

Financial Statements and
Independent Auditor's Report

[Howard County Junior College District](#)

August 31, 2014 and 2013

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Howard County Junior College District
 ORGANIZATIONAL DATA
 For the Fiscal Year 2014

Board of Trustees

Officers

Board Title

Dr. John E. Freeman
 Mr. Maxwell Barr
 Mrs. Marie Ethridge

Chairman
 Vice Chairman
 Secretary

Members

Address

Term Expires

Dr. John E. Freeman
 Mr. Adrian Calvio
 Mrs. Marie Ethridge
 Mr. Maxwell Barr
 Mr. Michael L. Flores
 Mr. Murray Murphy
 Dr. Charles O. Warren

Big Spring, Texas
 Big Spring, Texas
 Coahoma, Texas
 Coahoma, Texas
 Big Spring, Texas
 Big Spring, Texas
 Big Spring, Texas

May, 2020
 May, 2018
 May, 2020
 May, 2018
 May, 2016
 May, 2016
 May, 2020

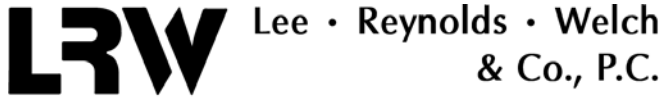
Principal Administrative Officers and the Business and Financial Staff

Key Officers

Title

Dr. Cheryl T. Sparks
 Dr. Amy Burchett
 Mr. Steve Smith
 Mr. John Parsons
 Ms. Brenda Claxton
 Dr. Kinsey Hansen
 Ms. Jamie Rainey
 Mr. Danny Campbell
 Ms. Nancy Bonura

President
 Vice President Academic and Student Affairs
 Chief Business Officer
 Chief Facilities Operations Officer
 Chief Financial Officer
 Executive Dean, Big Spring Area
 Executive Dean-San Angelo
 Co-Executive Dean, Southwest Collegiate Institute for the Deaf
 Co-Executive Dean, Southwest Collegiate Institute for the Deaf



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Howard County Junior College District (the District) as of and for the years ended August 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

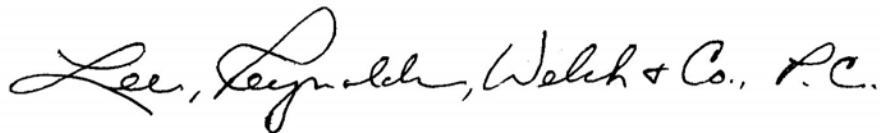
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and the schedule of expenditures of State of Texas awards are presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular, and are also not a required part of the basic financial statements.

The supplementary schedules, the schedule of expenditures of federal awards and the schedule of expenditures of State of Texas awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 basic financial

statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules, the schedule of expenditures of federal awards and the schedule of expenditures of State of Texas awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Big Spring, Texas
January 20, 2015

Howard County Junior College District
Management's Discussion and Analysis
August 31, 2014 and 2013

As management of the Howard County Junior College District, we offer this narrative overview and analysis of the college district's financial activities for the fiscal years ended August 31, 2014 and 2013. Since this management's discussion and analysis focuses on current activities, resulting changes, and currently known facts, we encourage readers to consider it in conjunction with the college district's financial statements and related notes.

Financial Highlights

FYE 2014

The college district's financial position, as a whole, improved during the fiscal years ended August 31, 2014 and 2013. Net position increased by \$2.4 million and \$2.3 million in 2014 and 2013, respectively.

The assets of the college district exceeded its liabilities (net position) by \$42.7 million and \$40.3 million, as of August 31, 2014 and 2013, respectively. Approximately \$9.6 million of the net position as of August 31, 2014 was available for spending at the college district's discretion (unrestricted net position). In comparison, as of August 31, 2013, \$9.5 million was classified as unrestricted net position.

FYE 2013

The college district's financial position, as a whole, improved during the fiscal years ended August 31, 2013 and 2012. Net position increased by \$2.3 million and \$2.7 million in 2013 and 2012, respectively.

The assets of the college district exceeded its liabilities (net position) by \$40.3 million and \$38.0 million, as of August 31, 2013 and 2012, respectively. Approximately \$9.5 million of the net position as of August 31, 2013 was available for spending at the college district's discretion (unrestricted net position). In comparison, as of August 31, 2012, \$8.9 million was classified as unrestricted net position.

Brief Overview of the Financial Statements

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

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

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

The Statements of Cash Flows present the operating cash inflows and outflows resulting in net cash flows from operations. These statements are prepared using the direct method as prescribed by the Governmental Accounting Standards Board (GASB) Statement 34.

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

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

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

Financial Analysis

Net Position

FYE 2014

The schedule below was prepared from the Statements of Net Position. Total net position, which is the difference in total assets and total liabilities, at August 31, 2014 and 2013, was \$42.7 million and \$40.3 million, respectively. This represents an overall increase of 5.86% from the prior fiscal year. The majority of the increase was in the category of invested in capital assets, net of related debt, due to the various improvement and construction projects that continued to take place throughout the college district. Refer to the Capital Assets section for further details.

The college's unrestricted net position increased \$80 thousand for the fiscal year ended August 31, 2014. The increase in the unrestricted net position was not as much as in the past in part due to planned spending of reserves towards the two new buildings at the San Angelo site and the furniture and equipment for these buildings. Even with these additional planned expenditures of approximately \$319 thousand, the district was able to increase its unrestricted net position through conservative spending. The conservative spending was also in response to continued reduced state funding and a reduction in tuition and fees revenue as a result of a slight decline in enrollment due to the improved economy in the state and locally. Refer to the next section on Revenues, Expenses, and Changes in Net Position for further details.

FYE 2013

The schedule below was prepared from the Statements of Net Position. Total net position, which is the difference in total assets and total liabilities, at August 31, 2013 and 2012, was \$40.3 million and \$38.0 million, respectively. This represents an overall increase of 5.91% from the prior fiscal year. The majority of the increase was in in the category of invested in capital assets, net of related debt,

due to the various improvement and construction projects that continued to take place throughout the college district. Refer to the Capital Assets section for further details.

The college's unrestricted net position increased \$617 thousand for the fiscal year ended August 31, 2013. The increase was accomplished through conservative spending in response to continued reduced state funding for operations. Refer to the next section on Revenues, Expenses, and Changes in Net Position for further details.

STATEMENTS OF NET POSITION

ASSETS	2014	2013 (as restated)	2012 (as restated)
Total current assets	\$ 18,454,080	\$ 17,287,128	\$ 17,341,035
Restricted cash equivalents	3,257,507	10,500,949	-
Total capital assets, net	58,244,277	48,736,918	47,401,847
Total Assets	<u>79,955,864</u>	<u>76,524,995</u>	<u>64,742,882</u>
LIABILITIES			
Total current liabilities	8,210,398	5,697,393	5,687,406
Total noncurrent liabilities	29,081,533	30,527,058	21,005,550
Total Liabilities	<u>37,291,931</u>	<u>36,224,451</u>	<u>26,692,956</u>
NET POSITION			
Invested in capital assets, net of related debt	28,888,094	27,726,115	25,452,818
Restricted			
Nonexpendable	1,217,702	1,217,695	1,217,687
Expendable	2,987,519	1,865,747	2,505,904
Unrestricted	9,570,618	9,490,987	8,873,517
TOTAL NET POSITION	<u>\$ 42,663,933</u>	<u>\$ 40,300,544</u>	<u>\$ 38,049,926</u>

Revenues, Expenses, and Changes in Net Position

FYE 2014

The change in net position is the result of operating and non-operating activities combined during the fiscal year. The college's net position increased \$2.4 million (5.86%) and \$2.3 million (5.91%) for the fiscal years ended August 31, 2014 and 2013, respectively.

Total operating revenues increased \$343 thousand (3.28%) overall from the prior fiscal year, mainly due to the factors as outlined below:

- Nongovernmental grants and contracts increased approx. \$759 thousand (91.8%) mainly due to private donations for the equipment and furniture for the two new buildings in San Angelo, as well as a donation for program improvements of an instructional program.
- Federal grants and contracts decreased by \$553 thousand (16.29%) mainly due to the reduction in the Title V grants.

Operating expenses decreased \$684 thousand (2.08%) overall from the prior fiscal year. Per Schedule B, notable decreases included \$305 thousand in the restricted academic support as a result of the decrease in the Title V grants as noted in the operating revenues section and \$664 thousand in restricted scholarships as well as slight changes in all other areas. The notable decrease in unrestricted institutional support of \$1.1 million was offset by changes in the other unrestricted cost categories. The district continues to be very dedicated to controlling expenditures in all areas.

Net non-operating revenues decreased \$672 thousand, mostly in the category of federal financial aid programs due to the slight decrease in enrollment. However, as a result of the upswing in the local economy as noted above, there was an 11.59% increase in Maintenance and Operations tax revenue.

FYE 2013

The change in net position is the result of operating and non-operating activities combined during the fiscal year. The college's net position increased \$2.3 million (5.91%) and \$2.7 million (7.66%) for the fiscal years ended August 31, 2013 and 2012, respectively.

Total operating revenues increased \$381 thousand (3.77%) overall from the prior fiscal year, mainly due to the factor as outlined below:

- Federal grants and contracts increased \$537 thousand (18.79%) mainly due to continued Title V grants.

