\$ (17,242,141)
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Depreciation expense	1,379,086	1,086,676
Staff benefits paid directly by state	257,135	513,389
Bad debts	50,036	219,992
Changes in assets and liabilities		
Receivables, net	46,693	(895,564)
Inventories	(54,311)	(46,244)
Prepaid expense	(13,528)	(147,724)
Due from component unit	325,888	907,010
Other assets	5,094	11,270
Accounts payable	101,598	(414,073)
Accrued liabilities	39,503	36,003
Deposits payable	13,187	30,244
Funds held for others	31,552	4,768
Deferred revenue	(425,687)	335,419
Net cash provided (used) by operating activities	<u>\$ (13,814,961)</u>	<u>\$ (15,600,975)</u>

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

NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
COMPONENT UNIT
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Receipts from grants and contracts for operating activities	\$ 1,150,128	\$ 2,075,644
Payments of scholarships and support of college	(586,876)	(1,126,606)
Payments on grants and contract costs	(1,948,321)	(2,822,819)
Net cash provided (used) by operating activities	<u>(1,385,069)</u>	<u>(1,873,781)</u>
Cash Flows From Noncapital Financing Activities		
Additions to permanent and term endowment and other contributions	<u>971,560</u>	<u>1,086,925</u>
Net cash provided (used) by noncapital financing activities	<u>971,560</u>	<u>1,086,925</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	294,134	665,748
Investment income (loss)	94,044	60,417
Purchase of capital assets	(384,551)	-
Purchase of investments	(246,465)	(864,496)
Net cash provided (used) by investing activities	<u>(242,838)</u>	<u>(138,331)</u>
Net increase (decrease) in cash and cash equivalents	(656,347)	(925,187)
Cash and cash equivalents at beginning of year	<u>1,433,628</u>	<u>2,358,815</u>
Cash and cash equivalents at end of year	\$ <u>777,281</u>	\$ <u>1,433,628</u>
Noncash investing, capital, and financing activities		
Inkind contributions	\$ <u>181,080</u>	\$ <u>317,235</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (938,703)	\$ (1,193,870)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	47,622	47,621
Non cash transfer to college	384,551	186,000
Change in assets and liabilities		
Accounts receivable	(465,743)	(63,093)
Due to college	(325,887)	(907,010)
Deferred revenue	(88,721)	54,904
Accounts payable	<u>1,812</u>	<u>1,667</u>
Net cash provided (used) by operating activities	\$ <u>(1,385,069)</u>	\$ <u>(1,873,781)</u>

The accompanying Notes to the Financial Statements are an integral part of these financial statements.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 1 - Reporting Entity

Northeast Texas Community College (the College) was formed in January, 1984, within a voter approved tax district encompassing Camp, Morris, and Titus Counties in Northeast Texas, in accordance with the laws of the State of Texas. A seven member Board of Trustees elected at large from the three counties serves as the oversight unit. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

In defining the College's reporting entity for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The following is a brief summary of the potential component unit addressed in defining the College's reporting entity.

Northeast Texas Community College Foundation – The Foundation is organized for the exclusive support of Northeast Texas Community College. The Foundation is a thirty-two member board and the members of the College Board of Trustees are members of the Board of Directors of the Foundation.

Note 2 - Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

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

Title IV, 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 funds are awarded to students and used for tuition and fees the amounts are recorded as revenue, and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 2 - Summary of Significant Accounting Policies - (continued)

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

Basis of Accounting

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

Budgetary data

Each community college in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendments must be filed with Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1. The budget for the year ended August 31, 2012 was adopted by the Board of Trustees on August 23, 2011.

Cash and cash equivalents

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

Investments

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

Inventories

Inventories consist of consumable office supplies, physical plant supplies and bookstore stock. Inventories are stated at lower of cost or market using the first-in, first-out (FIFO) method and are charged to expense as consumed.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and estimated useful life in excess of one year. Renovations of \$50,000 to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011*

Note 2 - Summary of Significant Accounting Policies - (continued)

Deferred Revenue and Expenditure

Tuition and Fees of \$2,292,216 and \$2,692,280 and federal, state and local grants of \$219,632 and \$245,255 have been reported as deferred revenues at August 31, 2012 and 2011, respectively.

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. Actual results could differ from those estimates.

Operating and Non-Operating Revenues and Expenses

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 allocations, Title IV federal revenue, and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The operation of food service is not performed by the College.

Characterization of Title IV Grant Revenue

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

Reclassifications

Certain reclassifications have been made to the prior year to conform to current year presentation.

Subsequent Events

Management has evaluated subsequent events through the date of this report which is the date the financial were available to be issued which was December 4, 2012.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 3 - Authorized Investments

Northeast Texas Community College and Northeast Texas Community College Foundation are 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.

Note 4 - Deposits and Investments

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

	<u>2012</u>	<u>2011</u>
Cash and Deposits		
Demand Deposits	\$ 2,391,894	\$ 2,033,059
Time Deposits	1,405,197	356,892
Petty Cash	10,280	10,280
Total Cash and Deposits	<u>\$ 3,807,371</u>	<u>\$ 2,400,231</u>

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Fair Value <u>August 31, 2012</u>	Fair Value <u>August 31, 2011</u>
Investment Pool	\$ 1,846,846	\$ 1,430,880
Mutual Fund	42,447	818,888
Total	1,889,293	2,249,768
Total Cash and Deposits	3,807,371	2,400,231
Total Deposits and Investments	<u>\$ 5,696,664</u>	<u>\$ 4,649,999</u>
Cash and Cash Equivalents (Exhibit 1)	\$ 4,295,904	\$ 3,263,196
Restricted Cash and Cash Equivalents (Exhibit 1)	674,564	1,029,911
Investments (Exhibit 1)	99,000	-
Restricted Investments (Exhibit 1)	627,196	356,892
Total Deposits and Investments	<u>\$ 5,696,664</u>	<u>\$ 4,649,999</u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 4 - Deposits and Investments – (continued)

Cash and Deposits for Northeast Texas Community College Foundation, Inc. reported on Exhibit 1 consist of the following:

	<u>2012</u>	<u>2011</u>
Demand Deposits	288,407	773,996
Time Deposits	400,000	25,000
Total Cash and Deposits	\$ 688,407	\$ 798,996

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Fair Value August 31, 2012	Fair Value August 31, 2011
U.S. Government Agencies	\$ 79,098	\$ 77,781
Corporate Bond/Notes	43,755	43,985
Mutual Funds	2,287,238	2,646,340
Total Investments	2,410,091	2,768,106
Total Cash and Deposits	688,407	798,996
Total Deposits and Investments	\$ 3,098,498	\$ 3,567,102
Cash and Cash Equivalents	\$ 777,281	\$ 1,433,628
Short-term Investments	-	25,000
Long-term Investments	2,321,217	2,108,474
Total Deposits and Investments	\$ 3,098,498	\$ 3,567,102

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

<u>Investment Type</u>	Credit Rating	Market Value	Investment Maturities (in years)		
			Less than 1	1-2	2-3
Certificates of Deposit	N/A	\$ 1,405,197	\$ 679,000	\$ 726,197	\$ -
AIM Treasury Cash Management	AAA	\$ 42,447	\$ 42,447	-	-
Investment Pool	AAA	\$ 1,846,846	\$ 1,846,846	-	-
Total Market Value		\$ 3,294,490	\$ 2,568,293	726,197	-

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 4 - Deposits and Investments – (continued)

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

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Market Value</u>	<u>No Maturity</u>	<u>Less than 1</u>	<u>1-2</u>	<u>2-3</u>
Certificates of Deposit	N/A	\$ 400,000	\$ -	\$ 400,000	\$ -	\$ -
AIM Treasury Cash Management	AAA	137,114	-	137,114	-	-
US Gov't Agencies	AAA	79,098	-	-	-	79,098
Corporate Bonds/Notes	AA3	43,755	-	-	-	43,755
Corporate Bonds/Notes	A3	-	-	-	-	-
Mutual Funds	N/A	2,150,124	2,150,124	-	-	-
Total Market Value		\$ 2,810,091	\$ 2,150,124	\$ 537,114	\$ -	\$ 122,853

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

Credit Risk: In accordance with state law and the College's investment policy, investments in mutual funds, and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A.

Concentration of Credit Risk: The College does not place a limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in investment pools (56.1%) and in certificates of deposit (42.6%).

