

TEXARKANA COLLEGE
Texarkana, Texas

ANNUAL FINANCIAL REPORT
For The Years Ended
August 31, 2014 and 2013

TEXARKANA COLLEGE

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ORGANIZATIONAL DATA

TEXARKANA COLLEGE

ORGANIZATIONAL DATA

AUGUST 31, 2014 and 2013

Board of Trustees

Officers

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

Members

		Term Expires <u>December 31</u>
Thomas Coleman	Texarkana, Texas	2014
Jane Daines	Texarkana, Texas	2014
Kyle Davis	Texarkana, Texas	2014
Kaye Ellison	Texarkana, Texas	2014
Anne Farris	Texarkana, Texas	2014
Dr. C. Jack Smith	Texarkana, Texas	2014

Key Officers

James Henry Russell	President
Kimberly Jones	Vice President of Finance / Chief Financial Officer
Donna McDaniel	Vice President of Instruction
Robert Jones	Dean of Students
Jamie Ashby	Director of Institutional Research and Effectiveness
Suzy Irwin	Director of Institutional Advancement and Public Relations
Mike Dumdei	Vice President 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

**INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION, SUPPLEMENTARY
INFORMATION, AND OTHER INFORMATION**

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) as of and for the years ended August 31, 2014 and 2013, and the related notes to the financial statements. We have also audited the accompanying financial statements of the Texarkana College Foundation, Inc. (the Foundation), a component unit of the College, which comprise the statements of financial position as of August 31, 2014, and December 31, 2013, the related statements of activities and statements of cash flows for the eight-month and twelve-month periods then ended, and the related notes to the financial statements. Collectively, these comprise the College's and the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Texarkana College as of August 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended, and the Texarkana College Foundation, Inc., as of August 31, 2014, and December 31, 2013, and the respective changes in financial position and cash flows thereof for the eight-month and twelve-month periods then ended, in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 basic financial statements.

The Schedule of Operating Revenues, Schedule of Operating Expenses by Object, Schedule of Non-Operating Revenues and Expenses, and Schedule of Net Position by Source and Availability presented on pages 37 through 41 is presented as for purposes of additional analysis as required by the *Texas Higher Education Coordinating Board* and is not a required part of the basic financial statements.

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 schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State of Texas Single Audit Circular* and is also not a required part of the basic financial statements.

The Statement of Income and Expenses – Auxiliary Enterprises is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Income and Expenses – Auxiliary Enterprises is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Matters (Continued)

Required Supplementary Information (Continued)

The Schedule of Insurance in Force has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2014, on our consideration of the Texarkana College and the Texarkana College Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Texarkana College and the Texarkana College Foundation, Inc.'s internal control over financial reporting and compliance

Thomas & Thomas LLP

Certified Public Accountants

Texarkana, Texas
December 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2014 and 2013

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 2012, 2013 and 2014. This discussion should be read in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental information. This discussion focuses on currently known facts, decisions and conditions that have an impact on the financial activities for the College, and is intended to assist the reader in the interpretation of the financial statements. 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* and as amended by GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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, 63, & 65 (the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, 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 Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, when applicable. Decreases over time in the net position (the difference between assets, deferred outflows of resources, liabilities, and deferred inflows or resources) 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 Position 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 financing, and investing activities. The statement helps measure the ability to pay operating expenses with operating revenues and the extent that capital assets are financed.

The financial statements for the College's discrete component unit, Texarkana College Foundation are issued independent of the College. The Foundation's financial information is shown on separate pages behind the College's basic financial statements. Refer to Note 21 in the Notes to the Basic Financial Statements for more detail on the Foundation.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2014 and 2013

Financial Position Summary

Assets	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 13,762,412	\$ 14,393,246	\$ 12,860,443
Capital assets, net	23,599,973	22,853,546	20,516,853
Total assets	<u>37,362,385</u>	<u>37,246,792</u>	<u>33,377,296</u>
Liabilities			
Long term liabilities	4,025,736	4,429,701	1,792,508
Other liabilities	5,978,582	5,635,401	5,524,050
Total liabilities	<u>10,004,318</u>	<u>10,065,102</u>	<u>7,316,558</u>
Net Position			
Invested in capital assets, net of debt	19,954,792	20,774,345	20,516,853
Restricted	1,846,193	1,903,985	2,010,210
Unrestricted	5,557,082	4,503,360	3,533,675
Total net position	<u>\$ 27,358,067</u>	<u>\$ 27,181,690</u>	<u>\$ 26,060,738</u>

The College's capital assets, net of accumulated depreciation, represent 63% and 61% of the total assets at August 31, 2014 and 2013, respectively. The largest component of capital assets is the College's investment in buildings. The buildings represent 79% of the capital assets at the end of the 2014 fiscal year, compared to 71% for 2013. Adequate facilities are an important factor in the ability of the College to meet the educational needs of current and future students.

Summary of Changes in Net Position

Operating Revenues:	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net Tuition and Fees	\$ 4,446,599	\$ 4,054,815	\$ 4,362,146
Federal Grants and Contracts	748,894	1,357,288	449,750
State Grants and Contracts	495,866	1,235,721	855,882
Non - Governmental Grants	69,127	143,838	420,747
Sales and Services Activities	222,712	297,991	277,899
Net Auxiliary Enterprises	788,934	796,150	964,955
Other	522,045	188,340	444,371
Total Operating Revenue	<u>\$ 7,294,177</u>	<u>\$ 8,074,143</u>	<u>\$ 7,775,750</u>

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2014 and 2013

Summary of Changes in Net Position (continued)

Operating Expenses:			
Instruction	\$ 11,433,463	\$ 11,045,415	\$ 11,036,873
Academic Support	2,355,149	1,699,138	1,749,531
Student Services	1,921,802	1,858,169	2,551,683
Institutional Support	5,331,547	5,052,342	4,618,879
Operation and Maintenance of Plant	2,326,517	2,196,781	2,188,192
Scholarships and Fellowships	3,755,534	3,170,935	3,990,894
Auxiliary Enterprises	2,252,769	1,963,031	2,058,473
Depreciation	1,862,287	1,640,404	1,348,326
Total Operating Expenses	<u>31,239,068</u>	<u>28,626,215</u>	<u>29,542,851</u>
Operating Loss	<u>(23,944,891)</u>	<u>(20,552,072)</u>	<u>(21,767,101)</u>
Non-Operating Income (Expenses)			
State Appropriations	8,116,276	8,654,487	9,138,836
Taxes	5,325,560	1,367,528	1,354,269
Federal Grants Non Operating	9,267,346	8,747,822	8,256,173
Gifts	1,214,860	2,078,101	1,515,454
Investment Income	74,221	65,427	137,478
Rent Income	122,007	109,717	106,810
Other Non-Operating Income	998	6,122	1,468,329
Gain on Exchange Transaction	-	754,996	-
Loss on Disposal of Fixed Assets	-	(84,240)	-
Interest on Capital Related Debt	-	(26,936)	-
Net Non-Operating Revenues	<u>24,121,268</u>	<u>21,673,024</u>	<u>21,977,349</u>
Increase in Net Position	176,377	1,120,952	210,248
Net Position-Beginning of Year	<u>27,181,690</u>	<u>26,060,738</u>	<u>25,850,490</u>
Net Position-End of Year	<u>\$ 27,358,067</u>	<u>\$ 27,181,690</u>	<u>\$ 26,060,738</u>

The College's net position increased \$176,377 for the year ended August 31, 2014 compared to an increase of \$1,120,952 for the year ended August 31, 2013. The decrease between 2014 and 2013 of \$944,575 resulted predominately from the absence during the current year of the large gain on exchange transactions and the additional gifts, both recognized in the prior year.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2014 and 2013

Summary of Changes in Net Position (continued)

The College's net position increased \$1,120,952 and \$210,248 for the years ended August 31, 2013 and 2012, respectively. The 2013 increase was primarily caused by significant gain on exchange transactions and additional gifts received. The 2012 increase in net position resulted in part from public donations, insurance proceeds from a roofing project, and decreases in the rising star scholarships, decreases in salaries and benefits, and other operating costs.

The College's unrestricted net position increased by \$1,053,722 for the year ended August 31, 2014. The unrestricted net position is the assets that generate the College's investment income.

The College's cash and cash equivalents decreased \$3,800,770 during the year ended August 31, 2014.

