

TEXARKANA COLLEGE

Texarkana, Texas

ANNUAL FINANCIAL REPORT

For The Years Ended

August 31, 2012 and 2011

TEXARKANA COLLEGE

TABLE OF CONTENTS

	Page
<u>Organizational Data</u>	
<u>Independent Auditor's Report</u>	
Independent Auditor's Report on Financial Statements	1 - 2
<u>Management's Discussion and Analysis</u>	
Management's Discussion and Analysis	3 - 10
<u>Financial Statements</u>	
Exhibit 1 Statement of Net Assets	11-12
Exhibit 2 Statement of Revenues, Expenses, and Changes In Net Assets	13-14
Exhibit 3 Statement of Cash Flows	15-17
<u>Notes to the Financial Statements</u>	
Notes to the Financial Statements	18 - 38
<u>Supplemental Information</u>	
Schedule A Schedule of Operating Revenues	39
Schedule B Schedule of Operating Expenses by Object	40
Schedule C Schedule of Non-Operating Revenues and Expenses	41
Schedule D Schedule of Net Assets by Source and Availability	42
Schedule E Schedule of Expenditures of Federal Awards	43 - 44
Schedule F Schedule of Expenditures of State Awards	45
Schedule G Statement of Income and Expenditures – Student Union With Comparative Figures for 2011	46
Schedule H Insurance in Force	47
<u>Federal Financial Assistance Information – Single Audit</u>	
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	48 - 49
Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program And Internal Control over Compliance in Accordance With OMB Circular A-133	50 - 52

TEXARKANA COLLEGE

TABLE OF CONTENTS (continued)

	Page
<u>Federal Financial Assistance Information – Single Audit (continued)</u>	
Report on Schedule of Expenditures of Federal Awards	53
Schedule of Findings and Questioned Costs	
Section I – Summary of Auditor’s Results	54
Section II – Federal Award Findings and Questioned Costs	55 - 60
Section III – Findings and Questioned Costs – Major Federal Awards Prior Year Findings and Questioned Costs Related to Federal Awards	61 - 68
<u>State Financial Assistance Information</u>	
Independent Auditor’s Report on Compliance with Requirements Applicable to each Major State Program And Internal Control over Compliance in Accordance With State of Texas Audit Circular	69 - 71
State Grant Schedule of Findings and Questioned Costs	
Section I – Summary of Auditor’s Results	72
Section II – Findings and Questioned Costs – Major State Award Programs	73 - 75
Section III – Findings and Questioned Costs – Major State Awards Programs Prior Year Findings and Questioned Costs Related to State Awards	76

ORGANIZATIONAL DATA

TEXARKANA COLLEGE

ORGANIZATIONAL DATA

AUGUST 31, 2012 and 2011

Board of Trustees

Officers

Michael Sandefur	President
David J. Potter	Vice President
Terry Taylor	Secretary

Members

Term Expires

Michael Sandefur	Texarkana, Texas	2018
Jean Cotten	Texarkana, Texas	2018
Jane Daines	Texarkana, Texas	2018
Thomas Coleman	Texarkana, Texas	2016
Dr. C. Jack Smith	Texarkana, Texas	2016
Terry Taylor	Texarkana, Texas	2016
David J. Potter	Texarkana, Texas	2014
Randy Moore	Texarkana, Texas	2014
Kaye Ellison	Texarkana, Texas	2014

Key Officers

James Henry Russell	President
Kimberly Jones	Chief Financial Officer
Vernon Wilder	Interim Chief Instructional Officer
Robert Jones	Interim Dean of Students
Jamie Ashby	Director of Institutional Research and Effectiveness
Suzu Irwin	Director of Institutional Advancement and Public Relations
Mike Dumdei	Director of Information Technology
Dr. Theresa McDonald	Director of Enterprise Resource Planning
Steve Mitchell	Director of Radio Station
Rick Boyette	Director of Facilities Services
Jeff Cottingham	Director of Campus & Public Safety

INDEPENDENT AUDITORS' REPORT

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of Texarkana College and the
Texarkana College Foundation, Inc.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the College's and the Foundation's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Texarkana College and the Texarkana College Foundation, Inc.'s financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Certified Public Accountants

Texarkana, Texas
October 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2012 and 2011

This section of Texarkana College's annual financial report presents management's discussion and analysis of the financial performance of the college during the fiscal years ending 2010, 2011 and 2012. This discussion should be read in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental information. The financial statements, notes to the financial statements, supplemental information, and this discussion are the responsibility of Texarkana College's management.

A Brief Discussion of the Basic Financial Statements

This annual report contains financial statements prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*. These financial statements differ significantly, in both the form and the accounting principles utilized, from financial statements issued prior to 2002. The financial statements presented in years prior to 2002 focused on the accountability of fund groups, while these statements focus on the financial condition, the results of operations, and cash flows of the College as a whole.

The financial statements prescribed by GASB No. 35 (the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows) present financial information similar to that used by commercial enterprises. The statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. Decreases over time in the net assets (the difference between assets and liabilities) would be one indicator of the deterioration of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities. The statement helps measure the ability to pay operating expenses with operating revenues and the extent that capital assets are financed.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2012 and 2011

Financial Position Summary

Assets	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets	12,860,443	11,997,061	\$ 18,627,340
Capital assets	20,516,853	20,991,552	19,779,873
Total assets	<u>33,377,296</u>	<u>32,988,613</u>	<u>38,407,213</u>
Liabilities			
Long term liabilities	1,792,508	634,662	688,011
Other liabilities	5,524,050	6,503,461	3,344,602
Total liabilities	<u>7,316,558</u>	<u>7,138,123</u>	<u>4,032,613</u>
Net Assets			
Invested in capital assets	20,516,853	20,991,552	19,779,873
Restricted	2,010,210	3,211,100	3,063,248
Unrestricted	3,533,675	1,647,838	11,531,479
Total net assets	<u>\$ 26,060,738</u>	<u>\$ 25,850,490</u>	<u>\$ 34,374,600</u>

The College's capital assets represent 61% of the total assets at August 31, 2012 compared to 64% at August 31, 2011. The largest component of capital assets is the College's investment in buildings. The buildings represent 78% of the capital assets at the end of the 2012 fiscal year compared to 63% for 2011. Adequate facilities are an important factor in the ability of the College to meet the education needs of current and future students.

Summary of Changes in Net Assets

Operating Revenues:	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Tuition and Fees	4,362,146	3,480,124	\$ 5,208,655
Federal Grants and Contracts	425,660	1,152,471	346,925
State Grants and Contracts	855,882	433,791	428,863
Non - Governmental grants	420,747	235,602	87,417
Sales and services activities	277,899	289,905	179,181
Net Auxiliary Enterprises	964,955	1,644,430	2,116,250
Other	468,461	359,525	524,447
Total Operating Revenue	<u>\$ 7,775,750</u>	<u>\$ 7,595,848</u>	<u>\$ 8,891,738</u>

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Expenses:			
Instruction	\$ 11,036,873	\$ 13,935,976	\$ 11,772,225
Academic Support	1,749,531	2,595,778	1,917,722
Student Services	2,551,683	2,792,442	2,230,665
Institutional Support	4,618,879	7,114,940	2,263,048
Operation and Maintenance of Plant	2,188,192	2,449,060	6,334,992
Scholarships and Fellowships	3,990,895	3,462,892	4,104,643
Auxiliary Enterprises	2,058,473	2,153,023	2,878,113
Depreciation	1,348,326	1,126,137	995,800
Total Operating Expenses	<u>29,542,852</u>	<u>35,630,248</u>	<u>32,497,208</u>
Operating Loss	<u>(21,767,102)</u>	<u>(28,034,400)</u>	<u>(23,605,470)</u>
Non-Operating Income			
State Appropriations	9,138,836	10,919,861	11,278,370
Taxes	1,354,269	1,245,710	1,261,793
Federal Grants Non Operating	8,256,173	6,366,406	5,994,525
Investment Income	137,479	188,711	307,216
Gifts	1,515,454	96,501	-
Rent Income	106,810	89,475	-
Other Non-Operating Income	1,468,329	603,626	125,669
Net Non-Operating Revenues	<u>21,977,350</u>	<u>19,510,290</u>	<u>18,967,573</u>
Increase (Decrease) in Net Assets	210,248	(8,524,110)	(4,637,897)
Net Assets-Beginning of Year	<u>25,850,490</u>	<u>34,374,600</u>	<u>39,012,497</u>
Net Assets-End of Year	<u>\$ 26,060,738</u>	<u>\$ 25,850,490</u>	<u>\$ 34,374,600</u>

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2012 and 2011

Summary of Changes in Net Assets – continued

The College's net assets increased \$210,248 for the year ended August 31, 2012 compared to a decrease of \$8,524,110 for the year ended August 31, 2011. The change between 2012 and 2011 of \$8,734,358 resulted from the following significant items.

Public Donations	\$1,515,454
Decrease in College's share of rising star scholarships	\$1,114,927
Insurance Proceeds - Roofing Projected Previously Impaired	\$1,468,329
Decrease in Salaries and Benefits	\$ 2,917,463
Decrease in Other Operating Costs	\$3,169,932

In addition, the operating education expenditures decreased by approximately 17.1%.

The College's net assets decreased \$8,524,110 and \$4,637,897 for the years ended August 31, 2011 and 2010, respectively. The 2011 decrease resulted in part from the continued implementation of the banner software system, increased unrestricted operation education expenses, and declines in state funding. The 2010 decrease resulted in part from significant increases in rising star scholarships, banner software system installation, and plant expenditures.

The College's unrestricted net assets increased by \$1,885,837 for the year ended August 31, 2012. The unrestricted net assets are the assets that generate the College's investment income.

The College's available cash and cash equivalents increased \$5,173,349 during the year ended August 31, 2012.

The College's available cash and cash equivalents decreased by \$500,559 during the year ended August 31, 2011.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2012 and 2011

Analysis of College's Overall Financial Position and Results of Operation

Current and other assets, as of August 31, 2012, totaled \$12,860,443 which is 39% of the total assets. Approximately 60% of the current assets are in cash or are invested in certificates of deposit at August 31, 2012.

Current and other assets, as of August 31, 2011, totaled \$11,997,061 which is 36% of the total assets. Approximately 64% of the current assets are in cash or are invested in certificates of deposit at August 31, 2011.

Current assets, as of August 31, 2010, totaled \$18,627,340 which is 48% of the total assets. Approximately 91% of the current assets are in cash or are invested in certificates of deposit at August 31, 2010.

Current liabilities total \$5,524,050 for 2012 and \$6,503,461 for 2011. Deferred revenue is 77% for 2012 and 63% for 2011 of the total current liabilities. Deferred revenue is the tuition and fees collected prior to year end for the fall classes. These are deferred because the revenue has not been earned as of the end of the year. These monies are for classes that will be primarily conducted in the next fiscal year.

The college incurred a net operating loss for the year ended August 31, 2012, 2011, and 2010, because of state appropriations, Title IV funds and property tax collections are classified as non-operating revenues.

Net operating loss is an excess of the cost to provide educational instruction to our students over income from grants and funds charged to students.

Net operating income is the excess of grants and funds charged to students over the cost to provide educational instruction to our students.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2012 and 2011

Analysis of College's Overall Financial Position and Results of Operation (continued)

State and Federal funds amounted to 63% and charges to students amounted to 19% of total revenues for the year ended August 31, 2012.

State and Federal funds amounted to 70% and charges to students amounted to 20% of total revenues for the year ended August 31, 2011.

Salaries and benefits are approximately 57% of total operating expenses for the year ended August 31, 2012.

Salaries and benefits are approximately 55% of total operating expenses for the year ended August 31, 2011.

Non-operating revenues primarily consist of state appropriations, property tax, federal grants and contracts and investment income.

The College had negative cash flows from operating activities for the years ended August 31, 2012, 2011 and 2010 because a significant portion of the revenue, state appropriations, Title IV funds, and taxes, are considered non-operating revenue.