Custodial Credit Risk: At August 31, 2012, the College had money on deposit at 8 banks. The carrying amount of the College's and the Foundation's bank deposits was \$3,797,089 and \$688,407 and total bank balances equaled \$4,104,322 and \$688,272. Bank balances of \$1,908,985 are covered by federal depository insurance and \$2,883,609 was covered by collateral pledged in Northeast Texas Community College's name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

Note 5 – Derivatives

The College had no derivatives at August 31, 2012 or 2011.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 6– Capital Assets

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

Not Depreciated:

Land	\$ 1,420,209	\$ 18,000	\$ -	\$ 1,438,209
Construction in Process	644,961	44,536	608,767	80,730
Subtotal	<u>\$ 2,065,170</u>	<u>\$ 62,536</u>	<u>\$ 608,767</u>	<u>\$ 1,518,939</u>
Other Capital Assets:				
Buildings	39,735,507	1,240,904	-	40,976,411
Equipment Purchased with Capital Lease	342,348	-	-	342,348
Furniture, Machinery, Vehicles, and other Equipment	3,197,728	402,809	101,817	3,498,720
Library Books	1,017,822	9,881	81,725	945,978
Telecommunications and Peripheral Equipment	1,164,710	373,246	12,500	1,525,456
Subtotal	<u>\$ 45,458,115</u>	<u>\$2,026,840</u>	<u>\$ 196,042</u>	<u>\$ 47,288,913</u>
<u>Accumulated Depreciation:</u>				
Buildings	8,488,598	882,601	-	9,371,199
Equipment Purchased with Capital Lease	114,357	54,670	-	169,027
Furniture, Machinery, Vehicles and Other Equipment	1,011,053	287,636	51,287	1,247,402
Library Books	748,624	48,176	81,725	715,075
Telecommunications and Peripheral Equipment	872,176	106,003	3,750	974,429
Subtotal	<u>\$ 11,234,808</u>	<u>\$1,379,086</u>	<u>\$ 136,762</u>	<u>\$ 12,477,132</u>
Net Other Capital Assets	<u>\$ 34,223,307</u>	<u>\$ 647,754</u>	<u>\$ 59,280</u>	<u>\$ 34,811,781</u>
Net Capital Assets	<u><u>\$ 36,288,477</u></u>	<u><u>\$ 710,290</u></u>	<u><u>\$ 668,047</u></u>	<u><u>\$ 36,330,720</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 6 – Capital Assets – (continued)

Foundation

	For the Year Ended August 31, 2012			Balance August 31, 2012
	Balance August 31, 2011	Increases	Decreases	
<u>Not Depreciated:</u>				
Land	\$ 140,400	\$ -	\$ -	\$ 140,400
Works of Art, Antiques	131,233	20,000	-	151,233
Subtotal	<u>\$ 271,633</u>	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ 291,633</u>
Other Capital Assets:				
Buildings	196,024	-	-	196,024
Furniture, Machinery, Vehicles, and other Equipment	171,410	-	-	171,410
Telecommunications and Peripheral Equipment	75,087	-	-	75,087
Subtotal	<u>\$ 442,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 442,521</u>
Accumulated Depreciation:				
Buildings	24,296	6,942	-	31,238
Furniture, Machinery, Vehicles and Other Equipment	109,155	25,663	-	134,818
Telecommunications and Peripheral Equipment	52,560	15,017	-	67,577
Subtotal	<u>\$ 186,011</u>	<u>\$ 47,622</u>	<u>\$ -</u>	<u>\$ 233,633</u>
Net Other Capital Assets	<u>\$ 256,510</u>	<u>\$ (47,622)</u>	<u>\$ -</u>	<u>\$ 208,888</u>
Net Capital Assets	<u><u>\$ 528,143</u></u>	<u><u>\$ (27,622)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 500,521</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 6 – Capital Assets – (continued)

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

	For the Year Ended August 31, 2011			Balance August 31, 2011
	Balance August 31, 2010	Increases	Decreases	
<u>Not Depreciated:</u>				
Land	\$ 1,420,209	\$ -	\$ -	\$ 1,420,209
Construction in Process	3,116,741	644,961	3,116,741	644,961
Subtotal	<u>\$ 4,536,950</u>	<u>\$ 644,961</u>	<u>\$ 3,116,741</u>	<u>\$ 2,065,170</u>
Other Capital Assets:				
Buildings	28,017,348	11,718,159	-	39,735,507
Equipment Purchased with Capital Lease	342,348	-	-	342,348
Furniture, Machinery, Vehicles, and other Equipment	1,639,987	1,563,126	5,385	3,197,728
Library Books	1,000,065	17,757	-	1,017,822
Telecommunications and Peripheral Equipment	919,824	244,886	-	1,164,710
Subtotal	<u>\$ 31,919,572</u>	<u>\$ 13,543,928</u>	<u>\$ 5,385</u>	<u>\$ 45,458,115</u>
<u>Accumulated Depreciation:</u>				
Buildings	7,755,697	732,901	-	8,488,598
Equipment Purchased with Capital Lease	59,687	54,670	-	114,357
Furniture, Machinery, Vehicles and Other Equipment	810,550	201,311	808	1,011,053
Library Books	698,540	50,084	-	748,624
Telecommunications and Peripheral Equipment	824,466	47,710	-	872,176
Subtotal	<u>\$ 10,148,940</u>	<u>\$ 1,086,676</u>	<u>\$ 808</u>	<u>\$ 11,234,808</u>
Net Other Capital Assets	<u>\$ 21,770,632</u>	<u>\$ 12,457,252</u>	<u>\$ 4,577</u>	<u>\$ 34,223,307</u>
Net Capital Assets	<u><u>\$ 26,307,582</u></u>	<u><u>\$ 13,102,213</u></u>	<u><u>\$ 3,121,318</u></u>	<u><u>\$ 36,288,477</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 6 – Capital Assets – (continued)

Foundation

	For the Year Ended August 31, 2011			
	Balance August 31, 2010	Increases	Decreases	
<u>Not Depreciated:</u>				
Land	\$ 140,400	\$ -	\$ -	\$ 140,400
Works of Art, Antiques	-	131,233	-	131,233
Subtotal	<u>\$ 140,400</u>	<u>\$ 131,233</u>	<u>\$ -</u>	<u>\$ 271,633</u>
Other Capital Assets:				
Buildings	196,024	-	-	196,024
Furniture, Machinery, Vehicles, and other Equipment	171,410	-	-	171,410
Telecommunications and Peripheral Equipment	75,087	-	-	75,087
Subtotal	<u>\$ 442,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 442,521</u>
Accumulated Depreciation:				
Buildings	17,354	6,942	-	24,296
Furniture, Machinery, Vehicles and Other Equipment	83,493	25,662	-	109,155
Telecommunications and Peripheral Equipment	37,543	15,017	-	52,560
Subtotal	<u>\$ 138,390</u>	<u>\$ 47,621</u>	<u>\$ -</u>	<u>\$ 186,011</u>
Net Other Capital Assets	<u>\$ 304,131</u>	<u>\$ (47,621)</u>	<u>\$ -</u>	<u>\$ 256,510</u>
Net Capital Assets	<u><u>\$ 444,531</u></u>	<u><u>\$ 83,612</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 528,143</u></u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 7 – Bonds and Notes Payable

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

	Balance August 31, 2011	Increases	Decreases	Balance August 31, 2012	Current Portion
Leases, bonds, and notes					
Revenue bonds	\$ 9,557,000	\$ -	\$ 210,000	\$ 9,347,000	\$ 375,000
General obligation bonds	15,525,279	9,337,340	9,582,172	15,280,447	896,260
Deferred amount on refunding	-	(586,659)	(1,503)	(585,156)	
Notes payable	1,538,876	-	81,704	1,457,172	83,735
Leases payable	131,926	-	81,950	49,976	49,976
Total long-term obligations	\$ 26,753,081	\$ 8,750,681	\$ 9,954,323	\$ 25,549,439	\$ 1,404,971

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

	Balance August 31, 2010	Increases	Decreases	Balance August 31, 2011	Current Portion
Leases, bonds, and notes					
Revenue bonds	\$ 3,625,000	\$ 6,132,000	\$ 200,000	\$ 9,557,000	\$ 210,000
General obligation bonds	14,326,953	2,180,176	981,850	15,525,279	1,032,766
Notes payable	1,066,182	500,000	27,306	1,538,876	80,224
Leases payable	210,400	-	78,474	131,926	81,867
Total long-term obligations	\$ 19,228,535	\$ 8,812,176	\$ 1,287,630	\$ 26,753,081	\$ 1,404,857