Operating expenses decreased \$623 thousand (1.86%) overall from the prior fiscal year. Per Schedule B, notable decreases were \$641 thousand in the public service category and \$782 thousand in restricted scholarships as well as slight changes in all other areas. However, there was an increase of \$657 thousand in restricted academic support mainly due to the Title V grants. The district continues to be very dedicated to controlling expenditures in all areas.

Net non-operating revenues decreased \$1.4 million mainly due to the continued decrease in state funding and a reduction in federal financial aid programs.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2014	2013 (as restated)	2012 (as restated)
REVENUES			
Operating revenues			
Tuition & fees (net of discounts)	\$ 4,180,218	\$ 4,183,889	\$ 4,163,082
Federal grants and contracts	2,841,448	3,394,294	2,857,420
State grants and contracts	990,745	755,728	756,890
Local grants and contracts	11,479	15,640	6,209
Nongovernmental grants and contracts	1,586,823	827,336	786,240
Sales and services of educational activities	399,371	321,156	349,216
Auxiliary enterprises (net of discounts)	297,683	390,461	366,615
Other operating revenues	509,022	585,193	807,062
Total operating revenues	<u>10,816,789</u>	<u>10,473,697</u>	<u>10,092,734</u>
EXPENSES			
Operating expenses			
Instruction	10,675,989	10,348,744	10,208,494
Public service	1,296,592	847,318	1,488,395
Academic support	2,902,692	3,042,472	2,434,859

Student services	2,139,733	2,162,027	2,303,594
Institutional support	5,346,324	6,667,071	6,505,326
Operation and maintenance of plant	3,543,242	2,934,716	3,090,782
Scholarships and fellowships	2,691,540	3,371,558	4,153,859
Auxiliary enterprises	1,805,103	1,770,572	1,588,690
Depreciation	1,832,120	1,772,697	1,765,896
Total operating expenses	<u>32,233,335</u>	<u>32,917,175</u>	<u>33,539,895</u>
Operating loss	(21,416,546)	(22,443,478)	(23,447,161)
NON-OPERATING REVENUES (EXPENSES)			
State appropriations	11,498,988	11,508,679	12,326,329
Property taxes for operations	5,118,233	4,586,829	4,258,586
Property taxes for debt service	1,791,602	1,718,328	1,773,050
Payments in lieu of taxes	145,192	141,651	138,196
Federal revenue, non-operating	5,037,332	6,277,122	7,145,347
Investment income (net of investment expenses)	38,785	39,105	33,473
Interest on capital related debt	(935,326)	(973,556)	(1,005,535)
Gain (Loss) on disposal of fixed assets	(150,215)	-	4,109
Other non-operating revenues	405,935	324,572	388,333
	<u>22,950,526</u>	<u>23,622,730</u>	<u>25,061,888</u>
Income before other revenue	1,533,980	1,179,252	1,614,727
Other revenue			
Capital contributions	<u>829,409</u>	<u>1,071,366</u>	<u>1,092,469</u>
Increase in net position	<u>2,363,389</u>	<u>2,250,618</u>	<u>2,707,196</u>
Net Position – beginning of year, as previously reported	<u>40,300,544</u>	<u>38,049,926</u>	<u>35,601,284</u>
Adjustment for change in accounting principle	<u>-</u>	<u>-</u>	<u>(258,554)</u>
Net Position – beginning of year, as adjusted	<u>40,300,544</u>	<u>38,049,926</u>	<u>35,342,730</u>
Net Position – end of year	<u>\$ 42,663,933</u>	<u>\$ 40,300,544</u>	<u>\$ 38,049,926</u>

Cash Flows

FYE 2014

In addition to the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, presented below, are another way to assess the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments by the college district during the fiscal year. There was a decrease in cash and cash equivalents of \$6 million for the year ended August 31, 2014. Most of this decrease was attributable to the construction of the two new buildings at the San Angelo site mentioned earlier.

FYE 2013

In addition to the Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flows, presented below, are another way to assess the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments by the college district during the fiscal year. There was an increase in cash and cash equivalents of \$10.3 million for the year ended August 31, 2013. The increase was attributable mainly to the proceeds from debt issued by the college to finance construction projects at the San Angelo site.

STATEMENTS OF CASH FLOWS

Cash Provided (Used) by:	2013		
	2014	(as restated)	2012
Operating activities	\$ (17,675,324)	\$ (19,938,635)	\$ (21,366,987)
Noncapital financing activities	20,563,475	21,498,254	23,044,804
Capital and related financing activities	(8,904,721)	8,720,225	(1,830,026)
Investing activities	38,785	39,105	33,473
Net increase (decrease) in cash and cash equivalents	(5,977,785)	10,318,949	(118,736)
Cash and cash equivalents Sept 1	24,280,450	13,961,501	14,080,237
Cash and cash equivalents Aug 31	\$ 18,302,665	\$ 24,280,450	\$ 13,961,501

Overall Financial Position

FYE 2014

As reflected in the schedules and narrative, the college's financial position improved during the fiscal year ended August 31, 2014. A brief explanation for the significant changes is discussed in other sections of the Financial Analysis. Considering the fact that the cost of goods and services and the cost of delivering college programs continue to rise, the college's continued commitment to control expenditures has helped to maintain the stability of the college's financial position.

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

FYE 2013

As reflected in the schedules and narrative, the college's financial position improved during the fiscal year ended August 31, 2013. Even though state appropriations, which includes base funding and employee benefits, decreased \$818 thousand (6.63%), the district's overall net position increased by approximately \$2.3 million with \$617 thousand of the total increase in unrestricted net position. A brief explanation for the significant changes is discussed in other sections of the Financial Analysis. Considering the fact that the cost of goods and services and the cost of delivering

college programs continue to rise, the college's continued commitment to control expenditures has helped to maintain the stability of the college's financial position.

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

Capital Assets

FYE 2014

As of August 31, 2014 and 2013, the college district had invested \$79.9 million and \$68.9 million, respectively, in capital assets. Net of accumulated depreciation, the college district's net capital assets at August 31, 2014 totaled \$58.2 million and totaled \$48.7 million at August 31, 2013. The approximate \$9.5 million increase in net capital assets was mainly due to the continuation and near completion of the expansion and construction projects at the San Angelo site. The total construction commitment totals approximately \$11.7 million.

FYE 2013

As of August 31, 2013 and 2012, the college district had invested \$68.9 million and \$66.1 million, respectively, in capital assets. Net of accumulated depreciation, the college district's net capital assets at August 31, 2013 totaled \$48.7 million and totaled \$47.4 million at August 31, 2012. The approximate \$1.3 million increase in net capital assets was mainly due to the following:

- The completion of the last two phases of the agriculture complex which was funded by a local private foundation.
- The continuation of the expansion and construction projects at the San Angelo site. The total construction commitment totals approximately \$11.7 million.

Debt Administration

FYE 2014

The college district's long-term debt was comprised of capital lease agreements, notes payable, the general obligation bond issued August 2007, a consolidated revenue bond issued November 2009, and a \$10.6 million consolidated revenue bond issued June 2013. The current portion was \$1,412,135 and the non-current portion was \$29,081,533 for a total of \$30,493,668 at August 31, 2014. The college entered into operating lease agreements beginning September 1, 2008 for two facilities in San Angelo with the lease with Shannon Medical Center being amended twice for additional space effective July 2009 and July 2011. The college also entered into operating leases beginning September 2009, September 2010, and October 2010 for copiers with various terms under long-term, non-cancelable agreements. See Notes 6, 7, 8, 9, 10 and 11 to the financial statements for detailed information.

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

FYE 2013

The college district’s long-term debt was comprised of capital lease agreements, notes payable, the general obligation bond issued August 2007, a consolidated revenue bond issued November 2009, and a \$10.6 million consolidated revenue bond issued June 2013. The current portion was \$1,037,516 and the non-current portion was \$30,527,058 for a total of \$31,564,574 at August 31, 2013. The college entered into operating lease agreements beginning September 1, 2008 for two facilities in San Angelo with the lease with Shannon Medical Center being amended twice for additional space effective July 2009 and July 2011. The college also entered into operating leases beginning September 2009, September 2010, and October 2010 for copiers with various terms under long-term, non-cancelable agreements. See Notes 6, 7, 8, 9, 10 and 11 to the financial statements for detailed information.

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

Currently Known Facts, Decisions, or Conditions

In 2000, the Texas Higher Education Coordinating Board (THECB) adopted *Closing the Gaps by 2015*. This initiative seeks to increase enrollment in Texas’ higher education institutions by 500,000 students by 2015. The following information has been reported for Howard College to the THECB:

<u>Category</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Unduplicated Credit Enrollment	5,461	5,894	6,207	6,494	5,761	5,073	4,457	4,457
Associate Degrees & Certificates	736	788	775	645	629	443	420	455
Targeted Technical Degrees & Certificates	72	66	55	55	49	24	37	36
Allied Health/Nursing Degrees & Certificates	121	141	135	146	139	129	118	115

As illustrated by the table above, the college has generally experienced an increase in credit enrollment and in total degrees and certificates awarded. This upward trend reflects the college’s commitment and efforts in meeting the Closing the Gaps initiative and will have a positive impact on the college in the future.