The College purchased capital assets during the year ended August 31, 2012 of \$873,626 and in the year ended August 31, 2011 of \$3,873,194.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2012 and 2011

Changes in credit ratings

There has not been a change in the credit rating of Texarkana College.

Debt limitations that may affect the financing of planned facilities or services

Texarkana College has no bond indebtedness. Furthermore, Texarkana College currently has no capital improvement need which would require financing.

Discussion of currently known facts, decisions, or conditions

Texarkana College has taken dramatic measures in recent months resulting in a return to the historically sound financial principles and stability for which the institution is known. Based on the actions taken by the board, new administration, and the continued evaluations of performance measures, Texarkana College was able to add to the net assets during this fiscal year after three consecutive years of losses. The college also made significant progress in relation to the internal controls structure which is evidenced by the reduction in audit findings and questioned costs as compared to the prior year.

This remarkable reversal was due to several factors. During the fiscal year ended August 31, 2012, the Board of Trustees approved the President's recommendation to declare Financial Exigency to allow a mid-year reduction in force and eliminate several non-mission critical programs, including all sports programs. The board also approved amending the current year budget implementing additional aggressive expenditure reductions.

In addition, to help sustain the college through this financial crisis, the college administration and board have also launched a major fundraising campaign. To date donations of over \$1.5 million dollars have been received and an additional \$4 million has been pledged over the next four years as a challenge matching grant. The board has also approved an increase in tuition and fees to help assist with improving the college's financial stability.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2012 and 2011

Discussion of currently known facts, decisions, or conditions (continued)

With the continued decline in state appropriations, the college is forced to rely on tuition, fees and local taxes to support its mission. Currently Texarkana College receives approximately 5% of its total revenue from local property taxes, while most typical community colleges receive approximately 40% of their revenue from local taxes. The college currently serves the population of a large area that is not a part of the taxing district. In August of 2012, the Board of Trustees voted to call a November 2012 Tax annexation election that would provide the revenue needed to make up for the reductions in state revenue.

Based on the actions taken by the new administration, the continued evaluations and future plans, Texarkana College is well on its way to regaining its strong financial position and will continue to serve the constituents of this region with affordable, accessible, and high quality educational opportunities for future generations to come.

Texarkana College affirms, as its mission, the commitment to provide, within the resources available, educational programs and services that meet the individual and community needs.

FINANCIAL STATEMENTS

THIS PAGE LEFT BLANK INTENTIONALLY

TEXARKANA COLLEGE

EXHIBIT 1

STATEMENTS OF NET ASSETS

August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,475,978	\$ 976,671
Short-term investments	1,534,358	3,669,000
Accounts receivable	4,587,592	3,821,866
Inventories	587,639	440,244
Total Current Assets	<u>10,185,567</u>	<u>8,907,781</u>
Noncurrent Assets		
Restricted cash and cash equivalents	2,674,876	834
Endowment investments	-	1,873,000
Insurance fund investments	-	1,215,446
Capital assets, net of accumulated depreciation	20,516,853	20,991,552
Total Noncurrent Assets	<u>23,191,729</u>	<u>24,080,832</u>
Total Assets	<u>33,377,296</u>	<u>32,988,613</u>
LIABILITIES		
Current Liabilities		
Accounts payable	184,431	1,190,629
Accrued liabilities	513,282	631,558
Funds held for others	552,068	564,417
Deposits	22,401	18,041
Deferred revenues	4,251,868	4,098,816
Total Current Liabilities	<u>5,524,050</u>	<u>6,503,461</u>
Noncurrent Liabilities		
Accounts payable restricted	1,243,392	18,186
Accrued compensable absences payable	549,116	616,476
Total Noncurrent Liabilities	<u>1,792,508</u>	<u>634,662</u>
Total Liabilities	<u>7,316,558</u>	<u>7,138,123</u>
NET ASSETS		
Invested in capital assets, net of related debt	20,516,853	20,991,552
Restricted for		
Nonexpendable		
Student Aid	1,929,383	1,938,636
Instructional Programs	-	-
Expendable		
Student Aid	80,827	57,018
Instructional Programs	-	-
Insurance Fund		1,215,446
Unrestricted	3,533,675	1,647,838
Total Net Assets	<u>\$ 26,060,738</u>	<u>\$ 25,850,490</u>

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

TEXARKANA COLLEGE FOUNDATION, INC.

COMPONENT UNIT

STATEMENT OF FINANCIAL NET ASSETS

DECEMBER 31, 2011 AND 2010

	ASSETS	
	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 572,611	\$ 255,710
Investments	448,321	434,176
Accrued interest and dividends	15,242	20,439
TOTAL CURRENT ASSETS	1,036,174	710,325
NONCURRENT ASSETS		
Cash and cash equivalents - restricted	443,904	388,379
Investments - restricted	2,180,444	2,460,947
TOTAL NONCURRENT ASSETS	2,624,348	2,849,326
TOTAL ASSETS	3,660,522	3,559,651
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Due to College	1,000	-
Rising star scholarship payable	100,000	100,000
TOTAL CURRENT LIABILITIES	101,000	100,000
TOTAL LIABILITIES	101,000	100,000
NET ASSETS		
Unrestricted	1,800,374	1,756,540
Temporarily restricted	657,625	582,033
Permanantly restricted	1,101,522	1,121,078
TOTAL NET ASSETS	3,559,522	3,459,651
TOTAL LIABILITIES NET ASSETS	\$ 3,660,522	\$ 3,559,651

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

TEXARKANA COLLEGE

EXHIBIT 2

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

August 31, 2012 and 2011

REVENUES	2012	2011
Operating Revenues		
Tuition and fees (net of grant and scholarship allowances of \$3,990,894 and \$3,341,037 , respectively)	\$ 4,362,146	\$ 3,480,124
Federal grants and contracts	425,660	1,152,471
State grants and contracts	855,882	433,791
Non-Governmental grants and contracts	420,747	235,602
Sales and services of educational activities	277,899	289,905
Auxiliary enterprises (net of grant and scholarship allowances of \$1,436,063 and \$660,014, respectively)	964,955	1,644,430
Other operating revenues	468,461	359,525
Total Operating Revenues	7,775,750	7,595,848
EXPENSES		
Operating Expenses		
Instruction	11,036,873	13,935,976
Academic Support	1,749,531	2,595,778
Student Services	2,551,684	2,792,442
Institutional Support	4,618,879	7,114,940
Operation and maintenance of plant	2,188,192	2,449,060
Scholarships and fellowships	3,990,894	3,462,892
Auxiliary enterprises	2,058,473	2,153,023
Depreciation	1,348,326	1,126,137
Total Operating Expenses	29,542,852	35,630,248
Operating Loss	(21,767,102)	(28,034,400)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	9,138,836	10,919,861
Maintenance ad-valorem taxes		
Taxes for maintenance & operations	1,354,269	1,245,710
Federal grants and contracts non-operating	8,256,173	6,366,406
Gifts	1,515,454	96,501
Investment income (net of investment expenses)	137,479	188,711
Rent income	106,810	89,475
Other non-operating revenues	1,468,329	603,626
Net non-operating revenues	21,977,350	19,510,290
Increase (Decrease) in Net Assets	210,248	(8,524,110)
Net Assets - Beginning of Year	25,850,490	34,374,600
Net Assets - End of Year	\$ 26,060,738	\$ 25,850,490

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

TEXARKANA COLLEGE FOUNDATION, INC.

COMPONENT UNIT

STATEMENT OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS		
Revenues and gains:		
Contributions and fund raising	\$ 76,924	\$ 36,236
Interest income	50,539	60,436
Dividend income	4,797	5,151
Net realized gain (loss) on investments	1,682	(854)
Net unrealized gain on investments	20,175	63,969
	<u>154,117</u>	<u>164,938</u>
Total unrestricted revenues and gains		
Net assets released from restrictions:		
Temporarily restricted assets		
Satisfaction of scholarships and other restrictions	115,198	69,596
	<u>115,198</u>	<u>69,596</u>
Total net assets released from restrictions		
Total unrestricted support and gains	<u>269,315</u>	<u>234,534</u>
EXPENSES		
Program services:		
Scholarships	196,185	145,823
Grants	3,000	23,809
Fiduciary fees	10,102	10,156
Professional Fees	15,322	-
Miscellaneous	872	-
Total expenses	<u>225,481</u>	<u>179,788</u>
Increase in unrestricted net assets	43,834	54,746
TEMPORARILY RESTRICTED NET ASSETS		
Support:		
Contributions	129,104	-
Interest income	38,662	44,140
Dividend income	10,562	11,475
Net realized gain on investments	-	-
Net unrealized gain (loss) on investments	12,462	23,362
Net assets released from restriction:		
Satisfaction of scholarship and other restrictions	(115,198)	(69,596)
	<u>75,592</u>	<u>9,381</u>
Increase in temporarily restricted net assets		
PERMANENTLY RESTRICTED NET ASSETS		
Refunds	(19,556)	(10,556)
Decrease in permanently restricted net assets	<u>(19,556)</u>	<u>(10,556)</u>
INCREASE IN NET ASSETS	99,870	53,571
NET ASSETS, BEGINNING OF YEAR	<u>3,459,651</u>	<u>3,406,080</u>
NET ASSETS, END OF YEAR	<u>\$ 3,559,522</u>	<u>\$ 3,459,651</u>

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

TEXARKANA COLLEGE

EXHIBIT 3

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2012 and 2011

Cash Flows From Operating Activities	2012	2011
Receipts from students and other customers	\$ 4,992,326	\$ 5,409,647
Receipts of grants and contracts	1,702,289	1,821,864
Other receipts	468,461	359,525
Payments to or on behalf of employees	(12,062,753)	(10,721,810)
Payments to suppliers for goods or services	(10,858,719)	(15,359,227)
Payments of scholarships	(3,990,894)	(3,462,892)
Net cash used by operating activities	<u>(19,749,290)</u>	<u>(21,952,893)</u>
Cash Flows From Non-capital Financing Activities		
Receipts from state appropriations	7,734,664	7,975,087
Ad valorem tax revenues	1,354,269	1,245,710
Federal revenue non-operating	8,256,173	6,366,406
Other receipts	1,575,139	693,101
Net cash provided by non-capital financing activities	<u>20,435,699</u>	<u>16,376,805</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(873,627)	(3,873,195)
Net cash used by capital and related financing activities	<u>(873,627)</u>	<u>(3,873,195)</u>
Cash Flows From Investing Activities		
Proceeds from sale and maturity of investments	2,134,642	8,794,000
Investment Earnings	137,479	188,711
Sale (Purchase) of investments	3,088,446	(33,987)
Net cash provided (used) by investing activities	<u>5,360,567</u>	<u>8,948,724</u>
Increase (Decrease) in cash and cash equivalents	5,173,349	(500,559)
Cash and cash equivalents - September 1,	<u>977,505</u>	<u>1,478,064</u>
Cash and cash equivalents - August 31,	<u>\$ 6,150,854</u>	<u>\$ 977,505</u>

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

TEXARKANA COLLEGE

EXHIBIT 3

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (21,767,102)	\$ (28,034,400)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Staff benefits paid directly by state	1,404,172	2,944,774
Depreciation expense	1,348,326	1,126,137
Loss on the involuntary conversion of assets	-	1,535,379
Changes in assets and liabilities		
Receivables, net	(765,726)	(2,880,340)
Inventories	(147,395)	202,326
Loans to students	-	47,721
Accounts payable	219,008	(6,884)
Accrued Expenses	(118,276)	300,781
Funds held for others	(12,349)	(15,263)
Deferred revenue	153,052	2,827,807
Deposits held for others	4,360	(9,529)
Compensated absences	(67,360)	8,598
Net cash used by operating activities	<u><u>\$ (19,749,290)</u></u>	<u><u>\$ (21,952,893)</u></u>

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

TEXARKANA COLLEGE FOUNDATION, INC.