2003 Series Limited Tax Bonds

The 2003 Series Limited Tax Bonds were issued for the construction and equipment of campus buildings in the district and the purchase of necessary sites. At an election on November 5, 2002, the voters approved the issuance of up to \$18,000,000 in bonds. These bonds represent the first installment of bonds issued under the authority granted at the November 5, 2002 election. The bonds were issued in part as Current Interest Bonds and in part as Capital Appreciation Bonds. The Capital Appreciation Bonds mature beginning April 1, 2010 and ending April 1, 2033. Interest is payable only at maturity and will accrue at a rate equal to the yield to maturity and will compound semiannually on each April and October. During the year the College issued \$5,741,765 Limited Tax Refunding Bonds to be used to advance refund a portion of the 2003 Series Limited Tax Bonds. As a result, the maturities from April 1, 2014 through April 1 2022 of the 2003 Series Limited Tax Bonds are considered defeased and the liability for the bonds has been removed from the obligations of the college. The remaining undefeased bonds bear interest from 3.79% to 5.85%. Bonds outstanding at August 31, 2012 and 2011, under this issue totaled \$2,714,405 and \$9,153,574, respectively. The accreted value of the bonds at August 31, 2012 and 2011 totaled \$4,509,107 and \$14,054,278, respectively. At August 31, 2012 and 2011, the un-issued but approved bonds totaled 5,534,837.

*NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011*

Note 7 – Bonds and Notes Payable - (continued)

2010 Series Limited Tax Bonds

The 2010 Series Limited Tax Bonds were issued for the construction and equipment of a campus building in the district. The Bonds bear a fixed interest rate of 3.72% for ten years if not refinanced by October 1, 2020, the rate increases to 15% or the highest rate allowable under Texas. The College anticipates refinancing the remaining issue prior to that date. Bonds outstanding at August 31, 2012 and 2011 totaled \$1,434,000 and \$1,471,000 respectively.

2006 Series Revenue Financing System Refunding and Improvement Bonds

The 2006 Series Revenue Financing System Refunding and Improvement Bonds were issued to advance refund the College's outstanding 1992 Series Dormitory System Revenue Bonds and the outstanding 1994 Series Tuition and Building Use Fee Revenue Refunding and Revenue Bonds, to pay the cost of issuing the bonds and to provide funds for construction on the main campus. The bonds were issued with an average coupon (interest) rate of 4.19%. Bonds outstanding at August 31, 2012 and 2011 under this issue totaled \$3,215,000 and \$3,425,000 respectively.

2010 Series Revenue Financing System Bonds

The 2010 Series Revenue Financing System Bonds were issued for the construction and equipment of a 112 bed dorm building in the district. The Bonds bear a fixed interest rate of 4.09% for ten years if not refinanced by October 1, 2020, the rate increases to 15% or the highest rate allowable under Texas. The College anticipates refinancing the remaining issue prior to that date. Bonds outstanding at August 31, 2012 and 2011 were \$6,132,000.

2012 Series Limited as Refunding Bonds

On February 16, 2012 issued \$5,741,765 Limited Tax Refunding Bonds to be used to advance refund a portion of the 2003 Series Limited Tax Bonds. The Bonds were sold with an original issue premium of \$4,053,026 and accrued interest of \$12,882. The net proceeds of \$9,546,323 were deposited into a Refunding Escrow Account to be used to advance refund portions of the 2003 Series Limited Tax Bonds in the amount of \$18,829 on April 1, 2012 and \$9,527,494 on April 1, 2013. Proceeds of \$22,894 were deposited in the Interest and Sinking account of the College for Bond payment. Proceeds of \$238,456 were withheld for underwriter fees, cost of issuance and Bond Insurance premiums. Of the Bonds, \$5,068,154 was issued as Capital Appreciation Bonds and \$4,225,000 as Current Interest Bonds. The Capital Appreciation Bonds mature beginning April 1 2014 and ending April 1, 2019. Interest is payable only at maturity and will accrue at a rate equal to the yield to maturity and will compound semiannually on each April and October. The Capital Appreciation Bonds yield from 1.08% to 2.07%. The Current Interest Bonds bear interest from 3.0% to 4.0% with initial yields ranging from 1.77% to 2.40%. These bonds were sold at an original issue premium of \$501,637.

As a result, the maturities from April 1, 2014 through April 1 2022 of the 2003 Series Limited Tax Bonds are considered defeased and the liability for the bonds has been removed from the obligations of the college. The advanced refunding reduced the total debt service over the next ten years by \$2,139,800. The economic gain resulting from this refunding transaction, calculated on a present value basis is \$1,642,021.

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AUGUST 31, 2012 AND 2011**

Note 7 – Bonds and Notes Payable - (continued)

Notes Payable

The College has a 4.45% capital lease payable to a bank dated August 13, 2007 and amended September 14, 2007 secured by equipment. The lease is due in five-annual installments of \$19,294. The balance of the lease at August 31, 2012 and 2011 was \$0 and \$18,472 respectively.

The College entered into a 4.25% capital lease payable to a bank dated February 24, 2009 secured by equipment. The lease is due in forty eight monthly installments of \$2,625. The balance of the lease at August 31, 2012 and 2011 was \$ 15,316 and \$45,514 respectively.

The College entered into a 4.28% capital lease payable to a bank dated May 12, 2010 secured by equipment. The lease is due in four annual installments of \$36,175. The balance of the lease at August 31, 2012 and 2011 was \$34,660 and \$67,940 respectively.

The College entered into a 4.34% maintenance tax note payable to a bank on April 27, 2010 in the amount of \$1,100,000. The note is due in 30 semi-annual payments of \$50,129. The balance of the note at August 31, 2012 and 2011 was \$983,863 and \$1,038,876 respectively.

The College entered into a Time Warrant payable to a bank on March 1, 2011 in the amount of \$500,000. The warrant is due in 9 semi-annual payments of \$22,029 with a final payment of \$385,635 on March 1, 2016. The balance of the note at August 31, 2012 and 2011 was \$473,309 and \$500,000 respectively.

Tax Bonds

The undefeased 2003 Series Limited Tax Bonds are due in annual installments varying from \$1,170,000 to \$1,255,000 with interest rates from 2.50% to 4.5% and the final installment due in 2033. The 2010 Series Limited Tax Bonds are due in annual installments varying from \$405,401 to \$894,900. The 2012 Series Limited Tax Refunding Bonds are due in annual installments varying from \$31,582 to \$1,130,200 with interest rates from 1.08% to 2.4%. The principal and interest expense for the next five years and beyond for the undefeased tax obligation bonds are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2013	\$ 896,260 (A)	\$ 224,685	\$ 1,120,945
2014	914,953 (A)	215,834	1,130,787
2015	910,705 (A)	229,576	1,140,281
2016	902,411 (A)	247,325	1,149,736
2017	894,550 (A)	265,588	1,160,138
2018-2022	4,872,722 (A)	1,035,839	5,908,561
2023-2027	2,598,633 (A)	1,495,101	4,093,734
2028-2032	2,573,191 (A)	3,978,370	6,551,561
2033-2036	717,022 (A)	903,597	1,620,619
	\$ 15,280,447	\$ 8,595,915	\$ 23,876,362

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 7 – Bonds and Notes Payable - (continued)

(A) 2003 Series Limited Tax Bonds and 2012 Series Limited Tax Refunding bonds are stated at their current accreted value.

The orders authorizing the issuance of the tax obligation bonds require the Board of Trustees to annually levy ad valorem taxes which will be sufficient to raise and produce the money required to pay the interest and principal of the bonds as they mature. The tax collections that are restricted for payment of the bond principal and interest are to be deposited into the Retirement of Indebtedness Fund.