As noted previously, the college district experienced a slight decrease in enrollment in fiscal year 2014 mainly as a result of the improved economy in the state and locally which is a common effect on enrollment for community colleges. Individuals are able to obtain good jobs with lucrative pay thus do not feel the need or desire to further their formal education or enhance their job skills. However, some of the reduction in tuition and fees revenue was offset partly by increased Maintenance and Operations tax revenue as a result of the improved economy and possibly by several new workforce training programs in response to requests by employers within the district.

Effective with the 2014/15 biennium, the state modified the funding methodology for community colleges from strictly contact hour funding to a three part model including base funding, contact hour funding and student success points. This change, combined with prior reductions in state funding, further reduced funding dollars for the college district for the current biennium; however, the state continues to analyze and review the new funding methodology which could have an impact on funding in the future.

Contacting the District's Financial Management

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

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

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Howard County Junior College District
STATEMENTS OF NET POSITION

Exhibit 1
August 31,

	2014	2013 (as restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 15,045,158	\$ 13,779,501
Accounts receivable, net	2,689,968	2,750,418
Prepaid expenses	708,254	740,134
Inventories for resale	10,700	17,075
Total current assets	18,454,080	17,287,128
Noncurrent Assets		
Restricted cash equivalents	3,257,507	10,500,949
Capital assets, net of accumulated depreciation	58,244,277	48,736,918
Total noncurrent assets	61,501,784	59,237,867
TOTAL ASSETS	79,955,864	76,524,995
LIABILITIES		
Current liabilities		
Accounts payable	3,578,284	1,635,046
Accrued liabilities	1,663,983	1,556,654
Deposits payable	38,502	42,469
Unearned revenue	1,291,149	1,209,395
Accrued compensable absences	226,345	216,313
Bonds and notes payable – current portion	1,399,392	1,025,481
Capital lease agreements – current portion	12,743	12,035
Total current liabilities	8,210,398	5,697,393
Noncurrent liabilities		
Bonds and notes payable, noncurrent portion	29,061,175	30,493,958
Capital lease agreements, noncurrent portion	20,358	33,100
Total noncurrent liabilities	29,081,533	30,527,058
TOTAL LIABILITIES	37,291,931	36,224,451
NET POSITION		
Net investment in capital assets	28,888,094	27,726,115
Restricted for:		
Nonexpendable		
Student aid	1,217,702	1,217,695
Expendable		
Student aid	551,350	578,183
Instructional programs	667,219	100,254
Capital projects	2,502	118,670
Debt service	1,491,323	956,320
Other	275,125	112,320
Unrestricted	9,570,618	9,490,987
TOTAL NET POSITION (Schedule D)	\$ 42,663,933	\$ 40,300,544

The accompanying notes are an integral part of these statements.

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

	2014	2013 (as restated)
REVENUES		
Operating revenues		
Tuition and fees (net of discounts of \$4,514,307 and \$5,001,087)	\$ 4,180,218	\$ 4,183,889
Federal grants and contracts	2,841,448	3,394,294
State grants and contracts	990,745	755,728
Local grants and contracts	11,479	15,640
Nongovernmental grants and contracts	1,586,823	827,336
Sales and services of educational activities	399,371	321,156
Auxiliary enterprises (net of discounts of \$1,359,856 and \$1,171,850)	297,683	390,461
Other operating revenues	509,022	585,193
Total operating revenues (Schedule A)	10,816,789	10,473,697
EXPENSES		
Operating expenses		
Instruction	10,675,989	9,872,741
Public service	1,296,592	1,323,321
Academic support	2,902,692	3,042,472
Student services	2,139,733	2,162,027
Institutional support	5,346,324	6,667,071
Operation and maintenance of plant	3,543,242	2,934,716
Scholarships and fellowships	2,691,540	3,371,558
Auxiliary enterprises	1,805,103	1,770,572
Depreciation	1,832,120	1,772,697
Total operating expenses (Schedule B)	32,233,335	32,917,175
Operating loss	(21,416,546)	(22,443,478)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	11,498,988	11,508,679
Property taxes for operations	5,118,233	4,586,829
Property taxes for debt service	1,791,602	1,718,328
Payments in lieu of taxes	145,192	141,651
Federal revenue, non operating	5,037,332	6,277,122
Investment income (net of investment expenses)	38,785	39,105
Interest on capital related debt	(935,326)	(973,556)
Loss on disposal of fixed assets	(150,215)	-
Other non-operating revenues	405,935	324,572
Net non-operating revenues (Schedule C)	22,950,526	23,622,730
Income before other revenue	1,533,980	1,179,252
Other revenue		
Capital contributions	829,409	1,071,366
Increase in net position	2,363,389	2,250,618
Net position – beginning of year, as previously reported	40,300,544	38,293,024
Adjustment for change in accounting principle	-	(243,098)
Net position – beginning of year, as adjusted	40,300,544	38,049,926
Net position – end of year	\$ 42,663,933	\$ 40,300,544

The accompanying notes are an integral part of these statements.

Howard County Junior College District
STATEMENTS OF CASH FLOWS
Exhibit 3
Year ended August 31,

	2014	2013 (as restated)
Cash flows from operating activities		
Receipts from students and other customers	\$ 4,776,674	\$ 4,599,140
Receipts of grants and contracts	5,632,936	4,829,555
Other receipts	914,957	1,009,765
Payments to or on behalf of employees	(18,199,875)	(18,503,657)
Payments to suppliers for goods and services	(8,108,476)	(8,544,652)
Payments of scholarships	(2,691,540)	(3,328,786)
Net cash used by operating activities	(17,675,324)	(19,938,635)
Cash flows from noncapital financing activities		
Property tax receipts and payments in lieu of taxes	5,246,077	4,726,235
Receipts of state appropriations	10,235,613	10,553,766
Receipts of non-operating federal revenue	5,081,785	6,218,253
Net cash provided by noncapital financing activities	20,563,475	21,498,254
Cash flows from capital and related financing activities		
Property tax receipts	1,784,960	1,718,588
Capital contracts, grants, and gifts	829,409	1,071,366
Proceeds on issuance of capital debt	-	10,500,000
Payments from accounts payable related to fixed asset additions	(496,202)	-
Purchases of capital assets	(8,738,617)	(2,555,533)
Payments on capital debt and leases	(1,037,524)	(998,370)
Interest payments on capital debt and leases	(1,246,747)	(1,015,826)
Net cash provided by (used by) capital and related financing activities	(8,904,721)	8,720,225
Cash flows from investing activities		
Investment earnings	38,785	39,105
Increase (decrease) in cash and cash equivalents	(5,977,785)	10,318,949
Cash and cash equivalents – September 1	24,280,450	13,961,501
Cash and cash equivalents – August 31	\$ 18,302,665	\$ 24,280,450
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (21,416,546)	\$ (22,443,478)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	1,832,120	1,772,697
Other revenue	405,935	424,572
Payments made directly by state for benefits	1,263,375	954,913
Changes in assets and liabilities:		
Receivables, net	39,987	(159,771)
Inventories	6,375	8,665
Other assets	28,336	80,322
Accounts payable	73,995	(310,313)
Accrued liabilities	3,280	35,714
Unearned revenue	81,754	(326,849)
Deposits payable	(3,967)	(2,145)
Accrued compensable absences	10,032	27,038
Net cash used by operating activities	\$ (17,675,324)	\$ (19,938,635)
Noncash investing, capital, and financing activities:		
Acquisition of capital assets through accounts payable	\$ 2,365,445	\$ 496,202
Acquisition of capital assets through capitalized interest	385,632	56,033
Amortization of prepaid bond insurance and bond premium	29,838	37,483
Net effect of noncash transactions	\$ 2,780,915	\$ 589,718

The accompanying notes are an integral part of these statements.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 1 – REPORTING ENTITY

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting guidelines*

The significant accounting policies followed by Howard County Junior College District in preparing these financial statements are in accordance with the Texas Higher Education Coordinating Board's *Annual Financial Reporting Requirements for Texas Public Community Colleges*. The District applies all applicable GASB pronouncements. The District is reported as a special-purpose government engaged in business-type activities.

B. *Tuition discounting*

Texas Public Education Grants

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

Title IV, Higher Education Act Program Funds

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

Other tuition discounts

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

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. *Basis of accounting*

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

D. *Budgetary data*

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

E. *Cash and cash equivalents*

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

F. *Investments*

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. The governing board has designated public funds investment pools comprised of \$517,964 and \$517,787 as of August 31, 2014 and 2013, respectively, to be cash equivalents.

G. *Inventories*

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

H. *Restricted cash equivalents*

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

I. *Capital assets*

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

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. *Capital assets - Continued*

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

J. *Capitalization of interest costs on borrowings*

The District capitalizes interest costs on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the years ended August 31, 2014 and 2013, the District capitalized \$385,632 and \$56,033 of interest, respectively, in connection with various capital expansion projects. The total amount of interest cost incurred for the year ended August 31, 2014 and 2013 was \$1,320,958 and \$1,029,589, respectively.

K. *Unearned revenue*

Tuition and fees of \$986,916 and \$940,397, federal grants of \$87,197 and \$47,774, state grants of \$114,605 and \$53,474, local grants of \$6,698 and \$0, and private grants of \$95,733 and \$167,750 have been reported as unearned revenue at August 31, 2014 and 2013, respectively.