COMPONENT UNIT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 99,870	\$ 53,571
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized investment gain (loss)	34,319	86,477
(Increase) decrease in assets:		
Accrued interest and dividends	5,198	(20,438)
Unconditional promises to Give - Net	-	48,179
Increase (decrease) in liabilities:		
Due to College	1,000	-
	<u>140,387</u>	<u>167,789</u>
CASH PROVIDED BY OPERATING ACTIVITIES	140,387	167,789
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	(48,464)	1,208,494
Sale (Purchase) of investments	280,503	(1,021,122)
	<u>232,039</u>	<u>187,372</u>
CASH PROVIDED BY INVESTING ACTIVITIES	232,039	187,372
INCREASE IN CASH AND CASH EQUIVALENTS	372,426	355,161
CASH AT BEGINNING OF YEAR	<u>644,089</u>	<u>288,928</u>
CASH AT END OF YEAR	<u>\$ 1,016,515</u>	<u>\$ 644,089</u>

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

NOTES TO THE FINANCIAL STATEMENTS

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 1 - Reporting Entity

Texarkana College was established in 1927 in accordance with the laws of the State of Texas to serve the educational needs of Texarkana and the surrounding communities. The Texarkana College District is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14.

The Texarkana College Board of Trustees, a nine member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to Texarkana College. The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

These statements include, as a component unit, Texarkana College Foundation, Inc. See Note 21.

Note 2 - Summary of Significant Accounting Policies

Reporting Guidelines

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

Basis of Accounting

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

Inventories

Inventories consist of bookstore stock as of August 31, 2012 and 2011. Inventories are stated at lower of cost or market using the first-in, first-out (FIFO) method and are charged to expense as consumed.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

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

Texarkana College Foundation, Inc. - Net Assets

Temporarily restricted net assets are available for the purposes designated by the donor, primarily scholarships. These net assets consist primarily of investment earnings from permanently restricted assets.

Permanently restricted net assets are to provide a permanent endowment. The investment income from these endowments is temporarily restricted to fund scholarships grants.

Tuition Discounting

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

Title IV, HEA Program Funds: Certain Title IV HEA Program funds are received by the College to pass through to the student. These funds are initially received by the College and recorded as restricted revenue. When funds are awarded to students and used for tuition and fees the amounts are recorded as revenue, and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

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

Budgetary Data

The College is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The official College budget prepared on the accrual basis of accounting for the current unrestricted fund was adopted by the board on August 23, 2011. The budget was properly amended by the board as needed throughout the year. Copies of the adopted budget were filed with the Texas Higher Education Coordinating Board, Governor's Office of Budget and Planning, Legislative Budget Board, and the Legislative Reference Library. The College is prohibited from budgeting total proposed expenditures in excess of total anticipated revenues and unencumbered funds from prior years.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

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

Cash and Cash Equivalents

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

Investments

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

Operating and Non-Operating Revenues and Expenses

The College distinguishes operating revenues and expenses from non-operating items. The College's operating activities are shown as a business-type activity and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees, federal grants, state grants and auxiliary enterprises. The major non-operating revenues are state appropriations, property taxes, title IV funds, and investment income. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Capital Assets

Capital assets are stated at cost. Donated capital assets are valued at their estimated fair market value on the date received. The College's policy is to capitalize equipment with a value greater than \$5,000 and an estimated life greater than one year. Renovations of \$100,000 to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The cost 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 College reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight -line method over the estimated useful lives of the assets applying the half-year convention. Estimated useful lives for depreciable assets are as follows:

Building	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
Software Costs	3 years

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

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

Deferred Revenues

Tuition, fees, and other revenues received and related to the periods after August 31, 2012 and 2011 have been deferred.

Estimates

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

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. None of the reclassifications affect the previously reported change in net assets.

Date of Management's Review

Subsequent events were evaluated through October 31, 2012, which is the date the financial statements were available to be issued.

Note 3 - Authorized Investments

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

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 4 - Deposits and Investments

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

	<u>2012</u>	<u>2011</u>
Bank Deposits		
Demand Deposits	6,147,649	968,614
Certificates of Deposit	1,534,358	5,542,000
Cash and Cash Equivalents		
Petty Cash on Hand	3,205	8,891
Total Cash and Deposits	<u>\$ 7,685,212</u>	<u>\$ 6,519,505</u>

Reconciliation of deposits and investments to the statement of net assets:

Type of Security	<u>Market Value</u> <u>2012</u>	<u>Market Value</u> <u>2011</u>
Money Market Accounts	\$ -	\$ 464,570
U.S. Government Securities	-	738,986
Mutual Funds	-	11,890
Total Insurance Fund Investments	-	1,215,446
Total Cash and Deposits	7,685,212	6,519,505
Total Deposits and Investments	<u>7,685,212</u>	<u>7,734,951</u>
Cash and Cash Equivalents (Exhibit 1)	3,475,978	976,671
Restricted cash and cash equivalents (Exhibit 1)	2,674,876	834
Total Cash and Cash equivalents	<u>6,150,854</u>	<u>977,505</u>
Short-term investments (Exhibit 1)	1,534,358	3,669,000
Endowment investments (Exhibit 1)	-	1,873,000
Insurance Fund investments (Exhibit 1)	-	1,215,446
Total Investments	<u>1,534,358</u>	<u>6,757,446</u>
Total Deposits and Investments	<u>\$ 7,685,212</u>	<u>\$ 7,734,951</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 4 - Deposits and Investments (continued)

Cash and deposits for Texarkana College Foundation, Inc. reported on the statement of net assets consist of the following:

	<u>2011</u>	<u>2010</u>
Cash and Cash Equivalents		
Cash on Deposit	\$ 26,449	\$ 18,791
U.S. Savings Bonds	-	-
Money Market Funds	990,066	625,298
Total Cash and Deposits	<u>\$ 1,016,515</u>	<u>\$ 644,089</u>

Investments for the Texarkana College Foundation, Inc. reported on the statement of net assets are as follows:

<u>Type of Security</u>	<u>Market Value</u> <u>December 31 ,</u> <u>2011</u>	<u>Market Value</u> <u>December 31 ,</u> <u>2010</u>
U.S. Government Agencies Securities	\$ 1,686,583	\$ 2,460,947
Corporate Debt Instruments	493,861	-
Mutual Funds	395,770	388,842
Common Stock	52,551	45,334
Total Investments	<u>\$ 2,628,765</u>	<u>\$ 2,895,123</u>

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

<u>Investment Type</u>	<u>Credit</u> <u>Rating</u>	<u>Cost</u>	<u>Market</u> <u>Value</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>(Years)</u>
Money Market	N/A	\$ -	\$ -	N/A
U.S. Government Agencies Securities	AAA	-	-	N/A
Mutual Funds	AAA	-	-	N/A
Certificates of Deposit	N/A	1,534,358	1,534,358	0.15
Total Texarkana College		<u>\$ 1,534,358</u>	<u>\$ 1,534,358</u>	

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 4 - Deposits and Investments (continued)

As of December 31, 2011, Texarkana College Foundation, Inc. had the following investments and maturities:

	Credit		Market	Weighted
	Rating	Cost	Value	Average
				Maturity
				(Years)
U.S. Government Agencies Securities	AAA	\$ 1,665,483	\$ 1,686,583	6.3
Corporate Debt Instruments	AAA	488,383	493,861	7.6
Mutual Funds	AAA	381,753	395,770	N/A
Equities/Common Stock	A+	1,148	52,551	N/A
Total Texarkana College Foundation, Inc.		<u>\$ 2,536,767</u>	<u>\$ 2,628,765</u>	

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

Credit Risk: In accordance with state law and Texarkana College policy, funds may be invested in obligations of the United States or its agencies, direct obligations of the State of Texas or its agencies, obligations of political subdivisions rated not less than A by a national investment rating firm, certificates of deposit, and other instruments and obligations authorized by statute.

Concentration of Credit Risk: The College does not place a limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in certificates of deposit (100%).

The Foundation does not place a limit on the amount that may be invested in any one issuer. More than 5% of the Foundation's investments are in FHLB (47%), FFCB (14%), money market funds (27%), and Mutual Funds (11%).

Custodial Credit Risk: At August 31, 2012, the carrying amount of Texarkana College's bank deposits was \$7,685,212 and total bank balances equaled \$8,215,397. Bank balances of \$750,000 are covered by federal depository insurance and \$9,256,002 was covered by collateral pledged in Texarkana College's name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

At August 31, 2011, the carrying amount of Texarkana College's bank deposits was \$7,734,951 and total bank balances equaled \$8,388,253. Bank balances of \$500,000 are covered by federal depository insurance and \$7,888,253 was covered by collateral pledged in Texarkana College's name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 5 - Delinquent Property Taxes and Taxes Receivable

Property taxes are levied by October 1 in accordance with the Texas Property tax code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year in which imposed. The Board contracted with the Bowie Central Appraisal District for the collection of district taxes. Collections of current taxes are remitted to the College daily; delinquent taxes are remitted monthly.

	<u>August 31</u>	
	<u>2012</u>	<u>2011</u>
Assessed valuation of the District	\$ 1,285,803,150	\$ 1,292,389,101
Less: Exemptions	(11,283,291)	(11,060,464)
Net assessed Valuation of the District	<u>\$ 1,274,519,859</u>	<u>\$ 1,281,328,637</u>

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax rate authorized per \$100 valuation	1.0000	0.00000	1.00000
Tax rate assessed per \$100 valuation for 2012	0.10534	0.00000	0.10534
Tax rate assessed per \$100 valuation for 2011	0.09754	0.00000	0.09754

Taxes levied for the years ended August 31, 2012 and 2011 were \$1,347,253 and \$1,254,021, respectively including any penalty and interest assessed.

	<u>Current Operations</u>	
<u>Taxes Collected</u>	<u>2012</u>	<u>2011</u>
Current Taxes Collected	\$ 1,306,081	\$ 1,189,964
Delinquent Taxes Collected	30,680	38,583
Penalties and Interest Collected	17,508	17,163
Total Collections	<u>\$ 1,354,269</u>	<u>\$ 1,245,710</u>

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

Note 6 – Capital Assets

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

	<u>Balance August 31, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2012</u>
<u>Not Depreciated:</u>				
Land	\$ 1,433,905	\$ -	\$ -	\$ 1,433,905
Construction in Process	2,762,585	618,155	(3,380,740)	-
Total Not Depreciated	<u>4,196,490</u>	<u>618,155</u>	<u>(3,380,740)</u>	<u>1,433,905</u>
<u>Buildings and Other Capital Assets:</u>				
Infrastructure	462,825	-	-	462,825
Buildings	21,859,164	3,380,740	-	25,239,907
Land Improvements	3,310,376	-	-	3,310,376
Software	968,158	-	-	968,158
Library Books	2,231,942	48,775	-	2,280,718
Furniture and Equipment	3,475,982	206,695	-	3,682,677
Total Building and Other Capital Assets	<u>32,308,447</u>	<u>3,636,210</u>	<u>-</u>	<u>35,944,661</u>
<u>Accumulated Depreciation</u>				
Infrastructure	433,794	5,890	-	439,683
Buildings	8,577,603	681,861	-	9,259,462
Land Improvements	2,690,360	90,169	-	2,780,530
Software	182,257	193,632	-	375,889
Library Books	1,692,908	63,653	-	1,756,563
Furniture and Equipment	1,936,463	313,121	-	2,249,586
Total Accumulated Depreciation	<u>15,513,385</u>	<u>1,348,326</u>	<u>-</u>	<u>16,861,713</u>
Net Capital Assets	<u>\$ 20,991,552</u>	<u>\$ 2,906,039</u>	<u>\$ (3,380,740)</u>	<u>\$ 20,516,853</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 6 – Capital Assets (continued)

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

	<u>Balance August 31, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2011</u>
<u>Not Depreciated:</u>				
Land	\$ 1,433,905			\$ 1,433,905
Construction in Process	769,258	2,762,585	(769,258)	2,762,585
Total Not Depreciated	<u>2,203,163</u>	<u>2,762,585</u>	<u>(769,258)</u>	<u>4,196,490</u>
<u>Buildings and Other Capital Assets:</u>				
Infrastructure	462,825			462,825
Buildings	25,116,110	133,424	(3,390,370)	21,859,164
Land Improvements	3,291,711	33,745	(15,080)	3,310,376
Software	-	968,158		968,158
Library Books	2,130,542	101,400	-	2,231,942
Furniture and Equipment	3,081,174	643,140	(248,332)	3,475,982
Total Building and Other Capital Assets	<u>34,082,362</u>	<u>1,879,867</u>	<u>(3,653,782)</u>	<u>32,308,447</u>
<u>Accumulated Depreciation</u>				
Infrastructure	427,531	6,263		433,794
Buildings	9,868,611	563,982	(1,854,990)	8,577,603
Land Improvements	2,638,618	66,822	(15,080)	2,690,360
Software	-	182,257		182,257
Library Books	1,632,336	60,572	-	1,692,908
Furniture and Equipment	1,938,556	246,239	(248,332)	1,936,463
Total Accumulated Depreciation	<u>16,505,652</u>	<u>1,126,135</u>	<u>(2,118,402)</u>	<u>15,513,385</u>
Net Capital Assets	<u>\$ 19,779,873</u>	<u>\$ 3,516,317</u>	<u>\$ (2,304,638)</u>	<u>\$ 20,991,552</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 7 – Restricted Plant Funds

In August of 1981, the Board adopted a policy to set aside the depreciation fund for equipment to be replaced or repaired in future years. The amount transferred will be restricted, for equipment renewal and replacement. The accumulated reserve is not to exceed \$300,000. During 2011, the Board removed the restriction on the depreciation fund for equipment due to cash flow needs; therefore, no amounts were restricted for the years ended August 31, 2012 and 2011.