Revenue Bonds

Debt service requirements for the revenue bonds are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2013	\$ 375,000	\$ 376,694	\$ 751,694
2014	386,000	361,332	747,332
2015	343,000	346,604	689,604
2016	295,000	333,689	628,689
2017	302,000	321,589	623,589
2018-2022	1,717,000	1,409,242	3,126,242
2023-2027	2,102,000	1,019,416	3,121,416
2028-2032	2,355,000	536,946	2,891,946
2033-2036	1,472,000	123,478	1,595,478
	\$ 9,347,000	\$ 4,828,990	\$ 14,175,990

Notes Payable

Debt service requirements for the notes payable are as follows:

Years Ending August 31,	Principal	Interest	Total Requirements
2013	\$ 83,735	\$ 60,450	\$ 144,185
2014	87,304	56,885	144,189
2015	91,026	53,167	144,193
2016	457,222	49,423	506,645
2017	68,505	31,753	100,258
2018-2022	390,976	110,311	501,287
2023-2025	278,404	21,907	300,311
	\$ 1,457,172	\$ 383,896	\$ 1,841,068

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 7 – Bonds and Notes Payable - (continued)

Leases Payable

Capital leases as of August 31, 2012 were as follows:

For the Year Ended <u>August 31,</u>	<u>Total</u>
2013	\$ 52,170
Total Minimum Lease Payments	52,170
Less: Amount Representing Interest Costs	(2,194)
Present value of minimum lease payments	<u>\$ 49,976</u>

Note 8 – Employee’s Retirement Plan

Plan Description. The College contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member’s annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2012, 2011, and 2010 and a state contribution rate of 6.0% for fiscal year 2012 and 6.644% for fiscal years 2011 and 2010.

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 8 – Employee’s Retirement Plan – (continued)

The state has also established an optional retirement program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. 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 6.4% and 6.65%, respectively. The College contributes 2.5% percent for employees who were participating in the optional retirement program prior to September 1, 1995 and .4% for all others. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. The retirement expense of the State for the College was \$257,135, \$513,389, and \$495,768 for the fiscal years ended August 31, 2012, 2011, and 2010 respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for the College employees was \$10,211,443, \$10,385,135, and \$9,893,493 for fiscal years 2012, 2011, and 2010 respectively. The total payroll of employees covered by the Teacher Retirement System was \$5,221,399, \$5,429,570, and \$4,532,998 and the total payroll of employees covered by the Optional Retirement Program was \$3,521,018, \$3,829,921, and \$3,991,487 for fiscal years 2012, 2011, and 2010, respectively.

Note 9 – Compensable Absences

Full time College employees earn vacation of 5-15 days per year based on years of service and sick leave benefits of 8 hours per month. The amount of vacation allowed to be carried over after August 31, is limited to 40 hours for each employee, which is lost December 31 of that year unless, in certain instances, approval is obtained from management to carry over amounts in excess of the 40 hours. The College has accrued \$ 87,380 and \$100,709 for August 31, 2012 and 2011, respectively, in the financial statements for vacation to be carried over to the next fiscal year. Administration believes that all of the accrued vacation will be taken or paid out in the next fiscal year. Sick leave can be accumulated up to 480 hours, but cannot be redeemed in pay. Accordingly, no accrual for sick leave has been made.

Note 10 - Disaggregation of Receivables and Payables Balances

Receivables at August 31, 2012 were as follows:

	<u>College</u>	<u>Foundation</u>
Tuition and Fees Receivable	\$ 926,106	\$ -
Taxes Receivable	377,464	-
Scholarship and Pledges Receivable	-	547,690
State Appropriations	-	-
Contracts and Grants Receivable	856,415	198,373
Other Receivables	16,397	-
Subtotal	2,176,382	746,063
Allowance for Doubtful Accounts	715,523	-
Total Receivables	\$ 1,460,859	\$ 746,063

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 10 - Disaggregation of Receivables and Payables Balances - (continued)

Payables at August 31, 2012 were as follows:

	<u>College</u>	<u>Foundation</u>
Accounts Payable:		
Vendors Payable	<u>\$ 838,488</u>	<u>\$ 16,662</u>
Accrued Liabilities:		
Accrued payroll liabilities	\$ 95,358	\$ -
Interest payable	237,097	-
Total Accrued Liabilities	<u>332,455</u>	<u>-</u>
Deposits payable:		
Student deposits payable	<u>\$ 145,142</u>	<u>\$ -</u>

Receivables at August 31, 2011 were as follows:

	<u>College</u>	<u>Foundation</u>
Tuition and Fees Receivable	\$ 440,976	\$ -
Taxes Receivable	401,584	-
Scholarship and Pledges Receivable	-	29,690
State Appropriations	16,996	-
Contracts and Grants Receivable	1,325,599	250,630
Other Receivables	13,334	-
Subtotal	<u>2,198,489</u>	<u>280,320</u>
Allowance for Doubtful Accounts	669,890	-
Total Receivables	<u>\$ 1,528,599</u>	<u>\$ 280,320</u>

Payables at August 31, 2011 were as follows:

	<u>College</u>	<u>Foundation</u>
Accounts Payable:		
Vendors Payable	<u>\$ 736,890</u>	<u>\$ 14,850</u>
Accrued Liabilities:		
Accrued payroll liabilities	\$ 42,526	\$ -
Interest payable	177,747	-
Total Accrued Liabilities	<u>220,273</u>	<u>-</u>
Deposits payable:		
Student deposits payable	<u>\$ 131,955</u>	<u>\$ -</u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 11 - Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2, and Schedule A, and Schedule C. 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.

Contracts and grant award funds already committed or funds awarded during fiscal year 2012 and 2011 for the College and Foundation are as follows:

	<u>2012</u>	<u>2011</u>
College		
Federal	\$ 988,163	\$ 935,333
State	76,588	-
Total	<u>\$ 1,064,751</u>	<u>\$ 935,333</u>
Foundation		
Federal	\$ -	\$ 140,417
State	420,000	355,091
Total	<u>\$ 420,000</u>	<u>\$ 495,508</u>

Note 12 – Self-Insured Plans

The College self-insures for coverage in the areas of workers' compensation and unemployment compensation. These plans are on a pay-as-you-go basis, in which no assets are set aside. Accrued liabilities are generally based on actuarial valuation and represent the present value of unpaid expected claims. Estimated future payments for incurred claims are charged to current operations. The College accrued \$8,592 and \$6,337 as estimated future payments for the years ended August 31, 2012 and 2011.

Note 13 - Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the college. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per insured was \$468 for the year ended August 31, 2012 and \$304 for 2011 and totaled \$448,061 for 2012, and \$770,884 for 2011. The cost of providing those benefits for retirees is not separable from the cost of providing benefits for active employees.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011**

Note 14 – Ad Valorem Tax

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

	At August 31,	
	2012	2011
Assessed Valuation	\$ 5,227,687,620	\$ 5,241,963,734
Less Exemptions and Reductions	616,248,620	649,221,734
Net Taxable Assessed Value	\$ 4,611,439,000	\$ 4,592,742,000

	Current Operations	Debt Service	Total
	Tax rate authorized per \$100 valuation	\$ 0.0776	\$ 0.0224
Tax rate assessed per \$100 valuation for 2012	\$ 0.0776	\$ 0.0224	\$ 0.1000
Tax rate assessed per \$100 valuation for 2011	\$ 0.0778	\$ 0.0222	\$ 0.1000

Taxes levied for the years ended August 31, 2012 and 2011 were \$4,611,439 and \$4,592,742 respectively excluding 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.

	2012			2011		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes	\$ 3,441,291	\$ 984,465	\$4,425,756	\$ 3,484,490	\$ 996,823	\$ 4,481,313
Delinquent Taxes	85,650	24,502	110,152	75,031	21,465	96,496
Penalties and Interest	88,010	25,177	113,187	51,614	14,766	66,380
Other Fees	5,577	1,595	7,172	3,834	1,096	4,930
Total Collections	\$ 3,620,528	\$ 1,035,739	\$4,656,267	\$ 3,614,969	\$ 1,034,150	\$ 4,649,119

Tax collections for the years ended August 31, 2012 and 2011 were 98.4% and 97.6%, 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 maintenance and operations and/or general obligation debt service.

Note 15 - Income Taxes

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

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011*

Note 16 – Northeast Texas Community College Foundation, Inc – Discrete Component Unit

Northeast Texas Community College Foundation, Inc (the Foundation) was established in 1984 as a separate nonprofit organization to raise funds to provide student scholarships and assistance in the development and growth of the College. Under Government Standards Board Statement No 39, Determining Whether Certain Organizations are Component Units, an organization should report as a discretely presented component unit those organizations that raise and hold economic resources for the direct benefit of a government unit.