L. *Estimates*

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

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

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

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

N. *Reclassifications*

Certain financial information as of and for the year ended August 31, 2013 has been reclassified to conform with the presentation for the current year.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

O. *Prior year restatement*

During the year ended August 31, 2014, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows and deferred inflows of resources, such as limiting the use of the term “deferred” in the financial statement presentations. The adoption of GASB 65 resulted in changes to the 2013 financial information from what was previously reported. These changes resulted from the requirement in GASB 65 that debt issuance costs be recognized as an expense in the period incurred.

	As previously reported	Adjustment	As restated
Statement of Net Position			
Prepaid expenses	\$ 1,067,365	\$ (327,231)	\$ 740,134
Statement of Revenues, Expenses, and Changes in Net Position			
Net position as of September 1, 2012	38,293,024	(243,098)	38,049,926
Interest on capital related debt	(989,423)	15,867	(973,556)
Other non-operating revenues	424,572	(100,000)	324,572

NOTE 3 – AUTHORIZED INVESTMENTS

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) local government investment pools continuously rated no lower than AAA or AAAM or equivalent by a nationally recognized rating service, (4) certificates of deposit and (5) other instruments and obligations authorized by statute and approved by Board policy.

NOTE 4 – DEPOSITS AND INVESTMENTS

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

	2014	2013
Bank Deposits		
Demand deposits	\$ 17,778,041	\$ 23,756,003
Cash on hand	6,660	6,660
Total Cash and Deposits	\$ 17,784,701	\$ 23,762,663

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2014 and 2013

NOTE 4 – DEPOSITS AND INVESTMENTS - Continued

Reconciliation of deposits and investments to Exhibit 1, as of August 31,

<u>Total deposits and investments:</u>	<u>2014</u>	<u>2013</u>
Per Exhibit 1:		
Cash and cash equivalents	\$ 15,045,158	\$ 13,779,501
Restricted cash equivalents	<u>3,257,507</u>	<u>10,500,949</u>
Total deposits and investments	<u>\$ 18,302,665</u>	<u>\$ 24,280,450</u>
Per Note 4:		
Deposits and cash on hand	\$ 17,784,701	\$ 23,762,663
Investments	<u>517,964</u>	<u>517,787</u>
Total	<u>\$ 18,302,665</u>	<u>\$ 24,280,450</u>

As of August 31, 2014, the District had the following investments and maturities:

		Investment Maturities (in Years)
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>
Investment Pool	\$ <u>517,964</u>	\$ <u>517,964</u>

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

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

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

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2014 was as follows:

	<u>Balance September 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2014</u>
Not depreciated:				
Land	\$ 371,871	\$ -	\$ -	\$ 371,871
Construction in process	<u>1,389,919</u>	<u>10,833,951</u>	<u>(6,393,585)</u>	<u>5,830,285</u>
Subtotal	<u>1,761,790</u>	<u>10,833,951</u>	<u>(6,393,585)</u>	<u>6,202,156</u>
Buildings and other capital assets				
Buildings and building improvements	48,685,918	163,029	-	48,848,947
Leasehold improvements	3,175,429	5,988,899	(175,000)	8,989,328
Other real estate improvements	<u>8,126,788</u>	<u>417,008</u>	<u>-</u>	<u>8,543,796</u>
Total buildings and other real estate improvements	59,988,135	6,568,936	(175,000)	66,382,071

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 5 – CAPITAL ASSETS – Continued

	Balance September 1, 2013	Increases	Decreases	Balance August 31, 2014
Library books	877,365	25,653	(14,242)	888,776
Furniture, machinery, and equipment	<u>6,273,368</u>	<u>454,739</u>	<u>(331,428)</u>	<u>6,396,679</u>
Total buildings and other capital assets	<u>67,138,868</u>	<u>7,049,328</u>	<u>(520,670)</u>	<u>73,667,526</u>
Accumulated depreciation				
Buildings and building improvements	(12,821,202)	(871,110)	-	(13,692,312)
Leasehold improvements	(828,498)	(210,714)	31,500	(1,007,712)
Other real estate improvements	<u>(1,522,860)</u>	<u>(343,072)</u>	-	<u>(1,865,932)</u>
Total buildings and other real estate improvements	(15,172,560)	(1,424,896)	31,500	(16,565,956)
Library books	(721,377)	(19,939)	14,107	(727,209)
Furniture, machinery, and equipment	<u>(4,269,803)</u>	<u>(387,285)</u>	<u>324,848</u>	<u>(4,332,240)</u>
Total buildings and other capital assets	<u>(20,163,740)</u>	<u>(1,832,120)</u>	<u>370,455</u>	<u>(21,625,405)</u>
Net capital assets	<u>\$ 48,736,918</u>	<u>\$ 16,051,159</u>	<u>\$ (6,543,800)</u>	<u>\$ 58,244,277</u>

Capital assets activity for the year ended August 31, 2013 was as follows:

	Balance September 1, 2012	Increases	Decreases	Balance August 31, 2013
Not depreciated:				
Land	\$ 371,871	\$ -	\$ -	\$ 371,871
Construction in process	<u>1,138,814</u>	<u>2,654,666</u>	<u>(2,403,561)</u>	<u>1,389,919</u>
Subtotal	<u>1,510,685</u>	<u>2,654,666</u>	<u>(2,403,561)</u>	<u>1,761,790</u>
Buildings and other capital assets				
Buildings and building improvements	46,188,778	2,497,140	-	48,685,918
Leasehold improvements	3,147,169	28,260	-	3,175,429
Other real estate improvements	<u>8,115,808</u>	<u>10,980</u>	-	<u>8,126,788</u>
Total buildings and other real estate improvements	57,451,755	2,536,380	-	59,988,135
Library books	861,478	16,963	(1,076)	877,365
Furniture, machinery, and equipment	<u>6,246,051</u>	<u>303,320</u>	<u>(276,003)</u>	<u>6,273,368</u>
Total buildings and other capital assets	<u>64,559,284</u>	<u>2,856,663</u>	<u>(277,079)</u>	<u>67,138,868</u>

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 5 – CAPITAL ASSETS – Continued

	Balance September 1, 2012	Increases	Decreases	Balance August 31, 2013
Accumulated depreciation				
Buildings and building improvements	(12,003,169)	(818,033)	-	(12,821,202)
Leasehold improvements	(619,056)	(209,442)	-	(828,498)
Other real estate improvements	<u>(1,180,337)</u>	<u>(342,523)</u>	<u>-</u>	<u>(1,522,860)</u>
Total buildings and other real estate improvements	(13,802,562)	(1,369,998)	-	(15,172,560)
Library books	(702,931)	(19,522)	1,076	(721,377)
Furniture, machinery, and equipment	<u>(4,162,629)</u>	<u>(383,177)</u>	<u>276,003</u>	<u>(4,269,803)</u>
Total buildings and other capital assets	<u>(18,668,122)</u>	<u>(1,772,697)</u>	<u>277,079</u>	<u>(20,163,740)</u>
Net capital assets	<u>\$ 47,401,847</u>	<u>\$ 3,738,632</u>	<u>\$ (2,403,561)</u>	<u>\$ 48,736,918</u>

NOTE 6 – NON-CURRENT LIABILITIES

Non-current liability activity for the year ended August 31, 2014 was as follows:

	Balance September 1, 2013	Additions	Reductions	Balance August 31, 2014	Current Portion
Leases, bonds and notes					
Leases	\$ 45,135	\$ -	\$ (12,034)	\$ 33,101	\$ 12,743
Bonds	31,290,000	-	(955,000)	30,335,000	1,365,000
Unamortized bond premium	69,134	-	(33,382)	35,752	-
Notes payable	<u>160,305</u>	<u>-</u>	<u>(70,490)</u>	<u>89,815</u>	<u>34,392</u>
Total long-term liabilities	<u>\$ 31,564,574</u>	<u>\$ -</u>	<u>\$ (1,070,906)</u>	<u>\$ 30,493,668</u>	<u>\$ 1,412,135</u>

Non-current liability activity for the year ended August 31, 2013 was as follows:

	Balance September 1, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
Leases, bonds and notes					
Leases	\$ 61,682	\$ -	\$ (16,547)	\$ 45,135	\$ 12,035
Bonds	21,605,000	10,600,000	(915,000)	31,290,000	955,000
Unamortized bond premium	110,162	-	(41,028)	69,134	-
Notes payable	<u>227,128</u>	<u>-</u>	<u>(66,823)</u>	<u>160,305</u>	<u>70,481</u>
Total long-term liabilities	<u>\$ 22,003,972</u>	<u>\$ 10,600,000</u>	<u>\$ (1,039,398)</u>	<u>\$ 31,564,574</u>	<u>\$ 1,037,516</u>

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2014 and 2013

NOTE 7 – DEBT AND LEASE OBLIGATIONS

Debt service requirements at August 31, 2014, were as follows:

For the year ending <u>August 31,</u>	<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,365,000	\$ 1,307,037
2016	1,425,000	1,247,987
2017	1,480,000	1,185,112
2018	1,545,000	1,121,355
2019	1,610,000	1,055,164
2020-2024	9,230,000	4,105,583
2025-2029	9,975,000	1,736,197
2030-2034	<u>3,705,000</u>	<u>337,638</u>
	<u>\$ 30,335,000</u>	<u>\$ 12,096,073</u>

Obligations under capital leases at August 31, 2014, were as follows:

For the year ending <u>August 31,</u>	
2015	\$ 15,636
2016	15,636
2017	<u>6,368</u>
	37,640
Less interest portion	<u>4,539</u>
Present value of net minimum lease payments	33,101
Less current portion	<u>12,743</u>
Noncurrent portion	<u>\$ 20,358</u>

NOTE 8 – BONDS PAYABLE

General information related to bonds payable is summarized below:

- Consolidated Fund Revenue Bonds, Series 2013.
 - Construction and equipment for two college buildings and related infrastructure.
 - Issued June 1, 2013.
 - \$10,600,000: \$9,790,000 “Tax-Exempt Bonds” and \$810,000 “Taxable Bonds”; all authorized bonds have been issued.
 - Source of revenue for debt service – tuition pledge, building use fees, student service fees, lab fees, other fees, gross revenue of Auxiliary Services, and investment earnings on all investments.
 - \$10,600,000 outstanding as of August 31, 2014 and 2013.