Note 8 – Long-term Liabilities

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

	Balance August 31, 2011	Additions	Reductions	Balance August 31, 2012
Compensated absences	\$ 616,476	\$ -	\$ (67,360)	\$ 549,116
Accounts payable restricted	18,186	1,243,392	(18,186)	1,243,392
Total long-term liabilities	<u>\$ 634,662</u>	<u>\$ 1,243,392</u>	<u>\$ (85,546)</u>	<u>\$ 1,792,508</u>

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

	Balance August 31, 2010	Additions	Reductions	Balance August 31, 2011
Compensated absences	\$ 607,878	\$ 8,598	\$ -	\$ 616,476
Accounts payable restricted	80,133	18,186	(80,133)	18,186
Total long-term liabilities	<u>\$ 688,011</u>	<u>\$ 26,784</u>	<u>\$ (80,133)</u>	<u>\$ 634,662</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 9 – 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. Contracts and grant revenues are recognized on Exhibit 2 and Schedule A as funds are actually expended. For federal and non-federal contracts and grants awards, funds expended, but not collected, are reported as Accounts Receivables on Exhibit 1. Contracts and grant awards that are not funded and for which the institution has not performed services are not included in the financial statements. Contract and grant award funds already committed or funds awarded during fiscal year 2012 for which monies have not been received nor funds expended totaled \$1,562,919 from federal contracts and grant awards and \$761,755 from state contracts and grant awards.

Federal receivables included in accounts receivable on Exhibit I are as follows:

	<u>2012</u>	<u>2011</u>
Pell	\$ 247,879	\$ 108,691
SEOG	-	-
College Workstudy	-	-
Federal Votech Grant	56,991	144,581
Talent Search Grant	73,699	49,934
Student Support Services Grant	77,207	29,012
H2P Grant	51,399	-
Total	<u>\$ 507,175</u>	<u>\$ 332,218</u>

Note 10 - Retirement Plan

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

Teacher Retirement System of Texas

Plan Description - Texarkana College contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. 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.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

Note 10 - 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 2012, 2011, and 2010 and a state contribution rate of 6.0 percent for the fiscal year 2012, 6.4 percent for the fiscal year 2011 and 6.58 percent for fiscal year 2010. In certain instances, the reporting district is required to make all or a portion of the state's 6.40 percent contribution for fiscal years 2012 and 2011 and 6.644 percent contribution for fiscal year 2010.

Optional Retirement Plan

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

Funding Policy - Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are (6.0%) and (6.4%), respectively. The college contributes no amounts 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.

The retirement expense to the state for the college was \$ 460,976 and \$703,708 for the fiscal years ended August 31, 2012 and 2011, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the College.

The total payroll for all of the College employees was \$13,399,565 and \$14,901,800 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the Teacher Retirement System was \$6,328,751 and \$6,388,164, and the total payroll of employees covered by the Optional Retirement Program was \$4,997,057 and \$6,570,733 for fiscal years 2012 and 2011, respectively.

Note 11 - Staff Benefits

The College provides staff benefits for its employees in the form of hospital/medical insurance, salary continuance insurance, and life insurance equal to twice the employee's annual contractual salary up to a maximum of \$45,000.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 12 – Compensable Absences

Sick leave is accumulated by employees of the institution at the rate of one day per thirty calendar days worked up to a maximum of ninety days. Effective September 1, 2000, upon retirement or termination, employees with ten years or more service with Texarkana College may be paid for any accumulated sick leave in excess of thirty days at a rate of one-half of the employee's current salary. Full-time non-contractual personnel or employees with twelve month contracts accrue vacation benefits from the date of employment at the rate of one day for each full calendar month worked up to ten vacation days per year. All accrued unused vacation time computed at the employee's daily rate of compensation is paid to the employee or his beneficiary in the event of termination, retirement, or death. Sick leave and vacation benefits of \$549,116 and \$616,476 have been accrued and reported in the accompanying Statement of Net Assets as "accrued compensable absences payable" at August 31, 2012 and 2011, respectively.

Note 13 - Deferred Compensation Plan

Texarkana College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001 and in Senate Bill No. 872 of the 63rd Legislature. The employees' investments are held in tax-deferred annuity plans pursuant to Internal Revenue Code Section 403(b). As of August 31, 2012 and 2011, the College had 50 and 55 employees, respectively, participating in the program. A total of \$256,367 and \$349,279 in payroll deductions were invested in approved plans during the years ended August 31, 2012 and 2011, respectively.

Note 14 - Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the College. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums.

The state's contribution per full-time employee and retiree was \$438.30 per month plus fifty percent of spouse and/or dependent coverage as of August 31, 2012 and totaled \$943,196 for the year then ended. The cost of providing those benefits for 130 retirees was \$779,041 and for 218 active employees was \$164,155.

The state's contribution per full-time employee and retiree was \$415.48 per month plus fifty percent of spouse and/or dependent coverage as of August 31, 2011 and totaled \$1,612,085 for the year then ended. The cost of providing those benefits for 120 retirees was \$598,291 and for 244 active employees was \$1,013,794.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 15 - Post Employment Benefits Other than Pensions

Plan Description

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

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

Funding Policy

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

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amount 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The College's contributions to SRHP for the years ended August 31, 2012, 2011, and 2010, were \$2,233,434, \$2,455,310 and \$2,427,918, respectively, which equaled the required contribution each year.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 16 – Fund Endowments

The fund balances of the various Endowment Funds included in the Statement of Net Assets are as follows:

	<u>2012</u>	<u>2011</u>
Endowment Funds		
Palmer Foundation	\$ 108,198	\$ 107,144
Endowed Chair for Teaching Excellence	184,752	181,976
J.R. Johnson	306,881	299,683
Parker-Akin Memorial	8,177	8,016
B & PW Scholarship	27,517	26,964
Leonard Scholarship	194,504	190,856
Teachers Credit Union Scholarship	23,426	18,068
Music Scholarship	27,348	26,795
General Scholarship	280,009	274,053
Al Barton Bladesmithing	5,061	4,987
Elizabeth Shaw Memorial	5,425	5,329
Kiwanis Club of Texarkana	-	7,779
Conner Student Loan	755,736	784,668
Business Administration	2,349	2,318
Quasi Endowment Funds		
Kiwanis Club of Texarkana	10,168	-
Eldridge Scholarship	70,659	57,018
Totals	<u>\$ 2,010,210</u>	<u>\$ 1,995,654</u>

Note 17 - Risk Management - Claims and Judgments

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

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

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

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 18 - Contingent Liability

Texarkana College entered into an agreement with the Texas Community College Employee Benefits Consortium to self-fund their workers' compensation plan. The agreement was effective September 1, 1991 and is administered by Hibbs - Hallmark & Company.

Texarkana College agreed to pay into the fund a fixed cost amount of \$36,787 and a maximum loss fund amount of \$111,487 for the year ended August 31, 2012. The loss fund amount was for Texarkana College's claims and for claims of other group members in excess of their loss fund maximum.

Texarkana College agreed to pay into the fund a fixed cost amount of \$47,614 and a maximum loss fund amount of \$161,764 for the year ended August 31, 2011. The loss fund amount was for Texarkana College's claims and for claims of other group members in excess of their loss fund maximum.

Texarkana College incurred expenses under the plan as follows:

	<u>2012</u>	<u>2011</u>
Fixed cost	\$ 36,787	\$ 47,614
Actual claims	16,191	22,798
Increase (decrease) in accrued liabilities	<u>(13,887)</u>	<u>6,641</u>
Total Expense	<u>\$ 39,091</u>	<u>\$ 77,053</u>

Texarkana College maximum liability for the three years ended August 31, 2012 under this agreement is \$428,140 computed as follows:

2009-2010 Maximum loss fund	\$ 154,889
2010-2011 Maximum loss fund	161,764
2011-2012 Maximum loss fund	<u>111,487</u>
Total	<u>\$ 428,140</u>

The administration of the Plan has estimated the liability for claims that have been reported but not paid and claims incurred by not reported to be \$98,765 at August 31, 2012. This liability has been accrued in the financial statements as of August 31, 2012.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 19 - Commitments and Contingencies

Grant Programs - Texarkana College participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that Texarkana College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2012 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

Since the community college's unrestricted General Revenue appropriation for the biennium was significantly less than the anticipated total of the college's compensation to be paid to employees who are TRS or ORP participants, the State appropriation was less than that apparently required by the State constitution, thereby creating a significant shortfall between the constitutional requirement and the legislative appropriation. With the 82nd Legislature appropriating less than the Constitution requires for the amount of funding community colleges should receive for the employer portion of the retirement contributions for eligible employees, TRS has asked that the college districts pay this significant shortfall; for Texarkana College, the shortfall is estimated to be approximately \$165,450. It is the position of management as well as many other community colleges that this amount will not be a liability of College; therefore, no liability has been reflected in the financial statements.

Currently, there is no pending litigation concerning this issue; however, should it be determined at a later date that that the College is responsible for the shortfall in retirement contributions, the College would be required to correct the underfunding by contributing the necessary amounts.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

Note 20 – Disaggregating of Receivables and Payables Balances

Receivables were as follows:

	<u>2012</u>	<u>2011</u>
Student Receivables	\$ 4,401,631	\$ 3,593,179
Taxes Receivable	41,489	42,251
Federal Receivable	507,175	332,218
Interest Receivable	148	77,401
Receivable Insurance Company	-	-
Allowance for Uncollectible	<u>(362,851)</u>	<u>(223,183)</u>
Total	<u><u>\$ 4,587,592</u></u>	<u><u>\$ 3,821,866</u></u>

Payables were as follows:

	<u>2012</u>	<u>2011</u>
Accounts Payable		
Vendors Payable	<u>\$ 1,427,823</u>	<u>\$ 1,208,815</u>
Accrued Liabilities:		
Salaries & Benefits Payable	\$ 439,418	\$ 460,048
Sales Tax Payable	57,309	65,448
Other Liabilities	<u>16,555</u>	<u>106,062</u>
Total Accrued Liabilities	<u><u>\$ 513,282</u></u>	<u><u>\$ 631,558</u></u>

Note 21 - Component Unit

Texarkana College Foundation, Inc. (Foundation) is a separate nonprofit corporation organized under the Texas Nonprofit Corporation Act in 1959. The purpose of the Foundation is to solicit and manage funds for the sole benefit of Texarkana College. The Foundation primarily provides scholarships to students at Texarkana College. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Under Governmental Standards Board Statement No 39, Determining Whether Certain Organizations are Component Units, an organization should report as a discretely presented component those organizations that raise and hold economic resources for the direct benefit of a government unit. Accordingly, the Foundation financial statements are included in the College's annual report as a discrete component unit. Complete financial statements of Texarkana College Foundation, Inc. can be obtained from the president of Texarkana College. The financial statements of the Foundation are as of and for the years ended December 31, 2011 and 2010.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 22 – Construction in Process

During 2008, the College buildings suffered significant damage from a hail storm. Initially, the estimated cost to repair the roofs was approximately \$200,000. After various roofs began leaking, a second study of the damage was performed during late 2009 and early 2010, and based upon that second opinion, it was suggested that all of the College's roofs be replaced. Due to significant damage, the complete removal and installation of one building's roof was performed during the 2009-2010 year at a cost of approximately \$312,000. The bid for replacement of the other roofs was not obtained until mid 2010-2011, and the bid selected for the project was approximately \$3,500,000. At August 31, 2011, various buildings were in various stages of replacement but none had been completed. The amount recorded as construction in process is the amount of the expenses paid to repair the roofs of the College as of the end of the year.