The College's cash and cash equivalents increased by \$3,382,264 during the year ended August 31, 2013.

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

Current and other assets, as of August 31, 2014, totaled \$13,764,216 which is 37% of the total assets. Approximately 64% of the current assets are in cash or are invested in certificates of deposit at August 31, 2014.

Current and other assets, as of August 31, 2013, totaled \$14,393,246 which is 39% of the total assets. Approximately 66% of the current assets are in cash or are invested in certificates of deposit at August 31, 2013.

Current 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 liabilities total \$5,978,582 for 2014 and \$5,635,401 for 2013. Unearned revenue is 64% for 2014 and 72% for 2013 of the total current liabilities. Unearned revenue is the tuition and fees collected prior to year end for the fall classes. These are unearned 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, 2014, 2013, and 2012, because 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 an 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, 2014 and 2013

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

State and Federal funds amounted to 59% and charges to students amounted to 17% of total revenues for the year ended August 31, 2014.

State and Federal funds amounted to 67% and charges to students amounted to 17% of total revenues for the year ended August 31, 2013.

Salaries and benefits are approximately 53% of total operating expenses for the year ended August 31, 2014.

Salaries and benefits are approximately 57% of total operating expenses for the year ended August 31, 2013.

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

The College had negative cash flows from operating activities for the years ended August 31, 2014, 2013 and 2012 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 years ended August 31, 2014 and 2013 totaling \$2,608,716 and \$4,069,261, respectively.

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

In March of 2013, the College Board of Trustees authorized a maintenance note in the amount of \$3,500,000 to provide funds for an energy management and roofing project. A portion of the note is anticipated to be repaid by energy savings generated by the HVAC project.

In August of 2013, the College entered into an exchange Agreement with the Texas A&M University System. As part of the agreement Texarkana College agreed to lease the Academic Building from Texas A&M University. The lease began August, 1, 2013 and ends July 31, 2016. At the end of the term of the lease, Texarkana College will fulfill its obligation by paying \$340,000, and in return, the building will become the property of Texarkana College.

Discussion of currently known facts, decisions, or conditions

Texarkana College has continued the focused objective of returning to the historically sound financial principles and stability for which the institution was known. Based on the actions taken by the board, administration, and the continued evaluations of performance measures, Texarkana College was able to once again add to the net assets during this past fiscal year.

Texarkana College
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
August 31, 2014 and 2013

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. In November 2012, the College was able to successfully expand the taxing district through annexation of territory that lies within the state designated service area. The voters of Bowie County approved the annexation, which increased the college's appraised property values from approximately \$1.3 billion in 2013 to \$5.1 billion in 2014. While this increase of approximately \$4 million in tax revenue was offset by a decrease in out-of-district tuition, the enrollment increase negated the loss in out-of-district tuition and the college realized a net increase in tax, tuition and fees of approximately \$4 million for the 2013-14 fiscal year.

This increase in tax revenue brought a much needed perpetual revenue source to the college however, additional reductions in expenditures are also necessary for the college to remain financially sound.

In August of 2013, the Board of Trustees approved the purchase of a new Enterprise Resource System (ERP). While the purchase of the new system required a one-time cash outlay of an estimated \$1.7 million over a period of two fiscal years, the college anticipates annual savings of approximately \$1 million per year over the current annual ERP expenditures after the initial year. The college was fully converted and successfully operating on the new ERP system as of August 31, 2014.

The college is not aware of any additional facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the subsequent fiscal year.

Based on the continued evaluations, data-driven decisions 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

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TEXARKANA COLLEGE

EXHIBIT 1 – STATEMENTS OF NET POSITION

AUGUST 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,751,642	\$ 4,931,537
Investments - other	3,010,007	-
Accounts receivable	4,452,678	4,446,538
Inventories	567,379	413,590
Total Current Assets	<u>11,781,706</u>	<u>9,791,665</u>
Noncurrent Assets		
Restricted cash and cash equivalents	1,980,706	4,601,581
Capital assets, net of accumulated depreciation	23,599,973	22,853,546
Total Noncurrent Assets	<u>25,580,679</u>	<u>27,455,127</u>
Total Assets	<u>37,362,385</u>	<u>37,246,792</u>
LIABILITIES		
Current Liabilities		
Accounts payable	764,687	332,817
Accrued liabilities	547,689	416,422
Accrued interest	25,436	26,936
Funds held for others	569,214	593,822
Deposits	20,502	25,141
Unearned revenues	3,853,091	4,045,444
Notes payable - current portion	197,963	194,819
Total Current Liabilities	<u>5,978,582</u>	<u>5,635,401</u>
Noncurrent Liabilities		
Accounts payable restricted	146,907	243,544
Accrued compensable absences payable	431,611	540,976
Capital Lease Obligation - non-current portion	340,000	340,000
Note payable - non-current portion	3,107,218	3,305,181
Total Noncurrent Liabilities	<u>4,025,736</u>	<u>4,429,701</u>
Total Liabilities	<u>10,004,318</u>	<u>10,065,102</u>
NET POSITION		
Invested in capital assets, net of related debt	19,954,792	20,774,345
Restricted for		
Nonexpendable		
Student Aid	1,722,764	1,813,364
Expendable		
Student Aid	123,429	90,621
Unrestricted	5,557,082	4,503,360
Total Net Position	<u>\$ 27,358,067</u>	<u>\$ 27,181,690</u>

The accompanying notes are an integral part of the financial statements.

TEXARKANA COLLEGE FOUNDATION, INC.

COMPONENT UNIT

STATEMENT OF FINANCIAL NET POSITION

DECEMBER 31, 2013 AND AUGUST 31, 2014

	ASSETS	
	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 492,144	\$ 172,492
Investments	523,252	944,643
Accrued interest and dividends	8,801	6,531
Unconditional promises to Give	50,000	-
TOTAL CURRENT ASSETS	1,074,197	1,123,666
NONCURRENT ASSETS		
Cash and cash equivalents - restricted	-	982,940
Investments - restricted	2,420,756	920,435
TOTAL NONCURRENT ASSETS	2,420,756	1,903,375
TOTAL ASSETS	3,494,953	3,027,041
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Due to College	150,428	-
Due to Broker	-	99,821
TOTAL CURRENT LIABILITIES	150,428	99,821
TOTAL LIABILITIES	150,428	99,821
NET POSITION		
Unrestricted	973,768	1,023,845
Temporarily restricted	953,470	707,105
Permanently restricted	1,417,287	1,196,270
TOTAL NET POSITION	3,344,525	2,927,220
TOTAL LIABILITIES NET POSITION	\$ 3,494,953	\$ 3,027,041

The accompanying notes are an integral part of these financial statements.

TEXARKANA COLLEGE

EXHIBIT 2 – STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION AUGUST 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
REVENUES		
Operating Revenues		
Tuition and fees (net of grant and scholarship allowances of \$4,471,790 and \$5,041,999, respectively)	\$ 4,446,599	\$ 4,054,815
Federal grants and contracts	748,894	1,357,288
State grants and contracts	495,866	1,235,721
Non-Governmental grants and contracts	69,127	143,838
Sales and services of educational activities	222,712	297,991
Auxiliary enterprises (net of grant and scholarship allowances of \$1,744,913 and \$1,501,515, respectively)	788,934	796,150
Other operating revenues	522,045	188,340
Total Operating Revenues	<u>7,294,177</u>	<u>8,074,143</u>
EXPENSES		
Operating Expenses		
Instruction	11,433,463	11,045,415
Academic Support	2,355,149	1,699,138
Student Services	1,921,802	1,858,169
Institutional Support	5,331,547	5,052,342
Operation and maintenance of plant	2,326,517	2,196,781
Scholarships and fellowships	3,755,534	3,170,935
Auxiliary enterprises	2,252,769	1,963,031
Depreciation	1,862,287	1,640,404
Total Operating Expenses	<u>31,239,068</u>	<u>28,626,215</u>
Operating Loss	<u>(23,944,891)</u>	<u>(20,552,072)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	8,116,276	8,654,487
Maintenance ad-valorem taxes		
Taxes for maintenance & operations	5,325,560	1,367,528
Federal grants and contracts non-operating	9,267,346	8,747,822
Gifts	1,214,860	2,078,101
Investment income (net of investment expenses)	74,221	65,427
Rent income	122,007	109,717
Other non-operating revenues	998	6,122
Gain on exchange transaction	-	754,996
Loss on disposal of fixed assets	-	(84,240)
Interest on capital related debt	-	(26,936)
Net non-operating revenues	<u>24,121,268</u>	<u>21,673,024</u>
Increase in Net Position	<u>176,377</u>	<u>1,120,952</u>
Net Position - Beginning of Year	<u>27,181,690</u>	<u>26,060,738</u>
Net Position - End of Year	<u>\$ 27,358,067</u>	<u>\$ 27,181,690</u>

The accompanying notes are an integral part of these financial statements.