The range of installment payments on an annual basis is from \$365,000 to \$740,000 with an interest rate of 3.75%, with the final installment due October 1, 2033.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2014 and 2013

NOTE 8 – BONDS PAYABLE – Continued

- Consolidated Fund Revenue Bonds, Series 2009.
 - Renovations, remodel and construction of student housing facilities.
 - Issued November 1, 2009.
 - \$3,570,000; all authorized bonds have been issued.
 - Source of revenue for debt service – tuition pledge, building use fees, student service fees, lab fees, gross revenue of Auxiliary Services, other fees, and investment earnings on all investments.
 - \$3,195,000 and \$3,325,000 outstanding as of August 31, 2014 and 2013, respectively.

The range of installment payments on an annual basis is from \$140,000 to \$275,000 with an interest rate of 4.60%, with the final installment due October 1, 2029.

- General Obligation Bonds, Series 2007.
 - Renovation, construction, and equipment of college buildings.
 - Issued August 28, 2007.
 - \$21,550,000; all authorized bonds have been issued.
 - Source of revenue for debt service – continuing direct annual ad valorem tax levied by the District on all taxable property therein.
 - \$16,540,000 and \$17,365,000 outstanding as of August 31, 2014 and 2013, respectively.

The range of installment payments on an annual basis is from \$860,000 to \$1,595,000 with interest rates from 4.25% to 5.00%, with the final installment due February 15, 2028.

NOTE 9 – CAPITAL LEASE AGREEMENTS

Certain leases to finance the purchase of equipment are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such equipment under capital leases as of August 31, 2014 and 2013, is \$60,527 and \$84,296, respectively, and accumulated amortization on those assets is \$31,387 and \$42,654, respectively, as of August 31, 2014 and 2013. Amortization expense on assets recorded under capital leases is included with depreciation expense.

NOTE 10 – OPERATING LEASE AGREEMENTS

The District entered into a lease beginning September 1, 2008 for a facility under a long-term, non-cancelable operating lease agreement. The lease expires in 2018 and provides for a five-year renewal option. The District also entered into leases beginning in September 2009 for copiers under various terms under long-term, non-cancelable operating lease agreements. The leases expired in 2014. Lease expenses under these leases were \$171,255 and \$207,217 for the years ended August 31, 2014 and 2013, respectively.

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

For the year ending		
<u>August 31,</u>		
2015	\$	166,370
2016		166,370
2017		166,370
2018		<u>166,370</u>
	\$	<u><u>665,480</u></u>

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2014 and 2013

NOTE 11 – NOTES PAYABLE

The District has notes payable consisting of the following at August 31, 2014:

5.00% note payable, payable in semi-annual installments of \$8,013, maturing December 2016, collateralized by the District’s bank deposits	\$ 37,259
5.50% note payable, payable in quarterly installments of \$5,648, maturing February 2017, collateralized by trailers	<u>52,556</u>
	89,815
Less current maturities	<u>34,392</u>
	<u>\$ 55,423</u>

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

<u>Year ending August 31,</u>	
2015	\$ 34,392
2016	36,264
2017	<u>19,159</u>
	<u>\$ 89,815</u>

NOTE 12 – ENDOWMENTS

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

At August 31, 2014, net appreciation on investment of donor-restricted endowments available for authorization for expenditure was \$3,055, of which \$3,048 was restricted for student aid, instruction, and athletics.

At August 31, 2013, net appreciation on investment of donor-restricted endowments available for authorization for expenditure was \$3,062, of which \$3,055 was restricted for student aid, instruction, and athletics.

NOTE 13 – RETIREMENT PLAN

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

Teacher Retirement System of Texas – Defined Benefit Plan

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

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 13 – RETIREMENT PLAN - Continued

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The State funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4 percent for fiscal years 2014 and 2013. State law provides for a state contribution rate of 6.8 percent for fiscal year 2014 and 6.4 percent for fiscal year 2013. In certain instances the reporting district is required to make all or a portion of the state's contribution for fiscal years 2014 and 2013. Senate Bill (S.B.) 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

Optional Retirement Plan – Defined Contribution Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.6 percent and 6.65 percent, respectively. The District contributes 0.71 percent for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. S.B.1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense to the State for the District was \$361,687 and \$669,176 for the fiscal years ended August 31, 2014 and 2013, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the District.

The total payroll for all District employees was \$14,583,222 and \$14,610,799 for the fiscal years ended August 31, 2014 and 2013, respectively. The total payroll of employees covered by the Teacher Retirement System was \$7,968,685 and \$8,135,245, and the total payroll of employees covered by the Optional Retirement System was \$4,822,377 and \$5,031,040 for the fiscal years ended August 31, 2014 and 2013, respectively.

NOTE 14 – DEFERRED COMPENSATION PROGRAM

District employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants. The District had no employees participating in the program during the years ended August 31, 2014 and 2013.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 15 – COMPENSABLE ABSENCES

All full-time exempt and non-exempt employees working twelve months are entitled to accrue paid vacation time from the date of employment. On September 1, current employees are credited 80 hours to be used during the year. Employees hired after September 1 accrue vacation time at 6.67 hours each month worked. The monthly vacation credit may be pro-rated if the employee's regular work week is less than 40 hours. The District's policy allows employees to carry their accrued leave forward from one fiscal year to the next fiscal year with a maximum accrual of 160 hours per employee. The District recognizes the accrued liability at August 31, 2014 and 2013 of \$226,345 and \$216,313, respectively, for the unpaid annual leave in the Unrestricted Current Fund. Sick leave is earned at the rate of 8 hours per month for non-faculty and 6 hours per month for faculty and may be pro-rated if the employee's work week is less than 40 hours. Sick leave is paid only when an employee is off due to illness. The maximum sick leave that may be accumulated is 720 hours. The District's policy is to recognize the cost of sick leave when paid. The liability is not recorded in the financial statements because experience indicates the expenditure for sick leave to be minimal.

NOTE 16 – HEALTH CARE AND LIFE INSURANCE BENEFITS

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee was \$503.14 per month for the year ended August 31, 2014 (\$470.38 per month for 2013) and totaled \$1,263,375 for 2014 (\$954,913 for the year 2013). The cost of providing those benefits for 94 retirees in the year ended 2014 was \$333,212 (retiree benefits for 84 retirees cost \$570,875 in 2013). For 242 active employees, the cost of providing benefits was \$930,163 for the year ended 2014 (active employee benefits for 247 employees cost \$384,038 for the year ended 2013). S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

NOTE 17 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description. In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state. The District contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postemployment healthcare plan administered by the ERS. SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by State law and may be amended by the Texas Legislature.

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

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

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 17 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - Continued

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

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

Beginning September 1, 2013, S.B. 1812 limited the state’s contribution to 50% of eligible employees for community colleges.

The District’s contributions to SRHP for the years ended August 31, 2014, 2013, and 2012 were \$68,663, \$76,421, and \$77,783, respectively, which equaled the required contributions each year.

NOTE 18 – DISAGGREGATION OF RECEIVABLES BALANCES

Receivables at August 31 were as follows:

	2014	2013
Student receivables	\$ 1,996,224	\$ 1,869,005
Taxes receivable	380,533	335,537
Federal receivable	420,620	582,943
Accounts receivable	297,168	346,504
Gross receivables	3,094,545	3,133,989
Less: allowance for uncollectible accounts	(404,577)	(383,571)
Net total receivables	\$ 2,689,968	\$ 2,750,418

NOTE 19 – CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal and non-federal contract and grant awards, funds expended, but not collected, are reported as Accounts Receivable on Exhibit 1. For federal and non-federal contract and grant awards, funds collected, but not expended, are reported as Unearned Revenue on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2014 and 2013 for which monies have not been received nor funds expended totaled \$4,559,644 and \$5,659,081, respectively. Of these amounts, \$4,458,372 and \$5,606,018 were from Federal Contract and Grant Awards and \$101,272 and \$53,063 were from State Contract and Grant Awards for the fiscal years ended August 31, 2014 and 2013, respectively.

Howard County Junior College District
 NOTES TO THE FINANCIAL STATEMENTS
 August 31, 2014 and 2013

NOTE 20 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries appropriate commercial insurance. For the years ended August 31, 2014 and 2013, the District also participated in a pool for its workers' compensation program.