Accordingly, the Foundation financial statements are included in the College's annual report as a discrete component unit. Complete financial statements of Northeast Texas Community College Foundation, Inc. can be obtained from the administrative office of the Foundation.

Note 17 - Risk Management - Claims and Judgments

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

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

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

Note 18 - Commitments and Contingencies

Litigation – The College may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded.

Grant Programs – The college participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the college has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2012 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 combined financial statements for such contingencies.

Note 19 – Postemployment Benefits Other than Pensions

Plan Description: Northeast Texas Community 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.

*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 AND 2011*

Note 19 – Postemployment Benefits Other than Pensions – (continued)

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

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

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims cost of 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 \$1,886,857 \$1,334,001, and \$1,114,737 respectively.

Note 20 - Contingencies

Texas Constitution article 16, section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system," referring to the State's Teacher Retirement System (TRS) including the related faculty Optional Retirement Program (ORP). During the 2011 legislative session, the Texas Legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted general revenue appropriation for each year of the biennium state budget.

There is no pending litigation concerning this issue to construe the constitutional funding requirements; or to hold that the State biennium appropriations satisfy those requirements; or to attempt to collect any shortfall contributions from any community college district.

The college has calculated that as of August 31, 2012 the contribution that has not been paid to TRS on behalf of college employees is estimated to be \$213,290.

***SUPPLEMENTAL SCHEDULES
REQUIRED BY TEXAS HIGHER EDUCATION
COORDINATING BOARD***

NORTHEAST TEXAS COMMUNITY COLLEGE
 SCHEDULE OF DETAILED OPERATING REVENUES
 SCHEDULE A

For the Year Ended August 31, 2012 (With Memorandum Totals for the Year Ended August 31, 2011)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2012 Total	Memorandum 2011 Total
Tuition						
State funded courses						
In-district resident tuition	\$ 1,270,527	\$	\$ 1,270,527	\$	\$ 1,270,527	\$ 1,254,228
Out-of-district resident tuition	871,935		871,935		871,935	828,435
TPEG (set aside)*	143,347		143,347		143,347	129,154
Non-resident tuition	387,281		387,281		387,281	255,700
State funded continuing education	171,352		171,352		171,352	125,106
Non-state funded continuing education	15,130		15,130		15,130	31,941
Total Tuition	2,859,572	-	2,859,572	-	2,859,572	2,624,564
Fees						
General fees	2,509,633		2,509,633		2,509,633	2,353,300
Student service fees				214,406	214,406	210,432
Opt-of-district fees	1,109,736		1,109,736		1,109,736	897,471
Laboratory fees	463,939		463,939		463,939	433,040
Other fees	131,955		131,955		131,955	126,733
Total Fees	4,215,263	-	4,215,263	214,406	4,429,669	4,020,976
Scholarship Allowances and Discounts						
Scholarship allowances	(414,964)		(414,964)		(414,964)	(399,712)
Remissions and exemptions	(140,341)		(140,341)		(140,341)	(88,256)
TPEG allowances	(143,347)		(143,347)		(143,347)	(129,154)
Federal grants to students	(3,690,828)		(3,690,828)		(3,690,828)	(3,534,278)
Total Scholarship Allowances	(4,389,480)	-	(4,389,480)	-	(4,389,480)	(4,151,400)
Total Net Tuition and Fees	2,685,355	-	2,685,355	214,406	2,899,761	2,494,140
Other Operating Revenues						
Federal grants and contracts	22,944	1,444,232	1,467,176		1,467,176	1,363,871
State grants and contracts		669,743	669,743		669,743	840,004
Nongovernmental grants and contracts		142,309	142,309		142,309	104,131
Sales and services of educational activities	75,154		75,154		75,154	120,592
Other operating revenues	362,418		362,418	186,493	548,911	519,931
Total Other Operating Revenues	460,516	2,256,284	2,716,800	186,493	2,903,293	2,948,529
Auxiliary Enterprises						
Residential life				1,073,367	1,073,367	464,642
Less discounts				(200,224)	(200,224)	(93,808)
Bookstore				1,831,228	1,831,228	1,930,792
Less discounts				(1,278,372)	(1,278,372)	(1,099,089)
Total Net Auxiliary Enterprises	-	-	-	1,425,999	1,425,999	1,202,538
Total Operating Revenues (Exh.2)	\$ 3,145,871	\$ 2,256,284	\$ 5,402,155	\$ 1,826,898	\$ 7,229,053	\$ 6,645,207

*In accordance with Education Code 56.033, \$143,347 and \$129,154 for years August 31, 2012 and 2011, respectively, of tuition was set aside for Texas Public Education Grants(TPEG).

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE B
SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATIONS
For the Year Ended August 31, 2012 (with Memorandum Totals for the Year Ended August 31, 2011)

	Operating Expenses					Memorandum Total 8/31/2011
	Salaries and Wages	State Benefits	Local Benefits	Other Expenses	Total 8/31/2012	
Unrestricted - Educational Activities						
Instruction	\$ 5,822,791		837,047	465,225	\$ 7,125,063	\$ 6,862,856
Public Service	48,921		7,033	97,805	153,759	187,602
Academic Support	605,571		87,053	92,660	785,284	850,170
Student Services	702,629		101,005	129,469	933,103	935,451
Institutional Support	1,470,307		211,362	1,092,952	2,774,621	2,624,236
Operation and Maintenance of Plant	269,987		38,812	947,266	1,256,065	1,337,967
Scholarships and Fellowships			-	-	-	-
Total Unrestricted Educational Activities	\$ 8,920,206	\$ -	\$ 1,282,312	\$ 2,825,377	\$ 13,027,895	\$ 12,798,282
Restricted - Educational Activities						
Instruction	\$ 343,566	\$ 460,327	\$ -	\$ 440,044	\$ 1,243,937	\$ 1,565,242
Public Service	94,896	3,867	-	156,239	255,002	172,403
Academic Support	-	47,874	-	-	47,874	97,110
Student Services	142,921	55,547	-	161,219	359,687	567,600
Institutional Support	257,402	116,237	-	116,564	490,203	510,592
Operation and Maintenance of Plant	-	21,344	-	-	21,344	44,939
Scholarships and Fellowships				3,462,673	3,462,673	4,721,044
Total Restricted Educational Activities	\$ 838,785	\$ 705,196	\$ -	\$ 4,336,739	\$ 5,880,720	\$ 7,678,930
Total Educational Activities	9,758,991	705,196	1,282,312	7,162,116	18,908,615	20,477,212
Auxiliary Enterprises	452,452		39,074	2,021,033	2,512,559	2,323,460
Depreciation Expense						
Building & Improvements					882,601	732,901
Equipment & Furniture					448,309	303,691
Library Books					48,176	50,084
Total	\$ 10,211,443	\$ 705,196	\$ 1,321,386	\$ 9,183,149	\$ 22,800,260	\$ 23,887,348

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE C
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>	<u>Total 8/31/2012</u>	<u>Memorandum Total 8/31/2011</u>
Non - Operating Revenues					
State appropriations:					
Education and general state support	\$ 4,287,181			\$ 4,287,181	3,929,713
State group insurance		448,061		448,061	770,884
State retirement matching		257,135		257,135	513,389
Professional nursing shortage reduction		33,923		33,923	34,004
Ad-valorem taxes	3,458,064	1,116,318		4,574,382	4,643,303
Federal revenue, non operating		8,071,822		8,071,822	8,853,884
Investment income		6,735		6,735	12,086
Total Non - Operating Revenues	<u>7,745,245</u>	<u>9,933,994</u>	<u>-</u>	<u>17,679,239</u>	<u>18,757,263</u>
Non - Operating Expenses					
Interest on capital related debt	1,012,178			1,012,178	1,082,044
(Gain) loss on disposal of capital assets	45,508			45,508	(1,029)
Other non operating expense	34,613			34,613	30,268
Total Non - Operating Expenses	<u>1,092,299</u>	<u>-</u>	<u>-</u>	<u>1,092,299</u>	<u>1,111,283</u>
Net Non - Operating Revenues	<u>\$ 6,652,946</u>	<u>\$ 9,933,994</u>	<u>\$ -</u>	<u>\$ 16,586,940</u>	<u>\$ 17,645,980</u>

See independent auditors' report.