TEXARKANA COLLEGE FOUNDATION, INC.

COMPONENT UNIT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE EIGHT MONTH PERIOD ENDED AUGUST 31, 2014

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET POSITION		
Revenues and gains:		
Contributions and fund raising	\$ 249,895	\$ 40,759
Interest income	7,653	18,819
Dividend income	5,208	10,271
Net realized gain (loss) on investments	(35,230)	(850)
Net unrealized gain on investments	7,704	(1,268)
	<hr/>	<hr/>
Total unrestricted revenues and gains	235,230	67,731
Changes in Net assets restrictions:		
Temporarily restricted assets	(33,921)	-
Permanently restricted assets	(50,000)	-
Satisfaction of scholarships and other restrictions	25,201	128,369
	<hr/>	<hr/>
Total change in net assets restrictions	(58,720)	128,369
	<hr/>	<hr/>
Total unrestricted support and gains	176,510	196,100
EXPENSES		
Program services:		
Donation to Texarkana College	150,000	9,971
Scholarships	50,428	-
Advertising	3,922	11,782
Fiduciary fees	5,112	9,920
Professional Fees	7,059	11,538
Miscellaneous	10,066	29,611
Total expenses	<hr/>	<hr/>
	226,587	72,822
	<hr/>	<hr/>
Increase (decrease) in unrestricted net position	(50,077)	123,278
TEMPORARILY RESTRICTED NET POSITION		
Support:		
Contributions	45,880	710
Interest income	12,525	32,759
Dividend income	11,297	8,444
Net realized gain on investments	95,775	(53,562)
Net unrealized gain (loss) on investments	72,168	(37,896)
Changes in net assets restriction:		
Temporarily restricted assets	33,921	-
Satisfaction of scholarship and other restrictions	(25,201)	(128,369)
	<hr/>	<hr/>
Increase (decrease) in temporarily restricted net position	246,365	(177,914)
PERMANENTLY RESTRICTED NET POSITION		
Revenues and gains:		
Contributions	164,764	91,284
Interest income	425	-
Dividend income	372	-
Net realized gain on investments	2,323	-
Net unrealized gain (loss) on investments	3,133	-
Changes in net assets restriction:		
Permanently restricted assets	50,000	-
	<hr/>	<hr/>
Increase in permanently restricted net position	221,017	91,284
	<hr/>	<hr/>
INCREASE IN NET POSITION	417,305	36,648
	<hr/>	<hr/>
NET POSITION, BEGINNING OF YEAR	2,927,220	2,890,572
	<hr/>	<hr/>
NET POSITION, END OF YEAR	\$ 3,344,525	\$ 2,927,220
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

TEXARKANA COLLEGE

EXHIBIT 3 – STATEMENTS OF CASH FLOWS

AUGUST 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Receipts from students and other customers	\$ 5,337,449	\$ 5,083,586
Receipts of grants and contracts	1,313,887	2,736,847
Other receipts	522,045	943,336
Payments to or on behalf of employees	(11,743,934)	(11,082,217)
Payments to suppliers for goods or services	(12,276,484)	(12,753,289)
Payments of scholarships	(3,755,534)	(3,170,935)
Net cash used by operating activities	<u>(20,602,571)</u>	<u>(18,242,672)</u>
Cash Flows From Non-capital Financing Activities		
Receipts from state appropriations	6,689,546	7,178,720
Ad valorem tax revenues	5,247,863	1,371,010
Federal revenue non-operating	9,267,346	8,747,822
Gifts and grants (other than capital)	1,214,860	2,078,101
Other receipts	123,005	115,839
Net cash provided by non-capital financing activities	<u>22,542,620</u>	<u>19,491,492</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds on issuance of capital debt	-	3,500,000
Payments on capital debt - principal	(194,819)	-
Payments on capital debt - interest	(92,722)	-
Purchases of capital assets	(2,517,492)	(2,966,341)
Net cash provided (used) by capital and related financing activities	<u>(2,805,033)</u>	<u>533,659</u>
Cash Flows From Investing Activities		
Investment earnings	74,221	65,427
Proceeds from sale and maturity of investments	-	1,534,358
Payments for purchase of investments	(3,010,007)	-
Net cash provided (used) by investing activities	<u>(2,935,786)</u>	<u>1,599,785</u>
Increase (Decrease) in cash and cash equivalents	(3,800,770)	3,382,264
Cash and cash equivalents - September 1,	<u>9,533,118</u>	<u>6,150,854</u>
Cash and cash equivalents - August 31,	<u>\$ 5,732,348</u>	<u>\$ 9,533,118</u>

The accompanying notes are an integral part of these financial statements.

TEXARKANA COLLEGE

EXHIBIT 3 – STATEMENTS OF CASH FLOWS (continued)

AUGUST 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (23,944,891)	\$ (20,552,072)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Staff benefits paid directly by state	1,426,730	1,475,767
Depreciation expense	1,862,287	1,640,404
Changes in assets and liabilities :		
Accounts receivable, net	71,557	137,572
Inventories	(153,789)	174,049
Accounts payable	335,233	(851,462)
Accrued Expenses	131,267	(96,860)
Accrued Interest	-	-
Funds held for others	(24,608)	41,754
Unearned revenue	(192,353)	(206,424)
Deposits held for others	(4,639)	2,740
Compensated absences	(109,365)	(8,140)
Net cash used by operating activities	<u>\$ (20,602,571)</u>	<u>\$ (18,242,672)</u>

The accompanying notes are an integral part of these financial statements.

TEXARKANA COLLEGE FOUNDATION, INC.

COMPONENT UNIT

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE EIGHT MONTH PERIOD ENDED AUGUST 31, 2014

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net position	\$ 417,305	\$ 36,648
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Net realized and unrealized investment gain (loss)	140,417	(93,576)
(Increase) decrease in assets:		
Accrued interest and dividends	(2,270)	4,606
Unconditional promises to Give - Net	(50,000)	-
Increase (decrease) in liabilities:		
Due to College	150,428	-
Due to Brokers	(99,821)	99,821
	<u>556,059</u>	<u>47,499</u>
CASH PROVIDED BY OPERATING ACTIVITIES	556,059	47,499
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of restricted investments	(1,500,321)	(107,988)
Net Sales of unrestricted investments	280,974	710,909
	<u>(1,219,347)</u>	<u>602,921</u>
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(1,219,347)	602,921
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(663,288)	650,420
CASH AT BEGINNING OF YEAR	<u>1,155,432</u>	<u>505,012</u>
CASH AT END OF YEAR	<u>\$ 492,144</u>	<u>\$ 1,155,432</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

Note 1 - Reporting Entity

Texarkana College (the 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 College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The College Board of Trustees (the Board), a nine member group, has governance responsibilities over all activities related to the 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 have primary accountability for fiscal matters.

These statements include, as a component unit, Texarkana College Foundation, Inc. (the Foundation), as discussed in Note 21.

Note 2 - Summary of Significant Accounting Policies

Reporting Guidelines

The significant accounting polices followed by the College in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The College applies all applicable GASB pronouncements, and 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, 2014 and 2013. Inventories are valued at the 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, 2014 and 2013

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

Texarkana College Foundation, Inc. – Net Position

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, Higher Education Act (HEA) Program Funds - Certain Title IV HEA Program funds are received by the College to pass through to the student. These funds are initially received by the College and recorded as revenue. When funds are awarded to students and used for tuition and fees the amounts are recorded as tuition discounts. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

The College also originates Direct Student loans under Title IV. These loans are not included as revenues in the accompanying financial statements. Student loans remitted to students are not recorded as revenues or expenses in the accompanying financial statements as they are not revenues of the College and instead are passed through from the Department of Education. The amounts passed through the College are included as a reconciling item in the notes to the supplemental Schedule E – Schedule of Expenditures of Federal Awards.