Beginning in the year 2000, the District elected participation in the Texas Public and Junior Community College Employee Benefits Consortium. This pool is exclusively for public community and junior college entities thus providing a preferred risk pool for workers' compensation coverage. Under this agreement, the pool retains liability for claims under \$750,000 or less per incident and purchases commercial insurance for claims in excess of the liability retained by the pool. The reinsurance covers losses to the specific and aggregate statutory limits required by the State of Texas. There was no significant reduction in insurance coverage from the year ended August 31, 2013 to the year ended August 31, 2014, and no settlements exceeded insurance for any of the past three fiscal years.

The claims liability of \$113,860 and \$82,727 reported in accrued liabilities at August 31, 2014 and 2013, respectively, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated based on actuarial calculations. Changes in the fund's claims liability amount in fiscal years 2014 and 2013 were:

	<u>August 31, 2014</u>	<u>August 31, 2013</u>
Balance at beginning of year	\$ 82,727	\$ 45,760
Current year claims and changes in estimates	50,157	68,121
Claims paid	<u>(19,024)</u>	<u>(31,154)</u>
Balance at end of year	<u>\$ 113,860</u>	<u>\$ 82,727</u>

NOTE 21 – PROPERTY TAXES

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

As of August 31,:

	<u>2014</u>	<u>2013</u>
Assessed valuation of the District	\$ 4,064,991,735	\$ 4,182,662,077
Less: Abatements	205,561,872	224,750,257
Less: Exemptions	<u>486,885,093</u>	<u>473,102,438</u>
Net assessed valuation of the District	<u>\$ 3,372,544,770</u>	<u>\$ 3,484,809,382</u>

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 21 – PROPERTY TAXES - Continued

	2014			2013		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized Tax Rate per \$100 Valuation (Maximum per enabling legislation)	0.700000	0.000000	0.700000	0.700000	0.000000	0.700000
Assessed Tax Rate per \$100 Valuation	0.150880	0.052858	0.203738	0.128440	0.048170	0.176610

Taxes levied for the years ended August 31, 2014 and 2013, were \$6,920,580 and \$6,302,846, respectively, including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

	2014			2013		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current taxes collected	\$ 4,994,671	\$ 1,749,676	\$ 6,744,347	\$ 4,483,547	\$ 1,681,792	\$ 6,165,339
Delinquent taxes collected	48,981	17,741	66,722	59,804	22,129	81,933
Penalties and interest collected	<u>47,770</u>	<u>15,724</u>	<u>63,494</u>	<u>39,799</u>	<u>12,601</u>	<u>52,400</u>
Total collections	<u>\$ 5,091,422</u>	<u>\$ 1,783,141</u>	<u>\$ 6,874,563</u>	<u>\$ 4,583,150</u>	<u>\$ 1,716,522</u>	<u>\$ 6,299,672</u>

Tax collections for the years ended August 31, 2014 and 2013, were 98.37% and 98.65% of the current tax levy, respectively. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance, operations, and debt service.

NOTE 22 – COMMITMENTS AND CONTINGENCIES

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

Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material adverse effect on the District's financial position at August 31, 2014.

The District has construction commitments of approximately \$11.8 million as of August 31, 2014 of which approximately \$10.4 million has been capitalized. The projects are funded by the Consolidated Revenue Bonds, Series 2013, private funds, and District funds.

Howard County Junior College District
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2014 and 2013

NOTE 22 – COMMITMENTS AND CONTINGENCIES - Continued

The District has received appropriations from the State for the operation of the Southwest Collegiate Institute for the Deaf. The acceptance of these funds requires compliance with special purchasing regulations, and is subject to audit by the State. Any disallowed expenditures would have to be reimbursed by the District. However, in the opinion of management, the possible reimbursements, if any, will not have a material adverse effect on the District's financial position at August 31, 2014.

NOTE 23 – INCOME TAXES

The District is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The District had no unrelated business income tax liability for the years ended August 31, 2014 and 2013.

SUPPLEMENTARY INFORMATION

SCHEDULES

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Howard County Junior College District
SCHEDULE OF OPERATING REVENUES
Schedule A
Year Ended August 31, 2014
(With Memorandum Totals for the Year Ended August 31, 2013)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>
Tuition				
State Funded Credit Courses				
In-District Resident Tuition	\$ 909,884	\$ -	\$ 909,884	\$ -
Out-of-District Resident Tuition	5,609,731	-	5,609,731	-
TPEG-credit (set aside)*	81,149	-	81,149	-
Non-Resident Tuition	750,048	-	750,048	-
State Funded Continuing Education	188,416	-	188,416	-
TPEG-non-credit (set aside)*	13,288	-	13,288	-
Non-State Funded Continuing Education	16,966	-	16,966	-
Total tuition	<u>7,569,482</u>	<u>-</u>	<u>7,569,482</u>	<u>-</u>
Fees				
Building use fee	-	-	-	415,023
General fees	418,837	-	418,837	-
Student service fee	-	-	-	139,667
Laboratory fee	151,516	-	151,516	-
Total fees	<u>570,353</u>	<u>-</u>	<u>570,353</u>	<u>554,690</u>
Scholarship allowances and discounts				
Scholarship allowances	(341,268)	(443,360)	(784,628)	(81,106)
Remissions and exemptions	(932,243)	-	(932,243)	68
TPEG allowances	-	(72,752)	(72,752)	-
Federal grants to students	-	(2,598,380)	(2,598,380)	-
Other state	-	(45,266)	(45,266)	-
Total scholarship allowances	<u>(1,273,511)</u>	<u>(3,159,758)</u>	<u>(4,433,269)</u>	<u>(81,038)</u>
Total net tuition and fees	<u>6,866,324</u>	<u>(3,159,758)</u>	<u>3,706,566</u>	<u>473,652</u>
Other operating revenues				
Federal grants and contracts	13,564	2,827,884	2,841,448	-
State grants and contracts	-	990,745	990,745	-
Local grants and contracts	-	11,479	11,479	-
Nongovernmental grants and contracts	90,000	1,496,823	1,586,823	-
Sales and services of educational activities	399,371	-	399,371	-
Investment income (program restricted)	-	4,056	4,056	-
Other operating revenues	502,227	2,739	504,966	-
Total other operating revenues	<u>1,005,162</u>	<u>5,333,726</u>	<u>6,338,888</u>	<u>-</u>
Auxiliary enterprises				
Intercollegiate athletics	-	-	-	67,291
Diagnostic center	-	-	-	20,289
Residential life, net of discounts of \$1,286,426 and \$1,108,504	-	-	-	126,478
Bookstore, net of discounts of \$73,430 and \$63,346**	-	-	-	83,625
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>297,683</u>
Total operating revenues (Exh. 2)	<u>\$ 7,871,486</u>	<u>\$ 2,173,968</u>	<u>\$ 10,045,454</u>	<u>\$ 771,335</u>

* In accordance with Education Code 56.033, \$94,437 and \$100,247 of tuition was set aside for Texas Public Education Grants (TPEG)

** The bookstore auxiliary operations are outsourced.

<u>2014</u>	<u>2013</u>
<u>Total</u>	<u>Total</u>
\$ 909,884	\$ 958,533
5,609,731	6,134,113
81,149	80,455
750,048	713,224
188,416	295,855
13,288	19,792
16,966	14,760
<u>7,569,482</u>	<u>8,216,732</u>
415,023	479,443
418,837	147,438
139,667	161,608
151,516	179,755
<u>1,125,043</u>	<u>968,244</u>
(865,734)	(743,408)
(932,175)	(866,262)
(72,752)	(76,778)
(2,598,380)	(3,207,344)
(45,266)	(107,295)
<u>(4,514,307)</u>	<u>(5,001,087)</u>
4,180,218	4,183,889
2,841,448	3,394,294
990,745	755,728
11,479	15,640
1,586,823	827,336
399,371	321,156
4,056	5,576
504,966	579,617
<u>6,338,888</u>	<u>5,899,347</u>
67,291	65,780
20,289	7,528
126,478	186,029
83,625	131,124
<u>297,683</u>	<u>390,461</u>
<u>\$ 10,816,789</u>	<u>\$ 10,473,697</u>
(Exhibit 2)	(Exhibit 2)

Howard County Junior College District
SCHEDULE OF OPERATING EXPENSES BY OBJECT
Schedule B
Year ended August 31, 2014
(With Memorandum Totals for the Year ended August 31, 2013)