In accordance with Governmental Accounting Standards Board (GASB 42), which includes guidance on financial reporting for impairment of capital assets, the College recorded impairment on the damaged assets during the year ended August 31, 2011. Due to the magnitude of the damage, as well as the decline in service utility, the College recorded impairment for the book value and related accumulated depreciation for the replacement cost of the roofs. Based on GASB 42 guidance, the replacement cost is to be used when the original cost of the asset impaired is unknown. Because the estimates to repair the damage were unknown until the current year, the College did not recognize the entire impairment until the 2010-2011 fiscal year.

The College has received insurance proceeds as reimbursement for the project, in the amount of approximately \$2,400,000, which was recorded as an offsetting amount to the loss recorded in the financial statements during the year ended August 31, 2011.

During the year ended August 31, 2012, the College received additional insurance proceeds of approximately \$1,500,000 which has been recorded in the financial statements as other non-operating revenues.

Note 23 – Income Taxes

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

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012 and 2011

Note 24 – Related Party Transaction and Balances

Due to anticipated cash flow issues, in early 2012, management and the board of directors requested that the Texarkana College Foundation provide access to \$1,000,000 of the unrestricted funds maintained. The College requested and received funding of \$750,000 during the year; however, because the amounts were not utilized during the year, the College has recorded a liability in the amount of \$750,000 to the Texarkana College Foundation which has been included in the statement of net assets as accounts payable restricted.

Note 25 – Subsequent Events

In accordance with the Financial Accounting Standards Board (FASB) – Accounting Standards Codification, which is effective for financial period ending after June 15, 2009 and requires disclosure of the date through which the College has evaluated subsequent events, the College has evaluated events through October 31, 2012, and has determined that no disclosures are necessary.

THIS PAGE LEFT BLANK INTENTIONALLY

SUPPLEMENTAL INFORMATION

TEXARKANA COLLEGE

SCHEDULE A - SCHEDULE OF OPERATING REVENUES

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

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	Total 8/31/12	Totals 8/31/11
Tuition						
State funded courses						
In district resident tuition	\$ 801,905	\$ -	\$ 801,905	\$ -	\$ 801,905	\$ 605,016
Out of district resident tuition	4,156,754	-	4,156,754	-	4,156,754	2,177,226
TPEG (set aside)	-	192,484	192,484	-	192,484	67,675
Non-resident tuition	118,947	-	118,947	-	118,947	124,537
State funded continuing education	488,660	-	488,660	-	488,660	275,826
Non-State funded educational programs	214,609	-	214,609	-	214,609	223,997
Total Tuition	5,780,875	192,484	5,973,359	-	5,973,359	3,474,277
Fees						
General Fees	1,881,158	-	1,881,158	-	1,881,158	1,551,929
Student Service fees	216,187	-	216,187	-	216,187	220,679
Course Fees	499,057	-	499,057	-	499,057	321,817
Laboratory fees	39,866	-	39,866	-	39,866	50,386
Building use fees	-	-	-	-	-	1,774,025
Total Fees	2,636,268	-	2,636,268	-	2,636,268	3,918,836
Scholarship allowances and discounts						
Scholarship allowances	(222,281)	(604,435)	(826,716)	-	(826,716)	(476,722)
Rising star scholarships	-	(316,373)	(316,373)	-	(316,373)	(1,431,300)
Remissions and exemptions (Including border city)	(548,342)	-	(548,342)	-	(548,342)	(641,594)
TEPEG allowances	194	(203,101)	(203,101)	-	(203,101)	-
Title IV allowances	(770,429)	(2,352,949)	(2,352,949)	-	(2,352,949)	(1,363,373)
Total Scholarship Allowances	(770,429)	(3,477,052)	(4,247,481)	-	(4,247,481)	(3,912,989)
Total Net Tuition and Fees	7,646,714	(3,284,568)	4,362,146	-	4,362,146	3,480,124
Other Operating Revenues						
Federal grants and contracts	60,114	365,546	425,660	-	425,660	1,152,471
State grants and contracts	-	855,882	855,882	-	855,882	433,791
Nongovernmental grants and contracts	-	420,747	420,747	-	420,747	235,602
Sales and Services of educational activities	277,899	-	277,899	-	277,899	289,905
Other operating revenues	438,323	30,138	468,461	-	468,461	359,525
Total Other Operating Revenues	776,336	1,672,313	2,448,649	-	2,448,649	2,471,294
Auxiliary Enterprises						
Bookstore	-	-	-	1,997,058	1,997,058	1,927,179
Less discounts	-	-	-	(1,231,365)	(1,231,365)	(622,955)
Residential Life	-	-	-	238,932	238,932	99,556
Less discounts	-	-	-	(204,698)	(204,698)	-
Cafeteria	-	-	-	14,751	14,751	273,143
Less discounts	-	-	-	-	-	(37,059)
Gameroom	-	-	-	-	-	4,566
Radio	-	-	-	150,277	150,277	-
Total Net Auxiliary Enterprises	-	-	-	964,955	964,955	1,644,430
Total Operating Revenues	\$ 8,423,050	\$ (1,612,255)	\$ 6,810,795	\$ 964,955	\$ 7,775,750	\$ 7,595,848

TEXARKANA COLLEGE

SCHEDULE B - SCHEDULE OF OPERATING EXPENSES BY OBJECT

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

	Operating Expenses						Total August 31, 2011
	Salaries and Wages	Benefits		Other Expenses	Total August 31, 2012	Total August 31, 2011	
		State Benefits	Local Benefits				
Unrestricted - Educational Activities							
Instruction	7,806,409	\$ -	818,121	910,626	\$ 9,535,156	13,023,103	
Academic Support	900,540		168,139	552,056	1,620,735	2,552,275	
Student Services	1,237,050		137,743	322,333	1,697,126	2,100,814	
Institutional Support	1,611,157		421,666	2,087,129	4,119,952	7,069,445	
Operation and Maintenance of Plant	663,273		195,347	1,329,572	2,188,192	2,449,060	
Total Unrestricted Educational Activities	12,218,429	-	1,741,016	5,201,716	19,161,161	27,194,697	
Restricted - Educational Activities							
Instruction	260,477	909,068	24,165	308,007	1,501,717	912,873	
Academic Support	17,821	103,491	24	7,460	128,796	43,503	
Student Services	469,957	192,365	71,160	121,076	854,558	691,628	
Institutional Support	156,926	199,248	27,401	115,352	498,927	45,495	
Operation and Maintenance of Plant							
Scholarships and Fellowships				3,990,894	3,990,894	3,462,892	
Total Restricted Educational Activities	905,181	1,404,172	122,750	4,542,789	6,974,892	5,156,391	
Total Educational Activities	13,123,610	1,404,172	1,863,766	9,744,505	26,136,053	32,351,088	
Auxiliary Enterprises							
Depreciation Expense	275,955	54,642		1,727,876	2,058,473	2,153,023	
Building & Improvements					777,920	637,068	
Software					193,632	182,257	
Equipment & Furniture					313,121	246,240	
Library Books					63,653	60,572	
Total Auxiliary Activities & Depreciation	275,955	54,642	-	1,727,876	3,406,799	3,279,160	
Total	\$ 13,399,565	\$ 1,458,814	\$ 1,863,766	\$ 11,472,381	\$ 29,542,852	\$ 35,630,248	

TEXARKANA COLLEGE

SCHEDULE C - SCHEDULE OF NON - OPERATING REVENUES AND EXPENSES

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

	Unrestricted	Restricted	Auxiliary Enterprises	Total 8/31/12	Total 8/31/11
Non operating revenues					
Education and general state support	7,682,738	\$ -	-	\$ 7,682,738	7,975,087
Dramatic enrollment growth	-	-	-	-	628,981
State group insurance	-	943,196	-	943,196	1,612,085
State retirement matching	-	512,902	-	512,902	703,708
Total State Appropriation	7,682,738	1,456,098	-	9,138,836	10,919,861
Other non operating revenues					
Ad-valorem taxes	1,354,269	-	-	1,354,269	1,245,710
Federal Revenue non operating	-	8,256,173	-	8,256,173	6,366,406
Gifts	1,389,837	125,617	-	1,515,454	96,501
Investment income	96,850	40,629	-	137,479	188,711
Rent Income	106,810	-	-	106,810	89,475
Insurance Proceeds - Net	1,468,329	-	-	1,468,329	603,626
Total Other Non-operating Revenues	4,416,095	8,422,419	-	12,838,514	8,590,429
Total Non-operating Revenues	12,098,833	9,878,517	-	21,977,350	19,510,290
Non-Operating Expenses					
Loss on disposal of capital assets	-	-	-	-	-
Total Non Operating Expenses	-	-	-	-	-
Net Non - Operating Revenues	\$ 12,098,833	\$ 9,878,517	\$ -	\$ 21,977,350	\$ 19,510,290

See independent auditor's report

TEXARKANA COLLEGE

SCHEDULE D - SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY

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

	Detail By Source						Available for	
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Current Operations		
		Expendable	Non Expendable			Yes	No	
Current:								
Unrestricted	2,308,123			2,308,123		2,308,123		
Restricted								
Auxiliary	1,225,552			1,225,552		1,225,552		
Endowment:								
Restricted		80,827	1,929,383	2,010,210				2,010,210
Plant:								
Unexpended								
Investment in Plant								
Total Net Assets, August 31, 2012	3,533,675	80,827	1,929,383	20,516,853	26,060,738	3,533,675	20,516,853	22,527,063
Total Net Assets, August 31, 2011	1,647,838	1,272,464	1,938,636	20,991,552	25,850,490	1,647,838	24,202,652	
Net Increase (Decrease) in Net Assets	\$ 1,885,837	\$ (1,191,637)	\$ (9,253)	\$ (474,699)	\$ 210,248	\$ 1,885,837	\$ (1,675,589)	

See independent auditor's report

THIS PAGE LEFT BLANK INTENTIONALLY

Texarkana College

SCHEDULE E - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2012

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Pass Through Disbursements and Expenditures
<u>U.S. Department of Education</u>			
Direct Programs:			
<i>Student Financial Assistance Cluster:</i>			
Federal Supplemental Education Opportunity Grants	84.007 *	N/A	48,365
Federal Work Study Program	84.033 *	N/A	65,251
Federal Pell Grant	84.063 *	N/A	7,631,051
<i>Subtotal Student Financial Assistance Cluster</i>			7,744,667
<i>TRIO Cluster:</i>			
TRIO - Student Support Services	84.042 *	P042A060013	254,513
TRIO - Talent Search	84.044 *	P042A060013	256,994
<i>Subtotal TRIO Cluster</i>			511,507
Passed Through the Texas Higher Education Coordinating Board			
Vocational Education - Basic Grant	84.048	N/A	211,211
Allocated Administrative Costs	Various	N/A	29,214
Total Passed Through the Texas Higher Education Coordinating Board			240,425
Total U.S Department of Education			8,496,599
<u>U.S. Department of Labor</u>			
Direct Programs:			
Health Professional Pathways Consortium	17.282	TC-22486-11-60-A-39	185,234
Total U.S. Department of Labor			185,234
Total Federal Financial Assistance			\$ 8,681,833

* Major Program

Texarkana College

SCHEDULE E - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2012

Note 1- Federal Assistance Reconciliation

Federal Grants and Contract Revenue - Per Schedule of Operating Revenues (Schedule A)	425,660
Federal Grants and Contract Revenue - Per Schedule of Operating Revenues (Schedule C)	<u>8,256,173</u>
Total Federal Revenues per the Schedule of Expenditures of Federal Awards	<u>\$ 8,681,833</u>

Note 2- Significant Accounting Policies

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

Note 3 - Expenditures Not Subject to Federal Single Audit

None

Note 4 - Student Loans Processed and Administrative Costs Recovered

The College had no new loans processed and no administrative costs recovered related to the Federal Perkins Loan Program (CFDA 84.038) for the year ended August 31, 2012.