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

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

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. The College had no cash equivalents as of August 31, 2014 and 2013.

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. The College's investments included certificates of deposit with original maturities greater than three months. These investments are carried at cost, which approximates fair value.

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, gifts, and investment income. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation. For equipment, the College's capitalization policy requires capitalization of items with a unit cost of \$5,000 or more and an estimated life greater than one year. Renovations of \$100,000 or more 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.

Depreciation is computed under the half-year convention using the straight-line method over the estimated useful lives of the assets. 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, 2014 and 2013

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

Unearned Revenues

Tuition and fees of \$3,408,035 and \$3,482,764 and federal, state, and local grants of \$445,056 and \$562,680 have been reported as unearned revenues at August 31, 2014 and 2013, respectively.

Estimates

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

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. None of the reclassifications affect the previously reported change in net position.

Date of Management's Review

Subsequent events were evaluated through December 10, 2014, which is the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of the Statement were effective for periods beginning after December 15, 2012. The adoption of this Statement by the College did not have a significant impact on the net position of the College.

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The provisions of GASB 68 improve accounting and financial reporting by state and local governments for pensions. The Statement also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities, in part by requiring state or local government employers to recognize a net pension liability for defined benefit pension plans. GASB No. 68 is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of the Statement on the College's financial position.

GASB Statement No. 71 (*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*), issued November 2013, amends GASB No. 68 to clarify the measurement date of the net pension liability required to be recognized and disclosed as part of GASB No. 68. This Statement is required to be applied simultaneously with GASB No. 68.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

Note 3 - Authorized Investments

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

Note 4 - Deposits and Investments

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

	<u>2014</u>	<u>2013</u>
Bank Deposits		
Demand Deposits	5,729,143	9,529,913
Certificates of Deposit	3,010,007	-
Cash and Cash Equivalents		
Petty Cash on Hand	3,205	3,205
Total Cash and Deposits	<u>8,742,355</u>	<u>9,533,118</u>

Reconciliation of deposits and investments to the Statement of Net Position:

<u>Type of Security</u>	<u>Market Value</u> <u>2014</u>	<u>Market Value</u> <u>2013</u>
Total Cash and Investments	<u>\$ 8,742,355</u>	<u>\$ 9,533,118</u>
Cash and Cash Equivalents (Exhibit 1)	3,751,642	4,931,537
Restricted cash and cash equivalents (Exhibit 1)	1,980,706	4,601,581
Total Cash and Cash equivalents	<u>5,732,348</u>	<u>9,533,118</u>
Short-term investments (Exhibit 1)	3,010,007	-
Total Investments	<u>3,010,007</u>	<u>-</u>
Total Deposits and Investments	<u>\$ 8,742,355</u>	<u>\$ 9,533,118</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

Note 4 - Deposits and Investments (continued)

Cash and deposits for the Foundation reported on the Statement of Net Position consist of the following:

	<u>August 31, 2014</u>	<u>December 31, 2013</u>
Cash and Cash Equivalents		
Cash on Deposit	\$ 7,316	\$ 8,363
Money Market Funds	484,828	1,147,068
Total Cash and Deposits	<u>\$ 492,144</u>	<u>\$ 1,155,431</u>

Investments for the Foundation reported on the Statements of Financial Net Position are as follows:

<u>Type of Security</u>	<u>Market Value August 31, 2014</u>	<u>Market Value December 31, 2013</u>
U.S. Government Agencies Securities	\$ 358,377	\$ 531,169
Corporate Debt Instruments	695,954	529,080
Mutual Funds	-	742,085
Common Stock	-	62,744
Exchange Traded Funds (ETFs)	1,889,677	-
Total Investments	<u>\$ 2,944,008</u>	<u>\$ 1,865,078</u>

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

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Cost</u>	<u>Market Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of Deposit	N/A	\$ 3,010,007	\$ 3,010,007	1.66
Total Texarkana College		<u>\$ 3,010,007</u>	<u>\$ 3,010,007</u>	

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014 and 2013

Note 4 - Deposits and Investments (continued)

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

	<u>Credit Rating</u>	<u>Cost</u>	<u>Market Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Government Agencies Securities	AA+	\$ 346,161	\$ 358,377	6.65
Corporate Debt Instruments	A- to AA+	683,397	695,954	6.13
Exchange Traded Funds (ETFs)	N/A	1,749,863	1,889,677	N/A
Total Texarkana College Foundation, Inc.		<u>\$ 2,779,421</u>	<u>\$ 2,944,008</u>	

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

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

Concentration of Credit Risk: The College and the Foundation do 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 the Federal Farm Credit Bank (FFCB) (8%) and General Electric (6%).

Custodial Credit Risk: At August 31, 2014, the carrying amount of the College's bank deposits was \$8,742,355 and total bank balances equaled \$9,063,867. Bank balances totaling \$250,000 were secured by the Federal Deposit Insurance Corporation (FDIC) and \$9,877,803 were secured by collateral pledged in the College's name. The collateral was held in the safekeeping departments of banks which act as agents for the College.

At August 31, 2013, the carrying amount of the College's bank deposits was \$9,533,118 and total bank balances equaled \$10,530,443. Bank balances of \$250,000 were secured by the FDIC and \$10,907,870 were secured by collateral pledged in the 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, 2014 and 2013

Note 5 - Delinquent Property Taxes and Taxes Receivable

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

	August 31	
	2014	2013
Assessed valuation of the District	\$ 5,159,567,889	\$ 1,292,596,446
Less: Exemptions	<u>(78,269,860)</u>	<u>(11,632,049)</u>
Net assessed Valuation of the District	<u>\$ 5,081,298,029</u>	<u>\$ 1,280,964,397</u>

	Current Operations	Debt Service	Total
Tax rate authorized per \$100 valuation	<u>1.0000</u>	<u>0.00000</u>	<u>1.00000</u>
Tax rate assessed per \$100 valuation for 2014	<u>0.10527</u>	<u>0.00000</u>	<u>0.10527</u>
Tax rate assessed per \$100 valuation for 2013	<u>0.10527</u>	<u>0.00000</u>	<u>0.10527</u>

Taxes levied for the years ended August 31, 2014 and 2013 were \$5,352,936 and \$1,352,133, respectively including any penalty and interest assessed.

Taxes Collected	Current Operations	
	2014	2013
Current Taxes Collected	\$ 5,248,115	\$ 1,319,684
Delinquent Taxes Collected	32,477	30,905
Penalties and Interest Collected	44,968	16,939
Total Collections	<u>\$ 5,325,560</u>	<u>\$ 1,367,528</u>

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014 and 2013

Note 6 – Capital Assets

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

	Balance August 31, 2013	Increases	Decreases	Balance August 31, 2014
<u>Not Depreciated:</u>				
Land	\$ 1,520,105	\$ 29,052	\$ -	\$ 1,549,157
Construction in Process	1,739,201	-	(1,739,201)	-
Total Not Depreciated	<u>3,259,306</u>	<u>29,052</u>	<u>(1,739,201)</u>	<u>1,549,157</u>
<u>Buildings and Other Capital Assets:</u>				
Infrastructure	462,825	-	-	462,825
Buildings	26,157,258	3,528,601	-	29,685,859
Land Improvements	3,303,236	20,000	-	3,323,236
Software	968,158	413,614	-	1,381,772
Library Books	2,341,508	47,028	-	2,388,536
Furniture and Equipment	4,576,349	309,622	-	4,885,971
Total Building and Other Capital Assets	<u>37,809,334</u>	<u>4,318,865</u>	<u>-</u>	<u>42,128,199</u>
<u>Accumulated Depreciation</u>				
Infrastructure	445,200	5,247	-	450,446
Buildings	10,012,587	944,210	-	10,956,795
Land Improvements	2,858,779	78,713	-	2,937,493
Software	672,023	337,496	-	1,009,519
Library Books	1,820,944	64,589	-	1,885,535
Furniture and Equipment	2,405,561	432,032	-	2,837,595
Total Accumulated Depreciation	<u>18,215,094</u>	<u>1,862,287</u>	<u>-</u>	<u>20,077,383</u>
Net Capital Assets	<u>\$ 22,853,546</u>	<u>\$ 2,485,630</u>	<u>\$ (1,739,201)</u>	<u>\$ 23,599,973</u>

