

Financial Statements and Independent Auditors' Report

August 31, 2012



2012

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MIDLAND COLLEGE DISTRICT

ORGANIZATIONAL DATA

As of August 31, 2012

BOARD OF TRUSTEES

Officers

Mr. Steven C. Kiser	President
Ms. Charlene R. McBride	Vice-President
Mr. Stephen N. Castle	Secretary

Members

		Term Expires
Mr. Stephen N. Castle	Midland, Texas	2012
Ms. Linda Cowden	Midland, Texas	2016
Mr. Neil Florer	Midland, Texas	2012
Mr. Will R. Green	Midland, Texas	2014
Mr. Steven C. Kiser	Midland, Texas	2016
Mr. G. Larry Lawrence	Midland, Texas	2016
Ms. Charlene R. McBride	Midland, Texas	2012
Mr. Kenneth A. Peeler	Midland, Texas	2014
Mr. Ralph Way	Midland, Texas	2014

ADMINISTRATIVE OFFICERS

Dr. Steve Thomas	President
Dr. Richard C. Jolly	Executive Vice President
Mr. Rick Bender	Vice President of Administrative Services
Ms. Rita Nell Diffie	Vice President of Student Services
Dr. Rex Peebles	Vice President of Instruction
Mr. Dennis Sever	Vice President of Information Technology & Facilities
Mr. Bob Vincent	Director of Accounting



JOHNSON MILLER & CO., CPA's PC

Certified Public Accountants

A Professional Corporation

An Independent Member Of BDO Seidman Alliance

Midland, Texas
Odessa, Texas
Hobbs, New Mexico

Independent Auditors' Report

The Board of Trustees
Midland College District
Midland, Texas

We have audited the accompanying financial statements of Midland College District (the "District") as of and for the years ended August 31, 2012 and 2011 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The organizational data and statistical supplement on page 1 and pages 56 through 64 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *Provisions of the State of Texas Single Audit Circular*, and is not a required part of the basic purpose financial statements. In addition, the supplementary data presented in schedules A, B, C and D is presented for additional purposes and is not a required part of the basic financial statements. The schedules of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The organizational data and statistical supplement have 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 them.

A handwritten signature in blue ink that reads "Johnson Miller & Co., CPAs PC". The signature is written in a cursive, flowing style.

Midland, Texas
December 6, 2012

Overview of the Financial Statements and Financial Analysis

The Management's Discussion and Analysis is designed to provide an easy to read analysis of Midland College District's financial activities for the years ended August 31, 2012, 2011 and 2010. This overview is based on facts, decisions and conditions known as of the date of the independent auditor's report. There are three financial statements presented: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows. These statements provide both long-term and short-term financial information on the District as a whole and should be read in conjunction with the notes to the basic financial statements.

Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the preparers.

Financial and Enrollment Highlights

- The District's assets exceeded liabilities by approximately \$85.9 million and \$81.7 million for the fiscal years ended August 31, 2012 and 2011, respectively. Of these amounts, unrestricted net assets were \$15.5 million for fiscal year 2012 and \$12.2 million for fiscal year 2011.
- The District's financial position as a whole was strengthened as total net assets increased by approximately \$4.2 million during fiscal year 2012 and by approximately \$5.8 million during fiscal year 2011. Of these amounts, unrestricted net assets increased by approximately \$3.3 million and \$1.4 million for fiscal years 2012 and 2011, respectively.
- The net assessed valuation of the District increased by approximately \$776 million, or 6.6%, from 2011 to 2012 and by \$700 million or 6.3% from 2010 to 2011. Taxable values were approximately \$12.5 billion in 2012 and \$11.7 billion in 2011.
- Bonds payable decreased by approximately \$2.3 million in fiscal year 2012 and by approximately \$2.1 million during fiscal year 2011.
- During 2012 \$26,840,000 of the General Obligation Bonds, Series 2005 were refunded resulting in a total present value savings of 5.64% and an average annual savings of approximately \$132,000 in years 2013 through 2026.
- During fiscal year 2012 the unduplicated head count of credit students decreased by 275 students, duplicated head count of credit students decreased by 534, and contact hours decreased by approximately 192,000.
- During fiscal year 2011 the unduplicated head count of credit students increased by 405 students, duplicated head count of credit students increased by 851, and contact hours increased by approximately 98,000.

The Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector organizations. Net assets - the difference between assets and liabilities – are one way to measure the financial health of the District. The purpose of the Statement of Net Assets is to present a fiscal snapshot of the District.

From the data presented, readers of the Statement of Net Assets are able to determine the resources that are available to continue the operations of the institution. Readers are also able to determine the amount the institution owes vendors, bondholders and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the institution.