Note 5 - Amounts Passed Through by the College

None

Texarkana College

SCHEDULE F - SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended August 31, 2012

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Grantors Number</u>	<u>Pass Through Disbursements and Expenditures</u>
<u>Texas Higher Education Coordinating Board</u>		
Texas Grant Program	N/A	* 139,758
Texas Grant II - TEOG	N/A	* 31,241
ISP - Grant	N/A	70,420
Professional Nursing Shortage Reduction	N/A	57,592
Nursing Scholarship	N/A	29,961
STAAR Study Grant	N/A	11,179
Early High School Graduation	N/A	38,938
Total Texas Higher Education Coordinating Board		<u>379,089</u>
<u>Texas Workforce Commission</u>		
Small Business Grant	N/A	29,687
Skills Grant - JCM	N/A	* 103,675
Skills Grant - Humco	N/A	57,535
Total Texas Workforce Commission		<u>190,897</u>
<u>Texas Commission of Environmental Quality</u>		
Passed Through Sulphur River Basin Authority		
Clean Rivers Grant	N/A	57,267
Total Texas Commission on Environmental Quality		<u>57,267</u>
<u>Texas Comptroller of Public Accounts</u>		
Jet Grant	N/A	65,049
Jet Grant Round 5	N/A	* 125,974
Jet Grant Round 6	N/A	9,536
Total Texas Comptroller of Public Accounts		<u>200,559</u>
<u>Educate Texas Public-Private Initiative of Communities Foundation of Texas</u>		
STEM Grant		35,000
Total Educate Texas Public-Private Initiative of Communities Foundation of Texas		<u>35,000</u>
Total State Financial Assistance		<u>\$ 862,812</u>

* Major Program

Notes to the Schedule of Expenditures of State Awards

Note 1: Significant Accounting Policies

The accompanying schedule of expenditures of state awards has been prepared on the accrual basis of accounting. The expenditures included in this schedule are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported represent funds which have been expended by the College for the purposes of the award. The College has followed the applicable guidelines issued by the various entities in the preparation of the schedule.

TEXARKANA COLLEGE

**SCHEDULE G - AUXILIARY ENTERPRISES - STATEMENT OF INCOME AND EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2012 WITH COMPARATIVE FIGURES FOR 2011**

	2012					2011						
	Cafeteria	Bookstore	Gameroom	Housing	Radio	Total	Cafeteria	Bookstore	Gameroom	Housing	Radio	Total
Sales and Gross Profit												
Sales	\$ 14,751	\$ 1,997,058	\$ -	\$ 238,932	\$ 150,277	\$ 2,401,018	\$ 273,143	\$ 1,927,179	\$ 4,566	\$ 99,556	\$ -	\$ 2,304,444
Total Sales	<u>14,751</u>	<u>1,997,058</u>	<u>-</u>	<u>238,932</u>	<u>150,277</u>	<u>2,401,018</u>	<u>273,143</u>	<u>1,927,179</u>	<u>4,566</u>	<u>99,556</u>	<u>-</u>	<u>2,304,444</u>
Less Direct Cost												
Cost of goods sold	-	1,646,538	-	-	-	1,646,538	211,179	1,435,200	-	-	-	1,646,379
Salaries	1,371	157,289	-	13,620	103,675	275,955	189,221	149,381	-	37,700	-	376,302
Total Direct Cost	<u>1,371</u>	<u>1,803,827</u>	<u>-</u>	<u>13,620</u>	<u>103,675</u>	<u>1,922,493</u>	<u>400,400</u>	<u>1,584,581</u>	<u>-</u>	<u>37,700</u>	<u>-</u>	<u>2,022,681</u>
Gross Profit	<u>13,380</u>	<u>193,231</u>	<u>-</u>	<u>225,312</u>	<u>46,602</u>	<u>478,525</u>	<u>(127,257)</u>	<u>342,598</u>	<u>4,566</u>	<u>61,856</u>	<u>-</u>	<u>281,763</u>
Operating Expenditures												
Benefits	34	31,774	-	2,481	20,354	54,643	20,552	22,067	-	10,936	-	53,555
Supplies	-	141	-	1,249	7,531	8,922	16,995	(375)	-	5,693	-	22,313
Travel	-	-	-	-	2,358	2,358	327	3,460	-	-	-	3,787
Contracted Services	44,228	10,198	-	-	15,172	69,598	23,771	7,551	-	670	-	31,992
Capital Outlay	-	-	-	385	-	385	1,218	-	-	17,177	-	18,395
Student Aid	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	53	53	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	96	-	96
Miscellaneous	-	22	-	-	-	22	169	37	-	-	-	206
Total Operating Expenditures	<u>44,262</u>	<u>42,135</u>	<u>-</u>	<u>4,114</u>	<u>45,469</u>	<u>135,981</u>	<u>63,032</u>	<u>32,740</u>	<u>-</u>	<u>34,572</u>	<u>-</u>	<u>130,344</u>
Excess (Deficiency) of Income Over Expense	<u>\$ (30,882)</u>	<u>\$ 151,096</u>	<u>\$ -</u>	<u>\$ 221,198</u>	<u>\$ 1,132</u>	<u>\$ 342,544</u>	<u>\$ (190,289)</u>	<u>\$ 309,858</u>	<u>\$ 4,566</u>	<u>\$ 27,284</u>	<u>\$ -</u>	<u>\$ 151,419</u>

See independent auditor's report

TEXARKANA COLLEGE

SCHEDULE H - INSURANCE IN FORCE

August 31, 2012

Company	Policy Number	Coverage	Coverage In Thousands	Expiration Date
Texas Association of Public Schools	TX10093J	Property	\$ 65,848	September 1, 2012
Texas Association of Public Schools	TX10093J	Automobile Liability	\$ 1,000	September 1, 2012
Texas Association of Public Schools	TX10093J	Mobile Equipment	\$ 98	September 1, 2012
Texas Association of Public Schools	TX10093J	General Liability	\$ 1,000	September 1, 2012
Darwin Select	0202-1076	Board Liability	\$ 1,000	September 1, 2012
Fidelity & Deposit	CCP6155276	Employee Dishonesty	\$25/\$25/\$140	March 1, 2013

See independent auditor's report

***FEDERAL FINANCIAL ASSISTANCE INFORMATION
SINGLE AUDIT***

**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***

To the Board of Trustees of
Texarkana College
Texarkana, Texas

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Texarkana College (the College), as of and for the years ended August 31, 2012 and 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated October 31, 2012. 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.

Internal Control Over Financial Reporting

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

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

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

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs and identified as findings numbers 2012-1 through 2012-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-1 through 2012-3.

The College's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on it.

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



Certified Public Accountants

Texarkana, Texas
October 31, 2012

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

To the Board of Trustees
of Texarkana College
Texarkana, Texas

Compliance

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

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

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

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-1 through 2012-3 to be significant deficiencies.

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

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

Handwritten signature in cursive script that reads "Thomas & Thomas LLP".

Certified Public Accountants

Texarkana, Texas
October 31, 2012

Certified Public Accountants

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Trustees
of Texarkana College
Texarkana, Texas

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Texarkana College's financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Thomas & Thomas LLP

Certified Public Accountants

Texarkana, Texas
October 31, 2012

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section I – Summary of Auditor’s Results

Financial Statements

The Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are Not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	None Reported

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are Not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Audit findings disclosed that are required to be reported in accordance with Section 510(a) of circular A-133?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.004, 84.003, 84.063 and 84.375	Student Financial Assistance Cluster
84.042 and 84.044	TRIO Cluster

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low risk auditee?	No

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section II – Federal Award Findings and Questioned Costs

Finding 2012-1

Department of Education

Student Financial Assistance – CFDA# 84.007/84.033/84.063/84.375

Award year – July 1, 2011 to June 30, 2012

Award numbers – P063P102318, P007A104134, P033A104134, and P375A102318

Eligibility

Type of Finding – Significant Deficiency

Condition:

We noted during our testing that certain students were awarded and distributed an annual award that was inconsistent with the 2011-2012 Payment and Disbursement Schedules provided by the Department of Education based on an enrollment status that was not consistent with the standards. In addition, our testing disclosed instances where appropriate documentation such as a high school diploma or recognized equivalent was not obtained, but aid was awarded. We also noted instances where students not complying with the institutions Satisfactory Academic Progress (SAP) were awarded financial aid in error.

Criteria:

Each year, based on the maximum Pell award established by Congress, the Department of Education provides to institutions Payment and Disbursement Schedules for determining Pell awards. The Payment and Disbursement Schedule provides the maximum annual amount a student could receive for a full academic year for a given enrollment status, Expected Family Contribution (EFC), and Cost of Attendance (COA) with separate schedules for three-quarter time, half-time, and less-than-half-time students. Additionally, in determining a student's enrollment status that is the basis for the student's Pell award, a full-time student is defined as an enrolled student who is carrying a full-time academic workload. For an undergraduate student enrolled in a program that measures progress in credit hours and uses standard terms (i.e. semesters, trimesters, or quarters), a full-time academic workload is defined as a minimum of 12 semester or 12 quarter hours per academic term.

In order for a student to become eligible for financial assistance, certain documentation must be provided to the awarding institution in order for eligibility to be determined. A requirement of the Pell and FSEOG programs is that a high school diploma or its recognized equivalent must be provided.

In order for a student to be eligible for financial assistance, they must maintain good standing or satisfactory academic progress (SAP). SAP is determined each semester based on the institutions adopted policy which includes various requirements defining SAP. This policy include three significant milestones which are as follows: students must maintain an acceptable GPA as defined in the policy, students must meet the completion requirements (students must complete a specified number of hours attempted), and students must not exceed the maximum time frame for completion of their program.

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2012

Section II – Federal Award Findings and Questioned Costs (continued)

Finding 2012-1 (Continued)

Cause:

Procedures were in place for obtaining and maintaining documentation to support the amounts awarded as financial aid but in the instances noted procedures were not followed.

Effect:

Inappropriate disbursements were made in excess of appropriate amounts and to non-qualifying students.

Context:

A sample of 91 students, receiving Pell awards in the amount of \$325,576 and a sample of 51 students receiving FSEOG awards in the amount of \$28,882 during the 2011-2012 school year, was selected for audit from a population of 2,951 students receiving aid of \$7,631,051 and \$48,365 for Pell and FSEOG, respectively. The testing disclosed that 3 students that were awarded aid were awarded aid in excess of amounts determined, with questioned costs of \$1,124. Testing disclosed that 3 students were awarded aid without obtaining a high school diploma or its equivalent; however, these were subsequently obtained. Testing disclosed that 7 students received aid while not maintaining satisfactory academic progress, with questioned costs of \$16,701.

Questioned Costs: \$17,825

Recommendation:

Additional procedures should be implemented to assure that proper disbursements of Pell and FSEOG aid grants are made.

Management's Response:

Procedures for assuring that the proper disbursement of Pell and FSEOG aid grant Awards will be prepared and disseminated to the appropriate personnel. Additionally, the Financial Aid Standards of Progress (FA SAP) have been revised to better take advantage of better faculty and staff participation in the FA SAP Committee and of Banner processing. Banner processing has been revised to not allow a student on FA Suspension to receive financial aid disbursements without either meeting FA SAP standards or receiving appeal approval or the FA SAP Committee.