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE D
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)

	Detail By Source							
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total 8/31/2012	Available for Current Operations		Memorandum Total 8/31/2011
		Expendable	Unexpended Bond Proceeds			Yes	No	
Current								
Unrestricted	\$ 3,027,469	\$	\$	\$	\$ 3,027,469	\$ 3,027,469		2,505,622
Board Designated Reserve	500,183				500,183	500,183		250,000
Plant								
Investment in plant		826,539		11,041,130	11,867,669		11,867,669	10,766,421
Total Net Assets, August 31, 2012	3,527,652	826,539	0	11,041,130	15,395,321	3,527,652	11,867,669	13,522,043
Total Net Assets, August 31, 2011	2,755,622	559,076	0	10,207,345	13,522,043	2,755,622	10,766,421	11,039,414
Net Increase (Decrease) in Net Assets	\$ 772,030	\$ 267,463	\$ 0	\$ 833,785	\$ 1,873,278	\$ 772,030	\$ 1,101,248	2,482,629

See independent auditors' report.

NORtheast TEXAS COMMUNITY COLLEGE
 SCHEDULE E
 BALANCE SHEET
 AUGUST 31, 2012

	Current Funds				Loan Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	Agency	Total
	Unrestricted	Auxiliary Enterprises	Current Restricted	Total						
Assets										
Cash and Cash Equivalents	\$ 4,282,165	11,049	2,690	4,295,904	\$ 15,637	\$ 161,644	\$ 370,946		\$ 126,337	\$ 4,970,468
Long term investments	99,000	-	-	99,000	-	-	627,196		-	726,196
Short Term Investments	522,311	-	856,415	1,378,726	-	73,551	82,133		36,880	1,460,859
Accounts Receivable	-	852,963	-	852,963	-	-	298,736		-	1,262,130
Due From Other Funds	291,457	-	-	291,457	-	-	-		-	291,457
Due From Foundation	357,923	-	-	357,923	-	-	-		-	357,923
Prepaid Expenses	-	-	-	-	-	-	-		-	-
Deferred Charges	-	-	-	-	-	-	-		-	-
Inventory, at Cost	32,008	565,078	-	597,086	-	-	122,192		-	676,905
Land	-	-	-	-	-	-	-		-	597,086
Buildings and Improvements	-	-	-	-	-	-	-		-	1,438,209
Improvements Other Than Buildings	-	-	-	-	-	-	-		-	37,979,788
Equipment	-	-	-	-	-	-	-		-	3,175,573
Library Books	-	-	-	-	-	-	-		-	2,874,399
Vehicles	-	-	-	-	-	-	-		-	945,974
Telecommunications	-	-	-	-	-	-	-		-	618,107
Accumulated Depreciation	-	-	-	-	-	-	-		-	1,775,803
Other	-	-	-	-	-	-	(12,477,133)		-	(12,477,133)
Total Assets	\$ 5,584,864	\$ 1,429,090	\$ 859,105	\$ 7,873,059	\$ 15,637	\$ 235,195	\$ 1,501,203	\$ 36,929,249	\$ 163,217	\$ 46,717,560
Liabilities and Fund Balance										
Accounts Payable	\$ 421,190	398,605	14,427	834,222	\$ 844	\$ -	\$ -		\$ 3,422	\$ 838,488
Accrued Liabilities	95,358	-	-	95,358	-	-	206,676		-	332,455
Deposits Payable	95,212	49,930	-	145,142	-	-	-		-	145,142
Due to Other Funds	46,410	-	625,047	671,457	14,795	-	-		32,427	1,262,130
Deferred Revenues	1,464,194	828,023	219,631	2,511,848	-	-	-		-	2,511,848
Accrued Compensated Absences	87,380	-	-	87,380	-	-	-		-	87,380
Bonds Payable	-	-	-	-	-	-	-		-	24,042,292
Unamortized Premium	-	-	-	-	-	-	-		-	467,988
Notes Payable	-	-	-	-	-	-	-		-	1,507,148
Funds Held in Custody for Others	-	-	-	-	-	-	-		-	127,368
Total Liabilities	\$ 2,209,744	\$ 1,276,558	\$ 859,105	\$ 4,345,407	\$ 15,637	\$ -	\$ 674,664	\$ 26,123,314	\$ 163,217	\$ 31,322,239
Fund Balances										
Net Investment in Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 235,195	\$ 826,539	\$ 10,805,935	\$ -	\$ 11,041,130
Reserved for Debt Service Restricted	-	-	-	-	-	-	-	-	-	826,539
Student Aid	-	-	-	-	-	-	-	-	-	-
Temporarily Permanently	-	-	-	-	-	-	-	-	-	-
Unrestricted	3,375,120	152,532	-	3,527,652	-	-	-	-	-	3,527,652
Total Fund Balance	\$ 3,375,120	\$ 152,532	\$ -	\$ 3,527,652	\$ -	\$ 235,195	\$ 826,539	\$ 10,805,935	\$ -	\$ 15,395,321
Total Liabilities and Fund Balance	\$ 5,584,864	\$ 1,429,090	\$ 859,105	\$ 7,873,059	\$ 15,637	\$ 235,195	\$ 1,501,203	\$ 36,929,249	\$ 163,217	\$ 46,717,560

See independent auditors report.

NORTHEAST TEXAS COMMUNITY COLLEGE
SCHEDULE F
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED AUGUST 31, 2012

	Current Funds			Loan Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	Total
	Unrestricted	Auxiliary Enterprises	Current Restricted					
Revenues and Other Additions								
Unrestricted Current Funds Revenues	\$ 15,089,160	\$ 3,387,800	\$ 705,196	\$ -	\$ -	\$ -	\$ -	\$ 18,476,960
State Appropriations - Restricted			9,671,307					705,196
Federal grants and Contracts			1,044,351					9,671,307
State grants and Contracts			142,309					1,044,351
Local gifts, grants and Contracts			-			1,116,318		142,309
Taxes for Debt Retirement			-					1,116,318
Interest / Endowment Income			-				903,320	-
Net Decrease in Bonds Payable			-				163,653	903,320
Net Decrease in Notes Payable			-			7,235		163,653
Investment Income (Loss)			-				384,551	7,235
Other Revenues								384,551
Total Revenue and Other Additions	<u>15,089,160</u>	<u>3,387,800</u>	<u>11,563,163</u>	<u>-</u>	<u>-</u>	<u>1,123,553</u>	<u>1,451,524</u>	<u>32,615,200</u>
Expenditures and Other Deductions								
Expenditures	13,164,164	2,948,732	11,067,225	-	-	-	-	27,180,121
Indirect Cost Recovered			22,944					22,944
Retirement of Indebtedness - Bonds			-		903,320			903,320
Retirement of Indebtedness - Notes			-		163,653			163,653
Interest on Indebtedness			-		944,653			944,653
Depreciation Expense			-			2,299		67,525
Other Expenditures	<u>13,164,164</u>	<u>2,948,732</u>	<u>11,090,169</u>	<u>-</u>	<u>500</u>	<u>2,013,925</u>	<u>1,524,432</u>	<u>1,379,086</u>
								<u>80,620</u>
								<u>30,741,922</u>
Transfers - Additions (Deductions)								
Mandatory Transfers:								
Retirement of Indebtedness								
Building Use Fees								
Tuition Use Fees								
Revenue Bond	(753,964)					753,964		
Contractual Obligations	(231,178)				(125,248)	403,871	(47,445)	
TPEG to Restricted								
Non - Mandatory Transfers:								
Capital Outlay	(455,346)	(151,546)	(472,994)				1,079,886	
Other								
Total Transfers - Additions (Deductions)	<u>(1,440,488)</u>	<u>(151,546)</u>	<u>(472,994)</u>	<u>-</u>	<u>(125,248)</u>	<u>1,157,835</u>	<u>1,032,441</u>	<u>-</u>
Net Increase (Decrease) for Year	484,508	287,522	0	-	(125,748)	267,463	959,533	1,873,278
Fund Balance (Deficit) August 31, 2011	\$ 2,890,612	\$ (134,990)	\$ -	\$ -	\$ 360,943	\$ 559,076	\$ 9,846,402	\$ 13,522,043
Fund Balance (Deficit) August 31, 2012	\$ 3,375,120	\$ 152,532	\$ 0	\$ -	\$ 235,195	\$ 826,539	\$ 10,805,935	\$ 15,395,321

See independent auditors report.