	Operating Expenses			2014 Total	2013 Total	
	Salaries and Wages	Benefits State	Local			Other Expenses
Unrestricted - Educational Activities						
Instruction	\$ 7,343,439	\$ -	\$1,318,742	\$ 937,877	\$ 9,600,058	\$ 8,935,390
Public service	322,329	-	89,144	4,858	416,331	476,003
Academic support	839,995	-	169,849	258,817	1,268,661	1,103,505
Student services	1,327,587	-	265,981	280,596	1,874,164	1,690,951
Institutional support	2,484,830	-	751,915	1,473,450	4,710,195	5,843,978
Operation and maintenance of plant	870,238	-	368,763	2,105,248	3,344,249	2,922,189
Scholarships and fellowships	-	-	-	26,842	26,842	42,772
Total Unrestricted - Educational Activities	<u>13,188,418</u>	<u>-</u>	<u>2,964,394</u>	<u>5,087,688</u>	<u>21,240,500</u>	<u>21,014,788</u>
Restricted - Educational Activities						
Instruction	154,062	754,264	44,392	123,213	1,075,931	937,351
Public service	552,326	-	122,596	205,339	880,261	847,318
Academic support	481,198	98,601	142,932	911,300	1,634,031	1,938,967
Student services	14,376	142,879	3,823	104,491	265,569	471,076
Institutional support	3,138	611,142	861	20,988	636,129	823,093
Operation and maintenance of plant	-	18,176	-	180,817	198,993	12,527
Scholarships and fellowships	-	-	-	2,664,698	2,664,698	3,328,786
Total Restricted - Educational Activities	<u>1,205,100</u>	<u>1,625,062</u>	<u>314,604</u>	<u>4,210,846</u>	<u>7,355,612</u>	<u>8,359,118</u>
Total Educational Activities	14,393,518	1,625,062	3,278,998	9,298,534	28,596,112	29,373,906
Auxiliary Enterprises	126,479	-	52,505	1,626,119	1,805,103	1,770,572
Depreciation Expense - Buildings and other real estate improvements	-	-	-	1,424,896	1,424,896	1,369,998
Depreciation Expense - Equipment and furniture	-	-	-	407,224	407,224	402,699
Total Operating Expenses	<u>\$14,519,997</u>	<u>\$1,625,062</u>	<u>\$3,331,503</u>	<u>\$12,756,773</u>	<u>\$32,233,335</u> (Exhibit 2)	<u>\$32,917,175</u> (Exhibit 2)

Howard County Junior College District
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
Schedule C
Year Ended August 31, 2014
(With Memorandum Totals for the Year Ended August 31, 2013)

	Unrestricted	Restricted	Auxiliary Enterprises	2014 Total	2013 (as restated) Total
NON-OPERATING REVENUES					
State appropriations					
Education and general state support	\$ 9,765,534	\$ -	\$ -	\$ 9,765,534	\$ 9,775,229
Hazlewood Legacy Act reimbursement	18,360	-	-	18,360	-
State group insurance	-	1,263,375	-	1,263,375	954,913
State retirement matching	-	361,687	-	361,687	669,176
Professional nursing shortage reduction	-	90,032	-	90,032	109,361
Total state appropriations	9,783,894	1,715,094	-	11,498,988	11,508,679
Property taxes for operations	5,118,233	-	-	5,118,233	4,586,829
Property taxes for debt service	-	1,791,602	-	1,791,602	1,718,328
Payments in lieu of taxes	145,192	-	-	145,192	141,651
Federal revenue, non operating	-	5,037,332	-	5,037,332	6,277,122
Investment income (net of investment expenses)	34,144	4,641	-	38,785	39,105
Other non-operating revenue	333,933	26,359	45,643	405,935	324,572
Total non-operating revenues	15,415,396	8,575,028	45,643	24,036,067	24,596,286
NON-OPERATING EXPENSES					
Interest on capital related debt	(935,326)	-	-	(935,326)	(973,556)
Loss on disposal of fixed assets	(150,215)	-	-	(150,215)	-
Total non-operating expenses	(1,085,541)	-	-	(1,085,541)	(973,556)
Net non-operating revenues	\$14,329,855	\$ 8,575,028	\$ 45,643	\$22,950,526 (Exhibit 2)	\$23,622,730 (Exhibit 2)

Howard County Junior College District
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
Schedule D
August 31, 2014
(With Memorandum Totals for August 31, 2013)

	Detail by Source			
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt
		Expendable	Non- Expendable	
Current:				
Unrestricted	\$ 6,837,863	\$ -	\$ -	\$ -
Restricted	-	1,496,196	-	-
Auxiliary enterprises	2,732,755	-	-	-
Endowment:				
True endowment	-	-	1,217,702	-
Plant:				
Debt service	-	1,491,323	-	-
Investment in plant	-	-	-	28,888,094
	<u>9,570,618</u>	<u>2,987,519</u>	<u>1,217,702</u>	<u>28,888,094</u>
Total Net Position, August 31, 2014	\$ 9,570,618	\$ 2,987,519	\$ 1,217,702	\$ 28,888,094
Total Net Position, August 31, 2013 (as restated)	<u>9,490,987</u>	<u>1,865,747</u>	<u>1,217,695</u>	<u>27,726,115</u>
Net Increase (Decrease) in Net Position	<u>\$ 79,631</u>	<u>\$ 1,121,772</u>	<u>\$ 7</u>	<u>\$ 1,161,979</u>

Available for
Current Operations

Total	Yes	No
\$ 6,837,863	\$ 6,837,863	\$ -
1,496,196	1,496,196	-
2,732,755	2,732,755	-
1,217,702	-	1,217,702
1,491,323	-	1,491,323
28,888,094	-	28,888,094
\$42,663,933	\$ 11,066,814	\$ 31,597,119
(Exhibit 1)		
40,300,544	10,400,414	29,900,130
(Exhibit 1)		
\$ 2,363,389	\$ 666,400	\$ 1,696,989
(Exhibit 2)		

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Schedule E
For the Year Ended August 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass-Through Disbursements
U.S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster			
SEOG 13/14	84.007		\$ 81,398
Subtotal SEOG			<u>81,398</u>
Federal College Workstudy Program 12/13	84.033		5,015
Federal College Workstudy Program 13/14	84.033		26,080
Federal College Workstudy Program (100%) 13/14	84.033		2,792
Subtotal Federal College Workstudy Program			<u>33,887</u>
PELL 11/12	84.063		(5,550)
PELL 12/13	84.063		(5,122)
PELL 13/14	84.063		4,931,352
PELL 14/15	84.063		1,367
Subtotal PELL			<u>4,922,047</u>
Direct Student Loans 11/12	84.268		(6,868)
Direct Student Loans 12/13	84.268		(3,466)
Direct Student Loans 13/14	84.268		2,699,430
Subtotal Direct Student Loans			<u>2,689,096</u>
READE 12/13	84.031S	P031S100004	225,585
READE 13/14	84.031S	P031S100004	517,915
Subtotal Reaching Excellence for All in Development Education			<u>743,500</u>
eSTART 12/13	84.031C	P031C110093	177,830
eSTART 13/14	84.031C	P031C110093	488,656
Subtotal eSTART			<u>666,486</u>
Pass through from:			
Texas Education Agency			
Adult Basic Education 231 SA – 12/13	84.002	134100017110458	1,101
Subtotal Texas Education Agency			<u>1,101</u>
Texas Workforce Commission			
Adult Basic Education 225 BS – 13/14	84.002A	1114ABE000	129,479
Adult Basic Education 231 BS – 13/14	84.002A	1114ABE000	149,399
Adult Basic Education 223 BS – 13/14	84.002A	1114ABE000	6,118
Adult Basic Education 225 SA – 13/14	84.002A	1214ABE000	65,780
Adult Basic Education 231 SA – 13/14	84.002A	1214ABE000	296,607
Adult Basic Education 223 SA – 13/14	84.002A	1214ABE000	8,004
Adult Basic Education 231 Admin SA – 13/14	84.002A	1214ABE000	13,971
Adult Education and Literacy 231 SA – 14/15	84.002A	1214AEL000	2,730
Adult Education and Literacy 231 Admin SA – 14/15	84.002A	1214AEL000	24
Adult Education and Literacy EI Civics SA – 14/15	84.002A	1214AEL000	5
Subtotal Texas Workforce Commission			<u>672,117</u>

(continued)

Howard County Junior College District
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Schedule E
 For the Year Ended August 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass-Through Disbursements
Angelo State University			
ASU-HC Cooperative H S I-Stem Program 11/12	84.031C	P031C110142	234
ASU-HC Cooperative H S I-Stem Program 12/13	84.031C	P031C110142	37,803
ASU-HC Cooperative H S I-Stem Coop Program 13/14	84.031C	P031C110142	189,794
Subtotal Angelo State University			227,831
Texas Higher Education Coordinating Board			
Annual Perkins	84.048	142042	190,714
Statewide Longitudinal Data System – BS – 13/14	84.372	12408	4,000
Subtotal Texas Higher Education Coordinating Board			194,714
Total U.S. Department of Education			10,232,177
U.S. Department of Agriculture			
Pass through from:			
Texas Health & Human Services Commission			
Child & Adult Care Food Program	10.558	TX-114-0006	16,369
Subtotal Texas Health & Human Services Commission			16,369
Total U.S. Department of Agriculture			16,369
U.S. Department of Defense			
Direct Programs:			
Goodfellow AFB Scholarship	12.000		15,851
Army Tuition Assistance	12.000		8,037
Marine Tuition Assistance	12.000		1,120
Subtotal U.S. Department of Defense			25,008
U.S. Department of Labor			
WIA Cluster			
Pass through from:			
Workforce Solutions Permian Basin			
Workforce Investment Act - San Angelo	17.258		8,240
Subtotal Workforce Solutions Permian Basin			8,240
Total U.S. Department of Labor			8,240
National Science Foundation			
Pass through from:			
University of Texas of El Paso			
Alliance for Minority Participation, Year 1 - 12/13	47.076	HRD-1202008	8,638
Alliance for Minority Participation, Year 2 - 13/14	47.076	HRD-1202008	13,558
Subtotal National Science Foundation			22,196
U.S. Department of Veterans Affairs			
Direct Programs:			
Vocational Rehab for Disabled Veterans BS	64.116		3,041
Vocational Rehab for Disabled Veterans SA	64.116		9,530
Subtotal Vocational Rehab for Disabled Veterans			12,571
Post 9/11 Veterans Education Assistance BS	64.130		30,824
Post 9/11 Veterans Education Assistance SA	64.130		164,112
Subtotal Post 9/11 Veterans Education Assistance			194,936
Total U.S. Department of Veterans Affairs			207,507