Responsible Individual: Kim Jones, CFO

Anticipated Completion Date: Fiscal Year 2012-2013

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section II – Federal Award Findings and Questioned Costs (continued)

Finding 2012-2

Department of Education

Student Financial Assistance – CFDA# 84.007/84.033/84.063/84.375

Award year – July 1, 2011 to June 30, 2012

Award numbers – P063P102318, P007A104134, P033A104134, and P375A102318

Special Tests and Provisions – Return of Title IV Funds

Type of Finding – Significant Deficiency

Condition:

The Return of funds to Title IV was not performed on a timely basis throughout the year.

Criteria:

The amount of earned Title IV grant is calculated by determining the percentage of Title IV grant assistance that has been earned by a student and applying that percentage to the total amount of Title IV grant assistance that was or could have been disbursed to the student for the payment period of enrollment as of the student's withdrawal date. A student earns 100% if his or her withdrawal date is after the completion of 60% or more of the period of enrollment for a program measured in credit hours.

When a recipient of Title IV grant assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment.

Cause:

There is no clear systemic approach to assure that return to Title IV calculations are performed within required timeframes.

Effect:

Funding not returned to Title IV on a timely basis could be construed as poor cash management and the College utilizing government funds for their use during the year.

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2012

Section II – Federal Award Findings and Questioned Costs (continued)

Finding 2012-2 (continued)

Context:

A sample of 70 students receiving aid (51 Pell students and 9 FSEOG students) was selected for audit from a population of 2,951 students. The tests disclosed that 5 FSEOG and 33 Pell return to Title IV remittances were not submitted within the allowed 45 day timeframe. Of that sample, 4 were properly returned within the established guidelines while 28 did not require amounts to be returned.

Questioned Costs:

Questioned costs are indeterminable because the calculation would require an overall approach to determining when amounts should have been remitted, when amounts were actually remitted and any earnings due the government.

Recommendation:

The College should implement a formal monthly process whereby, Return to Title IV calculations are performed based on a consistent basis of academic enrollment reporting and to assure that those amounts are remitted to the state within the required 45 days after the date the institution determines that the students withdrew.

Management's Response:

In the 2010 – 2011 Audit, the College discovered that many students who received financial aid withdrew without a R2T4 calculation being performed. Therefore, the College concentrated its efforts in the 2011 – 2012 year on ensuring that all withdraw students were identified and that R2T4 calculations were performed correctly, while implementing Banner for the first year. The College feels that it has met its goal of performing R2T4 calculations for all withdrawn students, but did not meet the goal of performing the calculations and returning funds in a timely manner.

The College was not prepared for the complications of coordinating withdraw information campus wide in a timely manner. There was a learning curve in the Registrar's Office on how to access the withdraw information, how to set up the information in Banner Withdraw Screens, and on how to forward the information to the Financial Aid Office for R2T4 calculations. Further, there was a turnover with the position of the Registrar. A new administrator had to be trained in her role with R2T4 processes.

The College will concentrate its efforts on accessing the withdraw information in a timely manner, so that returns can be sent back in a timely manner. This is a situation that the College expects to have resolved during the 2012 – 2013 year.

Responsible Individual: Kim Jones, CFO

Anticipated Completion Date: Fiscal Year 2012-2013

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section II – Federal Award Findings and Questioned Costs (continued)

Finding 2012-3

Department of Education

Student Financial Assistance – CFDA# 84.007/84.033/84.063/84.375

Award year – July 1, 2011 to June 30, 2012

Award numbers – P063P102318, P007A104134, P033A104134, and P375A102318

Special Tests and Provisions – Disbursements to or on behalf of student

Type of Finding – Significant Deficiency

Condition:

Once student aid has been determined, the amounts must be distributed to the students either through a credit to the students account or through disbursement. In a sample of students selected for testing we noted that the disbursement date did not match the date the funds were distributed or made available to the student.

Criteria:

The disbursement amount and the date in the Common Origination and Disbursement (COD) System should match the disbursement date and amount in students' accounts or the amount and date the funds were otherwise made available to the students. The time frame established by the government in 34 CFR Section 665.164 requires that refunds be distributed no later than 14 days after the credit balance has been established.

Cause:

The Banner system automatically updates the date and amount of distribution to the students account; however, the funds were not actually disbursed to the student by the Business Office until a later date.

Effect:

The College failed to disburse funding within the 14 day time frame established.

Context:

A sample of 142 students receiving aid during the 2011-2012 year was selected for audit from a population of 2,951. The test found that 12 students did not receive refunds of credit balances due until after the established time frame of 14 days.

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2012

Section II – Federal Award Findings and Questioned Costs (continued)

Finding 2012-3 (continued)

Questioned Costs:

Questioned costs are indeterminable because the calculation would require an overall approach to determining when amounts should have been remitted, when amounts were actually remitted and any earnings due the government.

Recommendation:

The College should implement a formal process to correct the Pell disbursement date in the COD System to update the estimated date with the actual disbursement date when the funds are disbursed to the students.

Management's Response:

The College is in the process of implementing additional procedures to ensure that once student balances have been disbursed to the students' accounts that federal student aid balances are paid within the required 14 day time frame.

Responsible Individual:

Kim Jones, CFO

Anticipated Completion Date:

Fiscal Year 2012-2013

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section III – Findings and Questioned Costs – Major Federal Award Programs

Prior Year Findings and Questioned Costs Relating to Federal Awards

Finding 2011-1 – Internal Controls Related to Accounts Payable

With the implementation of the Banner System, all purchases are now initiated through a formal requisition process that checks the budget and requires various electronic approvals before a purchase order is created. All accounts payable payments and related documentation is reviewed and approved by the Controller or Chief Financial Officer before the payment is remitted to the vendor.

Finding 2011-2 - Internal Controls Related to Payroll

A clearly defined structure for the payroll system was established to ensure that properly authorized documentation is maintained to support all payments and withholdings. Every payroll is approved by the director of human resources and the chief financial officer prior to being transmitted to the bank by the business office. The college instituted time sheets for all non-exempt personnel and is properly complying with the Department of Labor's requirement to pay overtime. An electronic process was implemented to calculate accrued sick leave and vacation payments, which requires approval by the director of human resources prior to payment. All payroll records are maintained in a secure area and are only accessible to authorized personnel.

Finding 2011-3 - Internal Controls Related to Inventory

Detailed inventory reports are printed monthly and various locations within the bookstore are counted on a systematic basis to identify discrepancies. All discrepancies are researched and resolved by the bookstore manager.

As it relates to the physical inventory, inventory counters are required to read and understand written procedures regarding the physical inventory process. Count tags are utilized to ensure all items are counted and the inventory process is supervised by the bookstore manager who reports directly to the Chief Financial Officer.

Finding 2011-4 - Internal Controls Related to Fixed Assets

A detailed review of expense accounts was performed to ensure all fixed assets had been appropriately capitalized. Account coding for purchases were reviewed through the requisition process throughout the year to ensure that items meeting the college's capitalization threshold were properly coded. In addition, depreciation expense was recorded on a monthly basis.

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section III – Findings and Questioned Costs – Major Federal Award Programs

Prior Year Findings and Questioned Costs Relating to Federal Awards (Continued)

Finding 2011-5 - Internal Controls Related to General Ledger and Payroll

Entries to the accounting system outside of the normal recording of income and expenses are limited to the Staff Accountant and Business Office Manager. All journal entries are approved electronically through the Banner System by the Controller or Chief Financial Officer.

Payroll is reviewed and compared to the payroll registers each pay period by the Director of Human Resources and the Chief Financial Officer.

Finding 2011-6 - Internal Controls Related to Book Store Information Technology

A policy was implemented restricting a student worker from access to restore or delete back-up data related to book store activity. The Information Technology department is notified prior to the start of inventory to retrieve and back up all inventory data on the server. All instances requiring access to restore or delete back up data is performed only by the Information Technology department.

Finding 2011-7 - Internal Controls Related to Accounts Receivable

The Banner System produces an Accounts Receivable Aging report on a daily basis. This report is reviewed on a regular basis to determine collectability of accounts.

Finding 2011-8 - Internal Controls Related to Investment Earnings

Investment income is calculated and adjusted on a monthly basis. The calculation and adjustment are reviewed and approved by the Controller and Chief Financial Officer.

Finding 2011-9 - Internal Controls Related to Book Store Cash Registers

One employee is assigned to a specific cash register each shift. At the end of each shift, each employee's register is counted by the assigned employee and recounted by a manager. Both the employee and the manager initial a printed cash register report after the count is verified.

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section III – Findings and Questioned Costs – Major Federal Award Programs

Prior Year Findings and Questioned Costs Relating to Federal Awards (Continued)

Finding 2011-10 – Requests for Funding and Supporting Documentation

To address this deficiency management has:

Purchased and installed a multi-million dollar integrated Finance, HR, and Student Information System (Banner).

The Banner System provides the capability to track grant information and requires that the request pass a system of edit checks in Banner before the request is submitted. Further, it provides the college with the ability to access records and reports for reconciliation purposes.

The Banner System has created an automated Financial Aid awarding and disbursement system. Starting in 2011 – 2012 year, Banner created automated origination files that go through several edits before financial aid funding requests are submitted. Further, it provides the college with accessible records and reports for reconciliation purposes.

Management is confident that the implementation of Banner provides the school with the means to properly record expenses and assess the status of funding requests before the requests are initiated.

Finding 2011-11 – Student Financial Assistance - Eligibility

To address this deficiency management has:

Developed a formal Policies and Procedures Manual for Financial Aid for the 2011- 2012 year.

Further, most of the policies and procedures used when determining financial aid eligibility have been programmed in the Banner Information System. The determination of eligibility for financial aid awards and federal funds is now automated by Banner.

Management is confident that the established policies and procedures, in combination with the programming in the Banner Information System to automate the determination of eligibility, has addressed the audit recommendation to establish a process to more accurately determine financial aid need and eligibility than did the manual paper system used in 2010 – 2011.

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2012

Section III – Findings and Questioned Costs – Major Federal Award Programs

Prior Year Findings and Questioned Costs Relating to Federal Awards (Continued)

Finding 2011-12 - Student Financial Assistance - Eligibility

Due to federal budget cuts there was no longer an ACG program for management to administer after the 2010 – 2011 year.

Finding 2011-13 - Student Financial Assistance - Eligibility

It is the position of management that 2010 – 2011 Pell awards and disbursements were in accordance with standards mentioned by the auditor.

During a recent review of 2010 - 2011 student Pell Grant files conducted by Institutional Compliance Specialists at the Department of Education, management concluded that the very same files that did not pass the auditors review were found to be in compliance under the specialists review. Management identified that key information and documents were not passed on to the auditor at the time of the audit.

During the time of the audit, there had been a massive turnover in staff throughout the Enrollment Management Services area, which included the Financial Aid Office and the Director of Financial Aid. During the time of the audit, the staff available was too recently hired to answer the auditor's inquiries and locate key documents requested by the auditor. Documentation subsequently located and provided to the Institutional Compliance Specialists at the Department of Education demonstrated appropriate documentation of administration of the Pell grant funds for the 2010 – 2011 year.

Finding 2011-14 - Student Financial Assistance - Eligibility

Due to federal budget cuts there was no longer an ACG program for management to administer after the 2010 – 2011 year.

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section III – Findings and Questioned Costs – Major Federal Award Programs

Prior Year Findings and Questioned Costs Relating to Federal Awards (Continued)

Finding 2011-15 - Student Financial Assistance - Eligibility

It is the position of management that the college maintained sufficient documentation of costs used in the calculation of the cost of attendance. Further, the documentation does demonstrate the assumptions and methodology used in the determination of the cost of attendance at Texarkana College.

During a recent review of 2010 - 2011 Cost of Attendance conducted by Institutional Compliance Specialists at the Department of Education, management concluded that key information and documents were not passed on to the auditor at the time of the audit.

Specifically, an entire file showing the source of documentation used in the cost of attendance, documentation of how initial costs were determined, and documentation of how cost of attendance was constructed at Texarkana College was never provided to the auditor.