Condensed Statement of Net Assets
(in thousands)

	August 31,			Increase/(Decrease)	
	2012	2011	2010	2011 to 2012	2010 to 2011
Assets					
Current Assets	\$ 29,966	29,049	25,673	917	3,376
Non-current Assets	7,513	8,096	9,866	(583)	(1,770)
Capital Assets - (Non-current)	103,396	101,675	100,455	1,721	1,220
Total Assets	\$ 140,875	138,820	135,994	2,055	2,826
Liabilities:					
Current Liabilities	\$ 10,706	10,237	10,973	469	(736)
Non-current Liabilities	44,272	46,922	49,153	(2,650)	(2,231)
Total Liabilities	\$ 54,978	57,159	60,126	(2,181)	(2,967)
Net Assets:					
Invested in capital assets, net of related debt	\$ 59,196	56,980	55,616	2,216	1,364
Restricted-Nonexpendable	5,374	5,016	4,793	358	223
Restricted-Expendable	5,850	7,485	4,594	(1,635)	2,891
Unrestricted	15,477	12,225	10,865	3,252	1,360
Total Net Assets	\$ 85,897	81,706	75,868	4,191	5,838
Current Ratio	2.80	2.84	2.34		

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, reflects the institution’s equity in property, plant and equipment. The next category, restricted net assets, is divided into nonexpendable and expendable. The corpus, or nonexpendable restricted resources, is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution, but must be spent for purposes as determined by donors

The Statement of Net Assets (Continued)

and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the institution for any lawful purpose. As of August 31, 2012, assets of the District exceeded liabilities by approximately \$85.9 million. Of this amount, approximately \$15.5 million is unrestricted and may be used to meet ongoing obligations.

In 2012 the District's assets increased by approximately \$2.1 million while liabilities decreased by approximately \$2.1 million, resulting in an increase in net assets of approximately \$4.2 million. Major changes in the Statement of Net Assets are as follows:

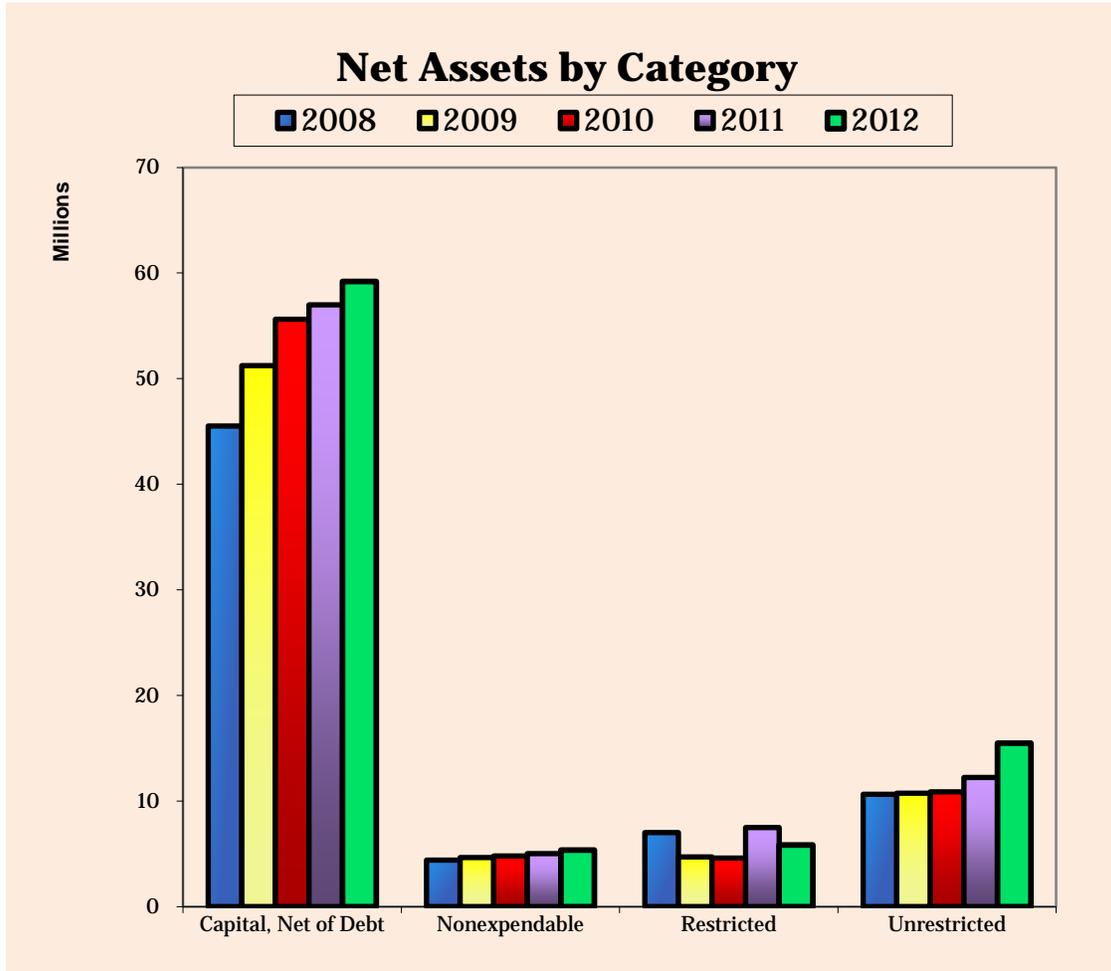
- Net increases in capital assets of approximately \$1.7 million. The increase includes additions of approximately \$5.5 million, less disposals of approximately \$55 thousand and depreciation of approximately \$3.7 million. Additions include completion of the F. Marie Hall SimLife Center, Pevehouse Administration Building, softball field complex, warehouse shade cover and improvements to the campus computer network infrastructure.
- Bonds payable decreased by approximately \$2.3 million as a result of scheduled debt service payments.