(continued)

Howard County Junior College District
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Schedule E
 For the Year Ended August 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass-Through Disbursements
U.S. Department of Health and Human Services			
Pass through from:			
Texas Workforce Commission			
Adult Basic Education TANF – BS 13/14	93.558	1114ABE000	15,734
Adult Basic Education TANF – SA 13/14	93.558	1214ABE000	<u>37,788</u>
Subtotal Texas Workforce Commission			<u>53,522</u>
Total U.S. Department of Health and Human Services			<u>53,522</u>
Corporation for Nation and Community Service			
Direct Programs:			
Americorps	94.006		<u>2,857</u>
Total Corporation for Nation and Community Service			<u>2,857</u>
Total Federal Financial Assistance			<u><u>\$ 10,567,876</u></u>

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Schedule E
For the Year Ended August 31, 2014

Note 1: Financial assistance reconciliation

Federal revenues per Schedule A:	
Federal grants and contracts	\$ 2,841,448
Add: Non-operating federal revenue from Schedule C	5,037,332
Add: Direct student loans	<u>2,689,096</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 10,567,876</u>

Note 2: Significant accounting policies used in preparing the schedule

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

Note 3. Expenditures not subject to federal single audit

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

Note 4. Nonmonetary federal assistance received

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

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

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

Howard County Junior College District
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
Schedule F
For the Year Ended August 31, 2014

State Grantor/Program Title	Contract/ Award Number	Expenditures
Texas Education Agency		
TxVSN 10/11 (Spring 2011)		\$ 248
Adult Basic Education SA 12/13	130100017110458	1,419
Total Texas Education Agency		<u>1,667</u>
Texas Higher Education Coordinating Board		
Toward EXcellence, Access and Success (TEXAS) Grant - Initial 13/14		124,377
Toward EXcellence, Access and Success (TEXAS) Grant - Returning 13/14		<u>31,904</u>
Total TEXAS Grant		156,281
Texas Education Opportunity Grant – Initial 13/14		9,240
Texas Education Opportunity Grant – Returning 13/14		<u>18,480</u>
Total TEOG		27,720
Professional Nursing Shortage (Over Target) 11/12		52,815
Professional Nursing Shortage (Under 70) 14/15		37,217
Texas College Work Study Program 13/14		<u>19,380</u>
Total Texas Higher Education Coordinating Board		<u>293,413</u>
Department of Assistive and Rehabilitative Services		
DARS – Howard College BS		8,471
DARS – Howard College SA		21,478
DARS – SWCID		<u>144,584</u>
Total Department of Assistive and Rehabilitative Services		<u>174,533</u>
Texas Workforce Commission		
Adult Basic Education BS 13/14	1114ABE000	53,218
Adult Basic Education SA 13/14	1214ABE000	98,888
Skills Development Fund - Oil and Gas Initiative BS 13/14	1113SDF002	84,332
Skills Development Fund - Oil and Gas Initiative SA 13/14	1213SDF000	<u>121,912</u>
Total Texas Workforce Commission		<u>358,350</u>
Total State of Texas Financial Assistance		<u><u>\$ 827,963</u></u>

The accompanying notes are an integral part of this schedule.

(continued)

Howard County Junior College District
 SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS - CONTINUED
 Schedule F
 For the Year Ended August 31, 2014

Note 1. State Assistance Reconciliation

State Revenues – Per Schedule A:	
State of Texas Financial Assistance	
Per Schedule of Expenditures of State of Texas Awards	\$ 827,963
State Financial Assistance	
State appropriated funds not included in Schedule A	
Professional Nursing Shortage Reduction	(90,032)
State aid from other states not included as State of Texas	
financial assistance	
Vocational Rehabilitation - SW	252,161
State Compensation Insurance Fund – SA	<u>653</u>
Total State Grants and Contracts Revenues per Schedule A	<u>\$ 990,745</u>

Note 2.

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

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

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

We have audited, 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, the financial statements of Howard County Junior College District (the District) as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

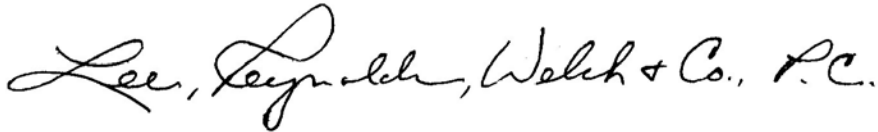
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Big Spring, Texas
January 20, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND
STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

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

Report on Compliance for Each Major Federal and State Program

We have audited Howard County Junior College District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs and the requirements in the grant documents that could have a direct and material effect on each of the District's major State of Texas programs for the year ended August 31, 2014. The District's major federal and State of Texas programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and State of Texas programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal and State of Texas programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133, and the State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or State of Texas program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and State of Texas program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal and State of Texas Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and State of Texas programs for the year ended August 31, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal and State of Texas program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and State of Texas program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and State of Texas program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

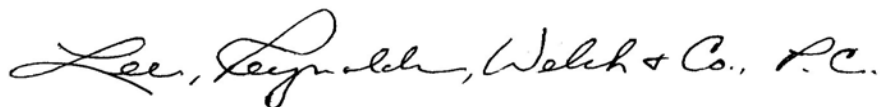
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However,

we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

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

Big Spring, Texas
January 20, 2015

Howard County Junior College District
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended August 31, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal and State of Texas Awards

Internal control over major federal and State of Texas programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor’s report issued on compliance for major federal and State of Texas programs: Unmodified

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

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

Identification of major federal programs:

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

Identification of major State of Texas programs:

<u>Contract Number</u>	<u>Name of State of Texas Program</u>
N/A	Skills Development Fund
N/A	Department of Assistive and Rehabilitative Services

Howard County Junior College District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
For the Year Ended August 31, 2014

Section I – Summary of Auditor’s Results - Continued

Dollar threshold used to distinguish between type A and type B federal programs: \$ 317,036
Dollar threshold used to distinguish between type A and type B state programs: \$ 300,000

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

Section II – Financial Statement Findings

No matters were reported.

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

Finding 2014-001 – U. S. Department of Education, Student Financial Aid Programs, CFDA #84.033, 84.268, 84.007, 84.063

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

Condition and context: Pell, CFDA #84.063 – Of the 22 students tested that received Pell disbursements, 21 had disbursement dates reported to COD that did not match the actual disbursement date on the students’ accounts.

Questioned costs: None.

Cause: The District utilizes a clearing house for student financial aid reporting that represents it does not have the function to be able to report disbursements by the actual disbursement dates.

Effect: The District is not in compliance with the various reporting regulations for the Student Financial Aid Programs.

Howard County Junior College District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
For the Year Ended August 31, 2014

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

Finding 2014-001 – U. S. Department of Education, Student Financial Aid Programs, CFDA #84.033, 84.268, 84.007, 84.063 - Continued

Recommendation: We recommend the District investigate other methods of reporting Pell disbursements to the Common Origination and Disbursement (COD) system to include direct reporting to COD via their free software in order to meet compliance requirements.

Views of responsible officials and planned corrective action:

Agree.

The issue that Howard College continues to experience is as follows: The disbursement date reported to Common Origination and Disbursement (COD) is the date of the initial disbursement which is applied no more than ten days before the first class day. Howard College only credits enough funds to cover the initial cost of tuition and fees. Since the full award is not applied at initial disbursement, subsequent disbursements are required. As additional disbursements and/or adjustments are applied to the student's accounts these subsequent disbursements must be reported via batch. The date of the batch may not always coincide with the actual date of disbursement. It is our understanding that this situation is common within the Community College sector because of the delay in processing from software providers. We have discussed this matter with our software provider, and their suggestion to correct this problem would entail the development of a new program for the software system. Howard College will continue to pursue this option with the software provider and work with the Informational Technology support staff to implement a process that will send disbursements electronically to maintain compliance with reporting deadlines.

Howard College will continue work on implementing and enforcing a process district wide starting Spring 2015. As before, Pell grants will be disbursed ten days before classes begin. Additional disbursements/or adjustments may be applied to student's accounts daily, but the transmitting of funds will not be permitted after 4:00 pm each day. At that time the Financial Aid office will run the process to upload all financial aid disbursements to COD using the software provided by the department of education (ED-EXPRESS).

The Howard College Financial Aid office will also continue to research and pursue other software options that may be available for use in transmitting data directly to COD.

Contact: Candice Draper
Implementation date: Spring 2015

Howard County Junior College District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2014

Federal and State Award Findings and Questioned Costs

Finding 13-1 – U. S. Department of Education, Student Financial Aid Programs, CFDA #84.033, 84.268, 84.007, 84.063, 84.375

Condition and context: Pell, CFDA #84.063 – Of the 25 students tested that received Pell disbursements, 25 had disbursement dates reported to COD that did not match the actual disbursement date on the students' accounts.

Status: Pell – See current year finding 2014-001.