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FEDERAL FINANCIAL ASSISTANCE INFORMATION

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

December 4, 2012

*Board of Trustees
Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas*

Members of the Board:

We have audited the financial statements of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. as of August 31, 2012 and 2011, and have issued our report thereon dated December 4, 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 and *Uniform Grant Management Standards*, issued by the State of Texas.

Internal Control Over Financial Reporting

Management of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'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 misstatements on a timely basis. A material weakness is a deficiency, or combination of control 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 Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'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* or *Uniform Grant Management Standards*.

We noted certain other matters that we reported to management of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. in a separate letter dated December 4, 2012.

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


WILF & HENDERSON, P.C.
Certified Public Accountants

*Independent Auditors' Report on Compliance with
Requirements That Could Have a Direct and Material Effect on each Major Program and Internal Control
over Compliance in Accordance with OMB Circular A-133*

December 4, 2012

*Board of Trustees
Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas*

Members of the Board:

Compliance

We have audited the compliance of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned cost. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s management. Our responsibility is to express an opinion on Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'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 State, 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 Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'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 Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance with those requirements.

In our opinion, Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, and 2012-3.

Internal Control over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned cost as items 2012-1 through 2012-4. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s responses and, accordingly, we express no opinion on the responses.

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


WILF & HENDERSON, P. C.
Certified Public Accountants

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
SCHEDULE G
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2012
Page 1 of 2**

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantors Number</u>	<u>Pass Through Disbursements and Expenditures</u>
U.S. Department of Education			
<u>Direct Programs</u>			
<u>Student Financial Assistance Cluster:</u>			
Federal Supplemental Educational Opportunity Grants	* 84.007A		\$ 26,063
Federal Work-Study Program	* 84.033A		81,503
Federal Pell Grant Program	* 84.063P		7,990,694
Direct Loans	* 84.268		4,574,150
Academic Competiveness Grant	* 84.375		(375)
Total Student Financial Assistance Cluster			<u>12,672,035</u>
TRIO - Upward Bound	84.047A		<u>324,461</u>
21st Century Community Learning Centers	* 84.287 C (A)		<u>669,701</u>
Title III	84.031A		<u>379,681</u>
<u>Passed Through Texas Education Agency</u>			
Adult Basic Education	84.002A		204,885
EL Civics	84.002A		129,834
Total Passed Through Texas Education Agency			<u>334,719</u>
<u>Passed Through Texas Higher Education Coordinating Board</u>			
Vocational Education - Allocated	84.048		<u>212,315</u>
Total U.S. Department of Education			<u>14,592,912</u>
U.S. Department of Energy			
Biodiesel Fuel Grant	81.087		50,632
<u>Passed Through Texas State Comptroller</u>			
Seco Alternative Fuels	81.041		<u>6,603</u>
Total U.S. Department of Energy			<u>57,235</u>
U.S. Department of Health and Human Services			
<u>Passed Through Texas Education Agency</u>			
Temporary Assist to Needy Families	93.558		13,252
Temporary Assist to Needy Families	93.558 (A)		<u>139,910</u>
Total Passed Through Texas Education Agency			<u>153,162</u>
<u>Passed Through Workforce Solutions of East Texas</u>			
Temporary Assist to Needy Families	93.558		49,484
Total U.S. Department of Health and Human Services			<u>202,646</u>
U.S. Small Business Administration	59.037		<u>202,275</u>
Corporation for National and Community Service			
<u>Passed Through Communities in Schools, Inc.</u>			
CNCS Service-Learning	94.007 (A)		<u>388</u>
Total Federal Financial Assistance			\$ <u>15,055,456</u>

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2012
Page 2 of 2**

Note 1: Federal Financial Assistance Reconciliation

Federal Grants and Contracts Revenue - Per Schedule A - College	\$	1,467,176
Federal Grants and Contracts Revenue - Per Schedule C - College		8,071,822
Federal Contributions in Aid of Construction - Per Exhibit 2 - College		132,309
Direct Loans		4,574,150
Federal Grants and Contracts Revenue - Foundation		<u>809,999</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	\$	<u><u>15,055,456</u></u>

Note 2: Significant Accounting Policies

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

Note 3: Student Loans Processed and Administrative Costs Recovered

Federal Grantor CFDA Number/Program Name	<u>New Loans Processed</u>	<u>Administrative Cost Recovered</u>	<u>Total</u>
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US Department of Education
All direct loans processed are included in the schedule.

* Major Program

(A) Denotes federal financial assistance program for the Component Unit - Northeast Texas Community College Foundation.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012**

A: Summary of Audit Results

Financial Statements

The auditor's report expresses an unqualified opinion on the financial statements of Northeast Texas Community College and Northeast Texas Community College Foundation.

Internal control over financial reporting:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes _____ none reported

The auditor's report on compliance for the major federal awards programs for Northeast Texas Community College expresses an unqualified opinion.

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

The programs tested as major programs include:

Student Financial Aid Cluster	
Federal Supplemental Educational Opportunity Grants	CFDA #84.007A
Federal Work-Study Program	CFDA #84.033A
Federal Pell Grant Program	CFDA #84.063P
Direct Loans	CFDA #84.268
Academic Competiveness Grant	CFDA #84.375
21 st Century Community Learning Centers	CFDA #84.287C

Dollar threshold used to distinguish between Type A and B programs: \$ 451,664

Auditee qualified as low-risk auditee? X yes _____ no

B: Findings - Financial Statements Audit

None

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012**

**C. Findings and Questioned Costs – Major Federal Award Programs Audit
Department of Education**

2012-1 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268, 84.375, Grant period – Year ended August 31, 2012

Eligibility

Type of Finding – Significant Deficiency

Criteria:

Financial resources available to a student cannot exceed the student’s cost of attendance. Financial resources include expected family contribution, non – Federal aid, and Federal aid.

Condition:

Two students, out of a sample of sixty, received Title IV Student Financial Assistance in excess of their cost of attendance.

Cause:

The college did not properly consider all financial resources when they determined the financial need to be funded by Title IV funds.

Effect:

A total of \$5,127 was disbursed from Title IV funds in excess of financial need on these two students. A projection of this error to the population would result in likely questioned cost in excess of the \$10,000 required threshold.

Population and Sample Size:

	Number	Dollars	Questioned Cost
Population	2405	12,844,000	
Sample	60	304,171	
Not in Compliance	2		5,127

Recommendation:

We recommend that Northeast Texas Community College implement management controls to ensure Title IV disbursements are not made in excess of financial need.

Response:

We agree with the finding. Our initial training on the Direct Loan program was incorrect causing over awards to become a concern. Upon discovery of the potential over awards a review of all student accounts was initiated early in the 2012 spring semester. The majority of student accounts were corrected prior to spring disbursements; however, there were a few accounts we were unable to correct due to the over award occurring during the 2011 fall semester. The Financial Aid staff has been properly trained on how to administer the loan program and review accounts effectively reducing the potential for over awards in the future.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012**

C. Findings and Questioned Costs – Major Federal Award Programs Audit (cont'd)
Department of Education

2012- 2 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268, 84.375, Grant period – Year ended August 31, 2012

Eligibility

Type of Finding – Significant Deficiency

Criteria:

Students must be in compliance with the College’s satisfactory academic progress policy in order to qualify for Title IV Student Financial Assistance. The college established their policy based on Title IV requirements.

Condition:

Two students, out of a sample of sixty, received Title IV Student Financial Assistance and where not in compliance with the college’s satisfactory academic progress policy.

Cause:

The college did not have proper controls in effect to ensure all student complied with their satisfactory academic progress policy.

Effect:

A total of \$8,961 was disbursed from Title IV funds to these two students that were not in compliance with the policy. A projection of this error to the population would result in likely questioned cost in excess of the \$10,000 required threshold.

Population and Sample Size:

	Number	Dollars	Questioned Cost
Population	2405	12,844,000	
Sample	60	304,171	
Not in Compliance	2		8,961

Recommendation:

We recommend that Northeast Texas Community College implement management controls to ensure Title IV disbursements are made only to students in compliance with the college’s satisfactory academic progress policy.