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014 and 2013

Note 6 – Capital Assets (continued)

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

	Balance August 31, 2012	Increases	Decreases	Balance August 31, 2013
<u>Not Depreciated:</u>				
Land	\$ 1,433,905	\$ 86,200	\$ -	\$ 1,520,105
Construction in Process	-	1,739,201	-	1,739,201
Total Not Depreciated	<u>1,433,905</u>	<u>1,825,401</u>	<u>-</u>	<u>3,259,306</u>
<u>Buildings and Other Capital Assets:</u>				
Infrastructure	462,825	-	-	462,825
Buildings	25,239,907	1,031,625	(114,274)	26,157,258
Land Improvements	3,310,376	-	(7,140)	3,303,236
Software	968,158	-	-	968,158
Library Books	2,280,719	60,789	-	2,341,508
Furniture and Equipment	3,682,677	1,151,446	(257,774)	4,576,349
Total Building and Other Capital Assets	<u>35,944,662</u>	<u>2,243,860</u>	<u>(379,188)</u>	<u>37,809,334</u>
<u>Accumulated Depreciation</u>				
Infrastructure	439,682	5,518	-	445,200
Buildings	9,259,460	810,666	(57,539)	10,012,587
Land Improvements	2,780,531	85,388	(7,140)	2,858,779
Software	375,889	296,134	-	672,023
Library Books	1,756,565	64,379	-	1,820,944
Furniture and Equipment	2,249,588	378,319	(222,346)	2,405,561
Total Accumulated Depreciation	<u>16,861,715</u>	<u>1,640,404</u>	<u>(287,025)</u>	<u>18,215,094</u>
Net Capital Assets	<u>\$ 20,516,852</u>	<u>\$ 2,428,857</u>	<u>\$ (92,163)</u>	<u>\$ 22,853,546</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

Note 7 – Restricted Plant Funds

In May of 2013, the College borrowed \$3,500,000 from Guaranty Bond Bank, collateralized by the College's future tax collections, to upgrade HVAC systems, controls, lighting, pumping, and other modifications to existing buildings. As of August 31, 2013, the College had \$2,152,543 of net position restricted for this project. All such funds were expended during the year ended August 31, 2014.

Note 8 – Long-term Liabilities

Long-term liability activity for the year ended August 31, 2014, was as follows:

	Balance August 31, 2013	Additions	Reductions	Balance August 31, 2014	Current Portion
Notes payable	\$ 3,305,181	\$ -	\$ (197,963)	\$3,107,218	\$197,963
Capital lease obligation	340,000	-	-	340,000	-
Compensated absences	540,976	-	(109,365)	431,611	-
Accounts payable restricted	243,544	-	(96,637)	146,907	-
Total long-term liabilities	<u>\$ 4,429,701</u>	<u>\$ -</u>	<u>\$ (403,965)</u>	<u>\$4,025,736</u>	<u>\$197,963</u>

Long-term liability activity for the year ended August 31, 2013, was as follows:

	Balance August 31, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
Notes payable	\$ -	\$ 3,500,000	\$ (194,819)	\$3,305,181	\$194,819
Capital lease obligation	-	340,000	-	340,000	-
Compensated absences	549,116	-	(8,140)	540,976	-
Accounts payable restricted	1,243,392	-	(999,848)	243,544	-
Total long-term liabilities	<u>\$ 1,792,508</u>	<u>\$ 3,840,000</u>	<u>\$ (1,202,807)</u>	<u>\$4,429,701</u>	<u>\$194,819</u>

On March 28, 2013, the Board of Trustees of the College acting by resolution adopted by a majority vote of the Board of Directors authorized a maintenance note in the amount of \$3,500,000 pursuant to Section 45.108 of the Texas Education Code. The maintenance note was authorized to provide funds for an energy management and roofing project.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014 and 2013

Note 8 – Long-term Liabilities (continued)

The debt service requirements as of August 31, 2014, were as follows:

For the Year Ended	Maintenance Note		
August 31,	Principal	Interest	Total
2015	\$ 197,963	\$ 86,344	\$ 284,307
2016	203,085	81,221	284,306
2017	208,813	75,493	284,306
2018	214,231	70,075	284,306
2019	219,946	64,361	284,307
2020-2024	1,185,038	240,881	1,425,919
2025-2028	1,076,105	78,666	1,154,771
	<u>\$ 3,305,181</u>	<u>\$ 697,041</u>	<u>\$ 4,002,222</u>

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 the fiscal year 2014 for which monies have not been received nor funds expended totaled \$362,146 from federal contracts and grant awards and \$74,732 from state contracts and grant awards.

Federal funds receivable included in accounts receivable on Exhibit 1 are as follows:

	2014	2013
Pell Grant Program	\$ 266,257	\$ 63,881
Supplemental Educational Opportunity Grants	11,186	2,000
Federal Work-study Program	3,535	3,535
TRIO - Student Support Services Grant	44,834	59,886
TRIO - Talent Search Grant	44,848	63,296
Carl Perkins Grant	24,672	33,135
H2P Grant	173,916	293,415
Total	<u>\$ 569,248</u>	<u>\$ 519,148</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

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

Funding Policy - Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4 percent for fiscal years 2014, 2013, and 2012 and a state contribution rate of 6.8 percent for the fiscal year 2014, 6.4 percent for the fiscal year 2013 and 6.0 percent for fiscal year 2012. In certain instances, the reporting district is required to make all or a portion of the state's 6.8 percent contribution for the fiscal year 2014, 6.4 percent contribution for the fiscal year 2013 and 6.0 percent contribution for fiscal year 2012.

Optional Retirement Plan

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

Funding Policy - Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries contributed by the state and each participant are 6.6% (6.0% in fiscal years 2013 and 2012) and 6.65% (6.4% in fiscal years 2013 and 2012), 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.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014 and 2013

Note 10 - Retirement Plan (continued)

The retirement expense to the state for the College was \$216,671 and \$481,464 for the fiscal years ended August 31, 2014 and 2013, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the College.

The total payroll for all of the College employees was \$13,061,299 and \$12,549,844 for fiscal years 2014 and 2013, respectively. The total payroll of employees covered by the Teacher Retirement System was \$7,614,974 and \$6,771,404, and the total payroll of employees covered by the Optional Retirement Program was \$4,124,854 and \$3,691,041 for fiscal years 2014 and 2013, 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.

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 the 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. Employees may carry a maximum of 40 hours of accrued vacation forward from one fiscal year through September 30 of the next fiscal year. All vacation accrued in the prior fiscal year is forfeited on December 1 unless administrative approval is granted on a case-by-case basis. 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 \$431,611 and \$540,976 have been accrued and reported in the accompanying Statement of Net Position as "accrued compensable absences payable" at August 31, 2014 and 2013, respectively.

Note 13 - Deferred Compensation Plan

The 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, 2014 and 2013, the College had 33 and 44 employees, respectively, participating in the program. A total of \$183,854 and \$196,400 in payroll deductions were invested in approved plans during the years ended August 31, 2014 and 2013, respectively.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

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 \$503.14 per month plus fifty percent of spouse and/or dependent coverage as of August 31, 2014, and totaled \$1,210,059 for the year then ended. The cost of providing those benefits for 139 retirees was \$895,384 and for 222 active employees was \$314,675.

The state's contribution per full-time employee and retiree was \$470.38 per month plus fifty percent of spouse and/or dependent coverage as of August 31, 2013, and totaled \$994,303 for the year then ended. The cost of providing those benefits for 129 retirees was \$842,688 and for 217 active employees was \$151,617.

Note 15 - Post Employment Benefits Other than Pensions

Plan Description

The 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.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

Note 15 - Post Employment Benefits Other than Pensions (continued)

The College's contributions to SRHP for the years ended August 31, 2014, 2013, and 2012, were \$2,793,770, \$2,441,028 and \$2,233,434, respectively, which equaled the required contribution each year.