During the time of the audit, there had been a massive turnover in staff throughout the Enrollment Management Services area, which included the Financial Aid Office and the Director of Financial Aid. During the time of the audit, the staff available was too recently hired to answer the auditor's inquiries and locate key documents requested by the auditor. Documentation subsequently located and provided to the Institutional Compliance Specialists at the Department of Education demonstrated appropriate methods and documentation of how the cost of attendance was determined for the 2010 – 2011 year.

Finding 2011-16 - Student Financial Assistance – Return of Title IV Funds

To address this deficiency management has:

Purchased and installed a multi-million dollar integrated Finance, HR, and Student Information System (Banner).

Although during the 2011 – 2012 year, the Banner System performed the required Return to Title IV calculations automatically using federally mandated criteria and provided enrollment reports of students who withdrew from the college and were in need of a Return to Title IV calculation, the College continues to have issues related to timely funding of Return to Title IV as noted in Finding 2012-3. Management is in the process of reviewing its procedures and making the appropriate changes to procedures within the academic reporting and financial aid processes to ensure future issues related to Return to Title IV do not occur.

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2012

Section III – Findings and Questioned Costs – Major Federal Award Programs

Prior Year Findings and Questioned Costs Relating to Federal Awards (Continued)

Finding 2011-16 - Student Financial Assistance – Return of Title IV Funds (continued)

Management feels that once installed and programed properly that Banner will provide the school with the means to properly and quickly execute the required Return to Title IV calculations and funds returned process.

Finding 2011-17 - Student Financial Assistance – Disbursements to or on Behalf of Students

To address this deficiency management has:

Purchased and installed a multi-million dollar integrated Finance, HR, and Student Information System (Banner).

The Banner system automatically creates fund origination/disbursement records, including the amounts and dates, thereby eliminating manual data entry that was needed to update the estimated date with the actual disbursement date. Further, Banner automatically checks the enrollment level of the student at the time of disbursement. Management is confident that the auditor's finding has been addressed with the elimination of paper vouchers and manual data entry, in conjunction with the implementation of automated processes in the Banner system.

Finding 2011-18 - Student Financial Assistance – Cash Management

It is the position of management that the college was in compliance with this standard.

A well-documented system that required approval prior to cash draw-downs from funding sources, required timely reviews of withdrawals, and monitored the matching requirements to ensure that the College was in compliance with the requirements of the funding source was not made available to the auditor at the time of the audit.

During the time of the audit, there had been a massive turnover in staff throughout the institution, which included the Business Office, Financial Aid Office, Director of Financial Aid and the Chief Financial Officer in the Business Office. During the time of the audit, the staff available was too recently hired to answer the auditor's inquiries and locate key documents requested by the auditor. Documentation subsequently located and provided to the Institutional Compliance Specialists at the Department of Education demonstrated appropriate methods and documentation of how cash management procedures were in place and operating effectively for the 2010 – 2011 year.

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section III – Findings and Questioned Costs – Major Federal Award Programs

Prior Year Findings and Questioned Costs Relating to Federal Awards (Continued)

Finding 2011-18 - Student Financial Assistance – Cash Management (continued)

Additionally, management has:

Developed a formal Policies and Procedures Manual for Financial Aid starting in the 2011- 2012 year which includes a description of the formal process to ensure that drawdowns are approved prior to the initiation of the drawdown, that the correct amount was drawn down, provides for the review of withdrawals, and monitors the matching requirements to ensure compliance for the College.

Hired a new Financial Aid Director and a new Comptroller to facilitate compliance and reconciliation. In addition, TC Enrollment Management Services, which includes the Financial Aid Office, now reports to the Chief Financial Officer on the organizational chart. The inter-departmental cooperation, along with the supervision and control of reporting under the structure of the financial branch of the organizational chart, has furthered the objectives of compliance and reconciliation.

Purchased and installed a multi-million dollar integrated Finance, HR, and Student Information System (Banner).

Starting in 2011 – 2012, the Banner system facilitated compliance and reconciliation of financial aid funding to ensure that correct amounts are drawn down and properly monitored.

Finding 2011-19 - Student Financial Assistance – Reporting

To address this deficiency management has:

Purchased and installed a multi-million dollar integrated Finance, HR, and Student Information System (Banner).

The Banner system automatically creates fund origination/disbursement records without manual data entry which ensures that data is reported to the COD system accurately. No manual data entries in COD exist as of 2011 – 2012.

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2012

Section III – Findings and Questioned Costs – Major Federal Award Programs

Prior Year Findings and Questioned Costs Relating to Federal Awards (Continued)

Finding 2011-20 - Student Financial Assistance and TRIO - Matching

To address this deficiency management has:

Developed a formal Policies and Procedures Manual for Financial Aid starting in the 2011- 2012 year which includes a description of the formal process to ensure that drawdowns are approved prior to the initiation of the drawdown and that the correct amount was drawn down.

Hired a new Financial Aid Director and a new Comptroller to facilitate compliance and reconciliation. In addition, TC Enrollment Management Services, which includes the Financial Aid Office, now reports to the Chief Financial Officer on the organizational chart. The inter-departmental cooperation, along with the supervision and control of reporting under the structure of the financial branch of the organizational chart, has furthered our objectives of compliance and reconciliation.

Purchased and installed a multi-million dollar integrated Finance, HR, and Student Information System (Banner).

Starting in 2011 – 2012, the Banner System automatically performed most of the checks and edits required of the college. Further, Banner facilitated compliance and reconciliation of financial aid funding to ensure that correct amounts are drawn down.

THIS PAGE LEFT BLANK INTENTIONALLY

STATE FINANCIAL ASSISTANCE INFORMATION

Certified Public Accountants

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

To the Board of Trustees
of Texarkana College
Texarkana, Texas

Compliance

We have audited the Texarkana College (the College) compliance with the types of compliance requirements described in the *Uniform Grant Management Standards* that could have a direct and material effect on each of the College's major state programs for the year ended August 31, 2012. The College's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended August 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with Uniform Grant Management Standards and which are described in the accompanying schedule of findings and questioned costs as item 2012-4.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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

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 state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-4 to be a significant deficiency.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion thereon.

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

Handwritten signature of Thomas F. Thomas in black ink.

Certified Public Accountants

Texarkana, Texas
October 31, 2012

Texarkana College

State Grant Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section I – Summary of Auditor’s Results

Financial Statements

The Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	None Reported
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	No

State Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Audit findings disclosed that are required to be reported in accordance with State of Texas Single Audit Circular?	Yes

Identification of major programs:

Name of Federal Program or Cluster

Texas Grant

Texas II Grant

JCM Skills Development

Jet Grant

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low risk auditee?	No

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section II – Findings and Questioned Costs – Major State Award Programs

Finding 2012-4

**Texas Grant and Texas II Grant
Award Year – July 1, 2011 to June 30, 2012**

Compliance Issue - Eligibility

Type of Finding – Significant Deficiency

Condition:

The College should have a system that provides assurance that eligibility for State student financial assistance is complete and accurate.

Criteria:

The College is required to determine eligibility for student aid based on guidelines published by the granting agency. In order to be eligible to participate in the Texas Grant aid, a student must graduate from an accredited public or private school in Texas and enroll in at least $\frac{3}{4}$ time in an undergraduate degree or certificate program at an approved institution within 16 months from high school graduation. Also, initial year awards must be made to eligible students whose expected family contribution (EFC) is 4,000 or less, and students must be maintaining satisfactory academic progress (SAP).

Cause:

There is no formal system to document and summarize students eligible for Texas Grant and Texas II Grant.

Effect:

In certain instances, it was noted that students were receiving funding from the program without regard to the eligibility requirements.

Context:

A sample of 39 Texas Grant and Texas II Grant recipients totaling \$43,116 was selected for audit from a population of 146 recipients totaling \$139,757. The test found that 10 individuals received aid of \$10,003 that were ineligible for aid based on one or more of the following eligibility criteria:

- Did not graduate from an accredited public or private school in Texas,
- Did not have an EFC score of less than 4,000,

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2012

Section II – Findings and Questioned Costs – Major State Award Programs (continued)

Finding 2012-4

Context (continued):

- Did not enroll within 16 months after completing high school,
- Failed to meet the institutions SAP guidelines.

Questioned Costs:

\$10,003

Recommendation

A system for awarding financial assistance from the State should always be documented to assure that proper eligibility and authorization for the expenditure is present.

Management Responses:

16 Month Rule - Banner programming for Texas Grant in 2011 – 2012 was based on Texas Grant Year End Report. The Banner programming for Texas Grant should have been based on statute and regulations found in Texas Education Code 56.301 and Coordinating Board Rules, Chapter 22 L. This was due to inexperience of staff working on Banner implementation. Programming to award Texas Grants in Banner for 2012 – 2013 has already been modified to reflect all requirements in appropriate statute and regulation.

EFC Greater Than 4,000 – Prior to 2011 – 2012, there was the option of an “Alternative EFC Calculation” to award Texas Grants. The alternative EFC calculation was no longer available beginning with the FY12 or 11/12 year. The staff working on Banner implementation for 2011 – 2012 was not aware that the alternative calculations were no longer allowed. Banner programming for 2012 – 2013 does not allow for “Alternative EFC Calculations” or Texas Grant awarding for EFCs greater than 4,000.

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2012

Section II – Findings and Questioned Costs – Major State Award Programs (continued)

Finding 2012-4

Missing Diploma From Texas High School – Prior to 2012 – 2013 the College allowed for a student to be admitted while the student was in the process of obtaining admissions documentation, to included High School Transcripts. This created circumstances where financial aid was awarded based upon information submitted on the Admissions Application, not based on the actual High School Transcript. Starting in 2012 – 2013, a student will no longer be fully admitted to the College without submitting all required Admissions documentation to included High School Diplomas. Financial aid will only be awarded to fully admitted students. Further, the information Banner will use to award Texas Grants will be based only on information derived from actual High School Transcripts.

SAP – The one instance were a Texas Grant was awarded to a student who did not meet institutional SAP Policy was performed by an IT Consultant hired by the College to assist with Banner implementation. The consultant is no longer employed at Texarkana College. Further, The Financial Aid Standards of Progress have been revised since 2011 – 2012 to better take advantage of better faculty and staff participation in the FA SAP Committee and of Banner processing. Banner processing has been revised to not allow a student on FA Suspension to receive financial aid disbursements without either meeting FA SAP standards or receiving appeal approval of the FA SAP Committee.

Responsible Individual:

Kim Jones, CFO

Anticipated Completion Date:

Fiscal Year 2012-2013

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2012

Section III – Findings and Questioned Costs – Major State Award Programs

Prior Year Findings and Questioned Costs Relating to State Awards

Finding 2011-21 – Texas Grant – Cash Management

To address this deficiency management has:

Developed a formal Policies and Procedures Manual for Financial Aid starting in the 2011- 2012 year which includes a description of the formal process to ensure that drawdowns are approved prior to the initiation of the drawdown and that the correct amount was drawn down.

Hired a new Financial Aid Director and a new Comptroller to facilitate compliance and reconciliation. In addition, TC Enrollment Management Services, which includes the Financial Aid Office, now reports to the Chief Financial Officer on the organizational chart. The inter-departmental cooperation, along with the supervision and control of reporting under the structure of the financial branch of the organizational chart, has furthered our objectives of compliance and reconciliation.

Purchased and installed a multi-million dollar integrated Finance, HR, and Student Information System (Banner).

Finding 2011-22 – Texas Grant – Eligibility

To address this deficiency management has:

Developed a formal Policies and Procedures Manual for Financial Aid for the 2011- 2012 year.

Further, most of the policies and procedures used when determining financial aid eligibility have been programmed in the Banner Information System. The determination of eligibility for financial aid awards and state/federal funds is now automated by Banner.

Management is confident that the established policies and procedures, in combination with the programming in the Banner Information System to automate the determination of eligibility, has addressed the audit recommendation to establish a process to more accurately determine eligibility than did the manual paper system used in 2010 – 2011.

THIS PAGE LEFT BLANK INTENTIONALLY