Response:

We agree with the finding. The SAP report functionality in Poise did not appear to be operating correctly from our first encounter with the program. As the semesters progressed, we continued to using the Poise functionality and worked with ESP Tulsa to attempt to learn why students weren’t always being placed on warning or suspension as they should be while simultaneously running various reports to identify students not captured in the Poise report. During the summer of 2012, with the help of Chris Schumacher, the problem within Poise was identified and corrected. When the Federal terminology regarding SAP changed in 2011, requiring code changes in the Poise program, a link was broken and resulted in inaccurate SAP statues. Once the problem was identified, we were able to correct the program and can now rely on the report to process Warning and Suspension statuses accurately.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012**

C. Findings and Questioned Costs – Major Federal Award Programs Audit (cont'd)
Department of Education

2012-3 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268, 84.375, Grant period – Year ended August 31, 2012

Eligibility

Type of Finding – Significant Deficiency

Criteria:

The college must verify taxable income and certain non taxable income along with other items such as household size on students selected for verification. One of the non taxable income items that must be included is the Making Work Pay Credit. This amount was ,for most taxpayers, either \$400 or \$800.

Condition:

On four students, selected for verification, the college did not consider the making work pay credit. On two of the students the credit was \$400, which is within the tolerance allowed. The remaining two received the \$800 credit which exceeded the tolerance allowed.

Cause:

The college did not have proper controls in effect to ensure all appropriate non taxable income was included during the verification process.

Effect:

A total of \$800 was disbursed from Title IV funds to these two students in excess of correct amount. A projection of this error to the population would result in likely questioned cost in excess of the \$10,000 required threshold.

Population and Sample Size:

	Number	Dollars	Questioned Cost
Population	2405	12,844,000	
Sample	60	304,171	
Not in Compliance	2		800

Recommendation:

We recommend that Northeast Texas Community College implement management controls to ensure the verifications are completed in accordance with program requirements.

Response:

We agree with the finding. The majority of verifications are performed by a third party, Vangent. The Making Work Pay credit became a verification issue in 2011/2012. Due to this credit being a new item required to be included in the Total Income calculation, it was overlooked on some in-house verifications. As the verification process has been refined in recent semesters, we now have thorough instructions which reduce the chance of errors. Also, with the new Tax Return Transcript requirement & Data Retrieval option in the 2012/2013 academic year, the verification process became less cumbersome and more uniform in regards to documentation requirements, resulting in fewer opportunities to overlook verifiable items.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012**

C. Findings and Questioned Costs – Major Federal Award Programs Audit (cont'd)
Department of Education

2012-4 Title IV Student Financial Assistance Cluster – CFDA Nos. 84.007A, 84.033A, 84.063P, 84.268, 84.375, Grant period – Year ended August 31, 2012

Eligibility

Type of Finding – Significant Deficiency

Criteria:

The college must make all financial aid awards based on the final Institutional Student Information Record (ISIR) after the verification process has been completed and all adjustments to the Expected Family Contribution (EFC) have been posted.

Condition:

In a sample of sixty, two students' income was increased during the verification process. One of these student's EFC's was increased. The other's did not change. Verifications were performed by a third party, Vangent. The correction's were reported to Department of Education by Vangent, however the ISIR's were not updated correctly in the college's in house POISE system.

Cause:

The college did not have controls in effect to ensure the final (ISIR) information is reflected in the system used to award aid.

Effect:

The college could over award or under award financial aid using an incorrect EFC.

Population and Sample Size:

	Number	Dollars	Questioned Cost
Population	2405	12,844,000	
Sample	60	304,171	
Not in Compliance	2		100

Recommendation:

We recommend that Northeast Texas Community College implement management controls to ensure all students are properly awarded financial aid.

Response:

We agree with the condition of the findings. In rare circumstances students' updated ISIRs do not upload into the POISE system causing a discrepancy between the institution's award amount and the Department of Education's award amount for individuals. In accordance with the verifications guidelines, institutions can award and make an initial disbursement to students based upon their most recent ISIR; however, if eligibility changes based on a new transaction, the institution can adjust the student's future disbursements ensuring the yearly maximum award amount is not exceeded. Though there is the potential of an incorrect award, the risk is mitigated through the monthly reconciliation process which provides ample opportunity to make necessary corrections prior to year end.

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***NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012***

Prior year audit disclosed no findings or questioned costs.

STATE FINANCIAL ASSISTANCE INFORMATION

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major State Program and Internal Control over Compliance in Accordance with State of Texas Single Audit Circular

December 4, 2012

*Board of Trustees
Northeast Texas Community College and
Northeast Texas Community College Foundation
Mt. Pleasant, Texas*

Members of the Board:

Compliance

We have audited the compliance of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. with the types of compliance requirements described in the *Uniform Grant Management Standards* issued by the State of Texas that could have a direct and material effect on each of its major state programs for the year ended August 31, 2012. Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s management. Our responsibility is to express an opinion on Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'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 the *Uniform Grant Management Standards*. Those standards and the State of Texas *Uniform Grant Management Standards* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'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 Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s compliance with those requirements.

In our opinion, Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the years ended August 31, 2012. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with *Uniform Grant Management Standards*.

Internal Control over Compliance

The management of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *Uniform Grant Management Standards* issued by the State of Texas, 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 Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.'s internal control over compliance.

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

Our consideration of the 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 Board of Trustees, the Texas Higher Education Coordinating Board, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


WILF & HENDERSON, P. C.
Certified Public Accountants

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
SCHEDULE H
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2012
Page 1 of 2**

<u>Grantor/Program/Title</u>	<u>Grant Contract Number</u>	<u>Pass Through Disbursements and Expenditures</u>
Texas Education Agency		
Adult Basic Education		46,190
Temporary Assist to Needy Families	(A)	772
Temporary Assist to Needy Families	(A)	356,430
Total Texas Education Agency		<u>\$ 403,392</u>
U.S. Small Business Administration		
SBDC State		<u>\$ 35,752</u>
Texas Higher Education Coordinating Board		
Texas Grant Program	N/A	253,550
Texas Grant II	N/A	65,140
Early High School Graduation		17,583
Nursing shortage		33,923
Texas Guaranteed Student Loan		58,078
Texas B On Time		14,560
Total Texas Higher Education Coordinating Board		<u>\$ 442,834</u>
Texas College Workstudy		<u>\$ 60,544</u>
Texas Workforce Commission		
Skills Development Fund	*	TWC-0710SSD000 332
Skills Development Fund	*	TWC-0710SDF002 255,481
Skills Development Fund	*	TWC-0711SDF000 20,453
Total Skills Development		<u>\$ 276,266</u>
Texas State Comptroller's Office		
Jet Equipment Grant	* (A)	182,765
Jet Scholarships		19,336
		<u>\$ 202,101</u>
Total State Financial Assistance		<u><u>1,420,889</u></u>

* Major Program

(A) Denotes state financial assistance program for the Component Unit
Northeast Texas Community College Foundation

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2012
Page 2 of 2**

Note 1: Significant Accounting Policies

The accompanying schedule of expenditures of state awards has been prepared on the accrual basis of accounting. The expenditures included in 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 represent funds which have been expended by the college for the purposes of the award. The expenditures reported may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The college has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 2: State Financial Assistance Reconciliation

	<u>Expenditures</u>
State Grants and Contracts Revenue - Per Schedule A - College	\$ 669,743
State Grants and Contracts Revenue - Per Schedule C - College	33,923
State Contributions in Aid of Construction - Per Exhibit 2 - College	340,685
State Grants and Contracts - Foundation	<u>376,538</u>
 Total State Financial Assistance	 \$ <u><u>1,420,889</u></u>

See independent auditors' report.

**NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
STATE GRANTS SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012**

A: Summary of Audit Results

Financial Statements

The auditor's report expresses an unqualified opinion on the financial statements of Northeast Texas Community College and Northeast Texas Community College Foundation, Inc.

Internal control over financial reporting:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

State Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

The auditor's report on compliance for the major state awards programs for Northeast Texas Community College and Northeast Texas Community College Foundation, Inc expresses an unqualified opinion.

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

The programs tested as major programs include:

	<u>Grant Project Number</u>
Texas Workforce Commission	
Skills Development	TWC-0710SSD000
Skills Development	TWC-0710SDF002
Skills Development	TWC-0711SDF000
Jet Scholarship Grant	

Dollar threshold used to distinguish between

Type A and B programs: \$ 300,000
 Auditee qualified as low-risk auditee? x yes _____ no

B: Findings - Financial Statements Audit

None

C : Findings and Questioned Costs - Major State Award Programs Audit

None

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*NORTHEAST TEXAS COMMUNITY COLLEGE
AND NORTHEAST TEXAS COMMUNITY COLLEGE FOUNDATION, INC.
STATE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2012*

Prior year audit disclosed no findings or questioned costs.