Note 16 – Fund Endowments

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

	<u>2014</u>	<u>2013</u>
Endowment Funds		
Palmer Foundation	\$ 109,618	\$ 108,904
Endowed Chair for Teaching Excellence	186,689	185,471
J.R. Johnson	310,909	308,882
Parker-Akin Memorial	8,284	8,231
B & PW Scholarship	27,879	27,697
Leonard Scholarship	196,554	195,272
Teachers Credit Union Scholarship	23,733	23,579
Music Scholarship	27,707	27,527
General Scholarship	283,684	281,835
Al Barton Bladesmithing	5,128	5,094
Elizabeth Shaw Memorial	5,496	5,460
Conner Student Loan	537,065	633,050
Business Administration	18	2,362
Quasi Endowment Funds		
Eldridge Scholarship	123,429	90,621
Totals	<u>\$ 1,846,193</u>	<u>\$ 1,903,985</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 the 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, 2014 and 2013

Note 18 - Contingent Liability

The 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.

The College agreed to pay into the fund a fixed cost amount of \$35,396 and a maximum loss fund amount of \$107,273 for the year ended August 31, 2014. The loss fund amount was for Texarkana College's claims and for claims of other group members in excess of their loss fund maximum.

The College agreed to pay into the fund a fixed cost amount of \$34,848 and a maximum loss fund amount of \$117,345 for the year ended August 31, 2013. The loss fund amount was for Texarkana College's claims and for claims of other group members in excess of their loss fund maximum.

The College incurred expenses under the plan as follows:

	<u>2014</u>	<u>2013</u>
Fixed cost	\$ 35,396	\$ 34,848
Actual claims	21,412	17,602
Increase (decrease) in accrued liabilities	<u>11,949</u>	<u>(8,704)</u>
Total Expense	<u>\$ 68,757</u>	<u>\$ 43,746</u>

The College's maximum liability for the three years ended August 31, 2014 under this agreement is \$336,105 computed as follows:

2011-2012 Maximum loss fund	\$ 111,487
2012-2013 Maximum loss fund	117,345
2013-2014 Maximum loss fund	<u>107,273</u>
Total	<u>\$ 336,105</u>

The administration of the Plan has estimated the liability for claims that have been reported but not paid and claims incurred but not reported to be \$103,959 and \$86,162 as of August 31, 2014 and 2013, respectively. This liability has been accrued in the financial statements as of August 31, 2014 and 2013.

TEXARKANA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014 and 2013

Note 19 - Commitments and Contingencies

Grant Programs

The College participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability may be impaired of any related receivable at August 31, 2014. 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.

Note 20 – Disaggregating of Receivables and Payables Balances

Receivables were as follows:

	<u>2014</u>	<u>2013</u>
Student Receivables	\$ 4,964,308	\$ 4,796,184
Due from Foundation	150,428	-
Taxes Receivable	115,704	38,007
Federal Receivable	569,248	519,148
Interest Receivable	-	-
Allowance for Uncollectible	<u>(1,347,010)</u>	<u>(906,801)</u>
 Total	 <u>\$ 4,452,678</u>	 <u>\$ 4,446,538</u>

Payables were as follows:

	<u>2014</u>	<u>2013</u>
Accounts Payable		
Vendors Payable	<u>\$ 911,594</u>	<u>\$ 576,361</u>
 Accrued Liabilities:		
Salaries & Benefits Payable	\$ 461,608	\$ 419,576
Sales Tax Payable	54,776	57,402
Other Liabilities	<u>31,305</u>	<u>(60,556)</u>
 Total Accrued Liabilities	 <u>\$ 547,689</u>	 <u>\$ 416,422</u>

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

Note 21 - Component Unit

The 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 the 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 discretely presented component unit.

During 2014, the Board of Directors of the Foundation elected to change the fiscal year from December 31 to August 31 in order to coincide with the financial statements of the College, which has a fiscal year-end of August 31. As such, the financial statements of the Foundation are presented as of and for the eight-month period ended August 31, 2014, with comparative statements presented as of and for the twelve-month period ended December 31, 2013. The change in fiscal years was not deemed to have a significant effect on the change in net position reported by the Foundation.

Note 22 – Related Party Transactions and Balances

During the year ended August 31, 2014, the Foundation provided support to the College in the aggregate of \$160,399, of which \$150,428 was receivable by the College as of August 31, 2014.

Note 23 – Construction in Process

During 2013, the College began an energy management and roofing project which was to be completed in two separate phases. Phase I was in process as of August 31, 2013, and was therefore recorded in the financial statements as construction in process at that time. The project was completed during the year ended August 31, 2014, and was transferred to permanent property, plant, and equipment at that time.

Note 24 – 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, 2014 and 2013.

Note 25 – Pending Lawsuits and Claims

As of August 31, 2014, there were no known pending lawsuits or claims involving the College. While unasserted lawsuits and claims may exist, for which a liability cannot be reasonably estimated, any potential liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

TEXARKANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2014 and 2013

Note 26 – Capital Lease

During the fiscal year ended August 31, 2013, the College entered into an exchange agreement which involved the lease of the Academic Building from the Texas A&M University System. The lease period ends July 31, 2016, at which time the College will pay \$340,000 and will assume ownership of the building. The lease of the building is in essence a purchase and is shown as a capital lease obligation in the statement of financial position.

The following schedule represents the future minimum lease payments as of August 31:

Year ending August 31,

2015	\$ -
2016	340,000
	<u>\$ 340,000</u>

Buildings under capital lease have been included in capital assets at August 31, 2014 and 2013, as follows:

	<u>2014</u>	<u>2013</u>
Buildings under capital lease	\$ 773,059	\$ 773,059
Accumulated depreciation	(38,653)	(14,436)
Net buildings under capital lease	<u>\$ 734,406</u>	<u>\$ 758,623</u>

Note 27 – Change in Accounting Estimate

During the fiscal year ended August 31, 2013, the College revised its estimates of useful lives of capital assets related to the accounting software system. The change in the estimated life of the accounting software was prompted by the College's decision to change software vendors. The estimated impact on the August 31, 2013, financial statements was an increase in depreciation expense of \$102,503. There was no effect on the Foundation. The conversion of the software was implemented during the 2014 fiscal year.

Note 28 – Subsequent Events

In accordance with the Financial Accounting Standards Board (FASB) – Accounting Standards Codification (ASC) – *Subsequent Events*, the College has evaluated events through December 10, 2014, the date the financial statements were available to be issued, and has determined that no additional disclosures are necessary. No events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION

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TEXARKANA COLLEGE

SCHEDULE A – SCHEDULE OF OPERATING REVENUES

For the Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>Total 8/31/14</u>	<u>Totals 8/31/13</u>
Tuition						
State funded courses						
In district resident tuition	\$ 1,820,734	\$ -	\$ 1,820,734	\$ -	\$ 1,820,734	\$ 618,190
Out of district resident tuition	1,196,201	-	1,196,201	-	1,196,201	2,339,125
TPEG (set aside)	-	166,339	166,339	-	166,339	134,094
Non-resident tuition	14,543	-	14,543	-	14,543	28,278
State funded continuing education	576,258	-	576,258	-	576,258	539,247
Non-State funded educational programs	266,874	-	266,874	-	266,874	247,866
Total Tuition	3,874,610	166,339	4,040,949	-	4,040,949	3,906,800
Fees						
General Fees	2,534,307	-	2,534,307	-	2,534,307	2,183,390
Student Service fees	344,291	-	344,291	-	344,291	331,009
Course Fees	578,468	50,213	628,681	-	628,681	481,131
Laboratory fees	84,937	-	84,937	-	84,937	39,110
Building use fees	1,285,224	-	1,285,224	-	1,285,224	2,155,374
Total Fees	4,827,227	50,213	4,877,440	-	4,877,440	5,190,014
Scholarship allowances and discounts						
Scholarship allowances	(10,500)	(424,522)	(435,022)	-	(435,022)	(462,017)
Rising star scholarships	-	-	-	-	-	(39,259)
Remissions and exemptions	(675,149)	-	(675,149)	-	(675,149)	(879,086)
TPEG allowances	-	(142,663)	(142,663)	-	(142,663)	(133,156)
Title IV allowances	-	(3,218,956)	(3,218,956)	-	(3,218,956)	(3,528,481)
Total Scholarship Allowances	(685,649)	(3,786,141)	(4,471,790)	-	(4,471,790)	(5,041,999)
Total Net Tuition and Fees	8,016,188	(3,569,589)	4,446,599	-	4,446,599	4,054,815

TEXARKANA COLLEGE

SCHEDULE A – SCHEDULE OF OPERATING REVENUES (continued)

For the Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>Total 8/31/14</u>	<u>Totals 8/31/13</u>
Other Operating Revenues						
Federal grants and contracts	77,656	671,238	748,894	-	748,894	1,357,288
State grants and contracts	-	495,866	495,866	-	495,866	1,235,721
Nongovernmental grants and contracts	-	69,127	69,127	-	69,127	143,838
Sales and Services of educational activities	222,712	-	222,712	-	222,712	297,991
Other operating revenues	422,045	100,000	522,045	-	522,045	188,340
Total Other Operating Revenues	722,413	1,336,231	2,058,644	-	2,058,644	3,223,178
Auxiliary Enterprises						
Bookstore	-	-	-	2,163,322	2,163,322	1,929,369
Less discounts	-	-	-	(1,724,313)	(1,724,313)	(1,414,105)
Residential Life	-	-	-	22,244	22,244	151,286
Less discounts	-	-	-	(20,600)	(20,600)	(87,410)
Cafeteria	-	-	-	95,573	95,573	4,977
Less discounts	-	-	-	-	-	-
Radio	-	-	-	252,708	252,708	212,033
Total Net Auxiliary Enterprises	-	-	-	788,934	788,934	796,150
Total Operating Revenues	\$ 8,738,601	\$ (2,233,358)	\$ 6,505,243	\$ 788,934	\$ 7,294,177	\$ 8,074,143

TEXARKANA COLLEGE

SCHEDULE B – SCHEDULE OF OPERATING EXPENSES BY OBJECT

For the Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	Operating Expenses					
	Salaries and Wages	Benefits		Other Expenses	Total 8/31/14	Total 8/31/13
		State	Local			
Unrestricted - Educational Activities						
Instruction	\$ 7,337,236	\$ -	\$ 965,058	\$ 1,397,909	\$ 9,700,203	\$ 9,149,095
Academic Support	1,305,758	-	211,706	670,607	2,188,071	1,588,033
Student Services	824,376	-	170,219	152,886	1,147,481	1,075,842
Institutional Support	1,682,903	-	387,082	3,046,111	5,116,096	4,562,999
Operation and Maintenance of Plant	637,573	-	217,774	1,471,170	2,326,517	2,182,661
Total Unrestricted Educational Activities	11,787,846	-	1,951,839	6,738,683	20,478,368	18,558,630
Restricted - Educational Activities						
Instruction	497,169	938,833	120,617	176,641	1,733,260	1,896,320
Public Service	-	-	-	-	-	-
Academic Support	-	167,078	-	-	167,078	111,105
Student Services	485,807	105,483	87,259	95,772	774,321	782,327
Institutional Support	116	215,335	-	-	215,451	489,343
Operation and Maintenance of Plant	-	-	-	-	-	14,120
Scholarships and Fellowships	-	-	-	3,755,534	3,755,534	3,170,935
Total Restricted Educational Activities	983,092	1,426,729	207,876	4,027,947	6,645,644	6,464,150
Total Educational Activities	12,770,938	1,426,729	2,159,715	10,766,630	27,124,012	25,022,780
Auxiliary Enterprises	290,361	61,300		1,901,108	2,252,769	1,963,031
Depreciation Expense:						
Building & Improvements	-	-	-	1,028,170	1,028,170	901,570
Software	-	-	-	337,496	337,496	296,134
Equipment & Furniture	-	-	-	432,032	432,032	378,320
Library Books	-	-	-	64,589	64,589	64,380
Total Auxiliary Activities & Depreciation	290,361	61,300	-	3,763,395	4,115,056	3,603,435
Total	\$ 13,061,299	\$ 1,488,029	\$ 2,159,715	\$ 14,530,025	\$ 31,239,068	\$ 28,626,215

TEXARKANA COLLEGE

SCHEDULE C – SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES

For the Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>Total 8/31/14</u>	<u>Total 8/31/13</u>
Non-operating revenues					
Education and general state support	\$ 6,689,547	\$ -	\$ -	\$ 6,689,547	\$ 7,098,590
Dramatic enrollment growth	-	-	-	-	144,857
State group insurance	-	1,210,058	-	1,210,058	994,303
State retirement matching	-	216,671	-	216,671	416,737
Total State Appropriation	<u>6,689,547</u>	<u>1,426,729</u>	<u>-</u>	<u>8,116,276</u>	<u>8,654,487</u>
Other non-operating revenues					
Ad-valorem taxes	5,325,560	-	-	5,325,560	1,367,528
Federal Revenue non operating	-	9,267,346	-	9,267,346	8,747,822
Gifts	1,207,460	7,400	-	1,214,860	2,078,101
Investment income	61,662	12,559	-	74,221	65,427
Rent Income	122,007	-	-	122,007	109,717
Gain on exchange transaction	-	-	-	-	754,996
Other non-operating revenues	998	-	-	998	6,122
Total Other Non-operating Revenues	<u>6,717,687</u>	<u>9,287,305</u>	<u>-</u>	<u>16,004,992</u>	<u>13,129,713</u>
Total Non-operating Revenues	<u>13,407,234</u>	<u>10,714,034</u>	<u>-</u>	<u>24,121,268</u>	<u>21,784,200</u>
Non-Operating (Expenses)					
Loss on disposal of fixed assets	-	-	-	-	(84,240)
Interest on capital related debt	-	-	-	-	(26,936)
Total Non Operating (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(111,176)</u>
Net Non-Operating Revenues	<u>\$ 13,407,234</u>	<u>\$ 10,714,034</u>	<u>\$ -</u>	<u>\$ 24,121,268</u>	<u>\$ 21,673,024</u>

TEXARKANA COLLEGE

SCHEDULE D – SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY

For the Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	Detail By Source						
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Available for Current Operations	
		Expendable	Non Expendable			Yes	No
Current:							
Unrestricted	3,871,937				3,871,937	3,871,937	
Restricted							
Auxiliary	1,685,145				1,685,145	1,685,145	
Endowment:							
Restricted		123,429	1,722,764		1,846,193		1,846,193
Plant:							
Unexpended					-		-
Investment in Plant				19,954,792	19,954,792		19,954,792
Total Net Position, August 31, 2014	5,557,082	123,429	1,722,764	19,954,792	27,358,067	5,557,082	21,800,985
Total Net Position, August 31, 2013	4,503,360	90,621	1,813,364	20,774,345	27,181,690	4,503,360	22,678,330
Net Increase (Decrease) in Net Position	\$ 1,053,722	\$ 32,808	\$ (90,600)	\$ (819,553)	\$ 176,377	\$ 1,053,722	\$ (877,345)

TEXARKANA COLLEGE

SCHEDULE E – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2014

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
<u>U.S. Department of Education</u>			
Direct Programs:			
<i>Student Financial Assistance Cluster:</i>			
Federal Supplemental Education			
Opportunity Grants (FSEOG)	84.007 *	N/A	\$ 89,637
Federal Work Study Program (FWS)	84.033 *	N/A	41,535
Direct Student Loans	84.268 *	N/A	6,051,301
Federal Pell Grant	84.063 *	N/A	8,647,538
Allocated Indirect Costs - Federal Pell Grant	84.063 *	N/A	12,520
<i>Subtotal Student Financial Assistance Cluster</i>			<u>14,842,531</u>
<i>TRIO Cluster:</i>			
TRIO - Student Support Services (SSS)	84.042 *	P042A110002 - 13	235,751
Allocated Indirect Costs - SSS	84.042 *	P042A110002 - 13	18,938
TRIO - Talent Search (TS)	84.044 *	P044A110012 - 13	252,885
Allocated Indirect Costs - TS	84.044 *	P044A110012 - 13	20,243
<i>Subtotal TRIO Cluster</i>			<u>527,817</u>
Passed Through the Texas Higher Education			
Coordinating Board			
Vocational Education - Basic Grant	84.048	N/A	253,241
Allocated Indirect Costs - Vocational Education	84.048	N/A	11,626
Total Passed Through the Texas Higher			<u>264,867</u>
Education Coordinating Board			
Total U.S Department of Education			<u><u>15,635,215</u></u>
<u>U.S. Department of Labor</u>			
Direct Programs:			
Health Professional Pathways Consortium (HPPC)	17.282	TC-22486-11-60-A-39	417,997
Allocated Indirect Costs - HPPC	17.282	TC-22486-11-60-A-39	14,329
Total U.S. Department of Labor			<u>432,326</u>
Total Federal Financial Assistance			<u>\$ 16,067,541</u>

* Major Program

TEXARKANA COLLEGE

SCHEDULE E – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

For the Year Ended August 31, 2014

Notes to the Schedule of Expenditures of State Awards

Note 1 – Federal Assistance Reconciliation

Federal Grants and Contract Revenue -	
Per Schedule of Operating Revenues (Schedule A)	748,894
Per Schedule of Operating Revenues (Schedule C)	9,267,346
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Assets	<u>\$ 10,016,240</u>
Reconciling item:	
Add: Direct Student Loans	<u>\$ 6,051,301</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 16,067,541</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

None

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, 2014

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Grantors Number</u>	<u>Expenditures and Pass Through Disbursements</u>
<u>Texas Higher Education Coordinating Board</u>		
Texas Grant Program	N/A	\$ 183,008
Texas Grant II - TEOG	N/A	83,147
ISP - Grant	N/A	50,268
Professional Nursing Shortage Reduction	N/A	94,492
Texas College Work Study	N/A	15,091
Trauma EMS Grant	N/A	9,970
Total Texas Higher Education Coordinating Board		435,976
<u>Texas Commission of Environmental Quality</u>		
Passed Through Sulphur River Basin Authority		
Clean Rivers Grant	N/A	41,723
Total Texas Commission on Environmental Quality		41,723
<u>Texas Comptroller of Public Accounts</u>		
Jet Grant Round 6	6095-08	18,167
Total Texas Comptroller of Public Accounts		18,167
Total State Financial Assistance		\$ 495,866

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, 2014 (With Comparative Figures for the Year Ended August 31, 2013)

	2014					2013				
	Cafeteria	Bookstore	Housing	Radio	Total	Cafeteria	Bookstore	Housing	Radio	Total
Sales and Gross Profit										
Sales	\$ 95,573	\$2,163,322	\$ 22,244	\$ 252,708	\$2,533,847	\$ 4,977	\$1,929,369	\$ 151,286	\$ 212,033	\$2,297,665
Total Sales	<u>95,573</u>	<u>2,163,322</u>	<u>22,244</u>	<u>252,708</u>	<u>2,533,847</u>	<u>4,977</u>	<u>1,929,369</u>	<u>151,286</u>	<u>212,033</u>	<u>2,297,665</u>
Less Direct Cost										
Cost of goods sold	73,119	1,629,761	-	-	1,702,880	8,986	1,499,691	-	-	1,508,677
Salaries	1,250	168,031	-	121,080	290,361	-	142,474	-	111,873	254,347
Total Direct Cost	<u>74,369</u>	<u>1,797,792</u>	<u>-</u>	<u>121,080</u>	<u>1,993,241</u>	<u>8,986</u>	<u>1,642,165</u>	<u>-</u>	<u>111,873</u>	<u>1,763,024</u>
Gross Profit	<u>21,204</u>	<u>365,530</u>	<u>22,244</u>	<u>131,628</u>	<u>540,606</u>	<u>(4,009)</u>	<u>287,204</u>	<u>151,286</u>	<u>100,160</u>	<u>534,641</u>
Operating Expenditures										
Benefits	388	37,026	-	23,886	61,300	-	33,206	-	22,120	55,326
Supplies	10,585	30,305	-	4,039	44,929	2,786	(55)	7,075	6,572	16,378
Travel	-	1,387	-	464	1,851	-	-	-	179	179
Contracted Services	1,050	17,657	-	131,872	150,579	1,043	8,366	2	95,755	105,166
Capital Outlay	-	-	-	-	-	-	-	-	-	-
Student Aid	-	-	-	-	-	-	-	3,000	-	3,000
Utilities	-	-	-	-	-	-	-	-	16,705	16,705
Depreciation	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-
Miscellaneous	135	429	-	305	869	22	3,231	-	-	3,253
Total Operating Expenditures	<u>12,158</u>	<u>86,804</u>	<u>-</u>	<u>160,566</u>	<u>259,528</u>	<u>3,851</u>	<u>44,748</u>	<u>10,077</u>	<u>141,331</u>	<u>200,007</u>
Excess (Deficiency) of Income Over Expense	<u>\$ 9,046</u>	<u>\$ 278,726</u>	<u>\$ 22,244</u>	<u>\$ (28,938)</u>	<u>\$ 281,078</u>	<u>\$ (7,860)</u>	<u>\$ 242,456</u>	<u>\$ 141,209</u>	<u>\$ (41,171)</u>	<u>\$ 334,634</u>

TEXARKANA COLLEGE

SCHEDULE H – INSURANCE IN FORCE

As of August 31, 2014

Company	Policy Number	Coverage	Coverage (in thousands)	Expiration Date
Texas Association of Public Schools	TX-10093-M	Property	\$ 90,849	September 1, 2014
Texas Association of Public Schools	TX-10093-M	Automobile Liability	\$ 1,000	September 1, 2014
Texas Association of Public Schools	TX-10093-M	Crime	\$ 250	September 1, 2014
Texas Association of Public Schools	TX-10093-M	Mobile Equipment	\$ 99	September 1, 2014
Texas Association of Public Schools	TX-10093-M	General Liability	\$ 1,000	September 1, 2014
Texas Association of Public Schools	TX-10093-M	Board Liability	\$ 1,000	September 1, 2014

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

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

To the Board of Trustees of
Texarkana College
Texarkana, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of Texarkana College (the College), as of and for the years ended August 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Texarkana College's basic financial statements and have issued our report thereon dated December 10, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2014-1 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2014-1.

The College's Response to Finding

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

Purpose of this Report

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


Certified Public Accountants

Texarkana, Texas
December 10, 2014

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees
of Texarkana College
Texarkana, Texas

Report on Compliance for Each Major Federal Program

We have audited the Texarkana College's (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, 2014. Texarkana College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Texarkana College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2014-1. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of Texarkana College, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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.

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

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

Thomas & Thomas LLP

Certified Public Accountants

Texarkana, Texas
December 10, 2014

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2014

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>
84.007	Student Financial Assistance Cluster – FSEOG
84.033	Student Financial Assistance Cluster – FWS
84.063	Student Financial Assistance Cluster – PELL
84.268	Student Financial Assistance Cluster – Direct Loans
84.042	TRIO Cluster – Student Support Services
84.044	TRIO Cluster – Talent Search

Dollar threshold used to distinguish between type A and type B programs: \$482,026

Auditee qualified as low risk auditee? No

Texarkana College

Schedule of Findings and Questioned Costs Year Ended August 31, 2014

Section II – Federal Award Findings and Questioned Costs

Finding 2014-1

Department of Education

Student Financial Assistance – CFDA# 84.007/84.033/84.063/84.268

Award year – July 1, 2013 to June 30, 2014

Award numbers – P063P132318, P268K142318, P007A134134, and P033A134134

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 funding is calculated by determining the percentage of Title IV assistance that has been earned by a student and applying that percentage to the total amount of Title IV 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 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, 2014

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

Finding 2014-1 (continued)

Context:

A sample of 91 students was selected for audit from a population of 2,658 students receiving Title IV aid. The tests disclosed that 10 return to Title IV remittances were not submitted within the allowed 45 day timeframe. Of that sample, 19 were properly returned within the established guidelines while 62 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 an R2T4 calculation being performed. Therefore, the College concentrated its efforts in the 2011-2012 year on ensuring that all withdrawal students were identified and that R2T4 calculations were performed correctly. The College met the 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. During the 2012-2013 and 2013-2014 years, the College continued to focus on ensuring that R2T4 calculations for all withdrawn students were performed correctly and made improvements in returning funds in a timely manner. The College will continue to increase its focus on this area and will implemented further procedures to better streamline the process and improve timeliness.

Responsible Individual: Kim Jones, CFO

Anticipated Completion Date: Fiscal Year 2014-2015

Texarkana College

Schedule of Findings and Questioned Costs

Year Ended August 31, 2014

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

Prior Year Findings and Questioned Costs Relating to Federal Awards

Finding 2013-1 – Student Financial Assistance – Return of Title IV Funds

This same finding occurred during the 2013-2014 audit, see responses in finding 2014-1.