In 2011 the District's assets increased by approximately \$2.8 million while liabilities decreased by approximately \$3 million, resulting in an increase in net assets of approximately \$5.8 million. Major changes in the Statement of Net Assets are as follows:

- Capital assets increased by approximately \$1.2 million. The increase includes additions of approximately \$5 million, less disposals of approximately \$216 thousand and depreciation of approximately \$3.5 million. Additions include construction in progress on the F. Marie Hall SimLife Center and the Pevehouse Administration Building and improvements to the campus computer network infrastructure.
- Bonds payable decreased by approximately \$2.1 million as a result of scheduled debt service payments.

The following graph illustrates the comparative changes in net assets by category over the past five years. The District's financial position is strong and stable as reflected in the chart. Unrestricted net assets are critical to support the District's overall mission, therefore it is important that unrestricted net assets be adequately maintained. The chart illustrates that unrestricted net assets have grown in a consistent manner and that the District has not been required to use these resources to fund operations. The growth in Invested in Capital, net of debt, reflects the substantial investments the District has made in its physical plant. Restricted net assets represent balances of funds that have been received to fund specific projects. Accordingly, these balances will increase and decrease as funds are received and subsequently disbursed to fund these specific projects.

The Statement of Net Assets (Continued)



Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets present the operating results of the District, as well as the non-operating revenues and expenses. Generally, operating revenues are those revenues received in exchange for the District providing goods and services. Operating expenses are those amounts paid to acquire or produce the goods and services in return for the operating revenues. Non-operating revenues are funds received with no direct relationship to the goods and services being provided. Accordingly, state appropriations and ad valorem taxes, while budgeted for operations, are classified as non-operating revenue for financial reporting purposes.

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

The following chart reflects a summary of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended August 31, 2012, 2011 and 2010. This summary indicates the operating loss and the overall increase in net assets for each of the years displayed.

Summary of Statement of Revenues, Expenses and Changes in Net Assets			
(in thousands)			
	2012	2011	2010
Operating Revenues	\$ 17,459	17,955	18,694
Operating Expenses	(51,325)	(54,836)	(53,145)
Operating Loss	(33,866)	(36,881)	(34,451)
Non-operating revenues	\$ 40,127	44,863	41,573
Non-operating expenses	(2,025)	(2,190)	(2,559)
Increase in Net Assets	\$ 4,236	5,792	4,563

Revenues

The following chart graphically illustrates revenue trends from 2002 through 2012.



Revenues (Continued)

Major changes in operating and non-operating revenue are as follows:

- Gross tuition and fee revenue for 2012 exceeded 2011 amounts by approximately \$957 thousand, or 7%, even though enrollments were down by approximately 2.5% from the prior year. The increase was the result of higher tuition rates and a slight shift in enrollment from in-district to out-of-district students. Out-of-district students pay a higher tuition rate. (Statistical Supplements #4, and #6).
- Gross tuition and fee revenue for 2011 exceeded 2010 amounts by approximately \$995 thousand, or 8%. This increase is attributed to (1) growth in enrollment, and (2) an increase in tuition and fee rates. The unduplicated head count exceeded the prior year by approximately 3.8% and contact hours were approximately 3.3% higher in 2011 compared to 2010. In-district tuition and fee rates increased by approximately 5% while out-of-district and nonresident rates each increased approximately 6% and 4% respectively. (Statistical Supplements #4, and #6).
- State appropriated revenue for 2012 was approximately \$2.3 million, or 18% less than 2011, primarily due to reductions in insurance and retirement funding imposed by the legislature.
- State appropriated revenue for 2011 was approximately \$519,000 less than 2010, due to mid-year reductions imposed by the legislature on previously appropriated funds.
- Property tax revenue for maintenance and operations in 2012 exceeded the prior year by approximately \$1.2 million, or 5.9%, while 2011 revenues exceeded 2010 amounts by approximately \$1 million, or 6.5%. Revenues are higher primarily as a result of increases in the net assessed values of the District of approximately 6.6% for 2012 and 6% for 2011. The combined tax rate was \$0.1679 per \$100 of valuation for 2012 and \$0.1699 per \$100 of valuation for 2011.
- Revenues from gifts, grants and contracts are not consistent from year to year, as private funds are given for specific purposes and many governmental grants are non-recurring. Revenue from gifts, grants and contracts in 2012 were less than the prior year because in 2011 the District received more than \$3 million in private gifts for the purpose of constructing a hospital simulation center. In 2011 federal Pell grants were higher than the prior year by approximately \$1.1 million, while other federal revenues were lower resulting in an overall decrease in federal revenue of approximately \$329 thousand.

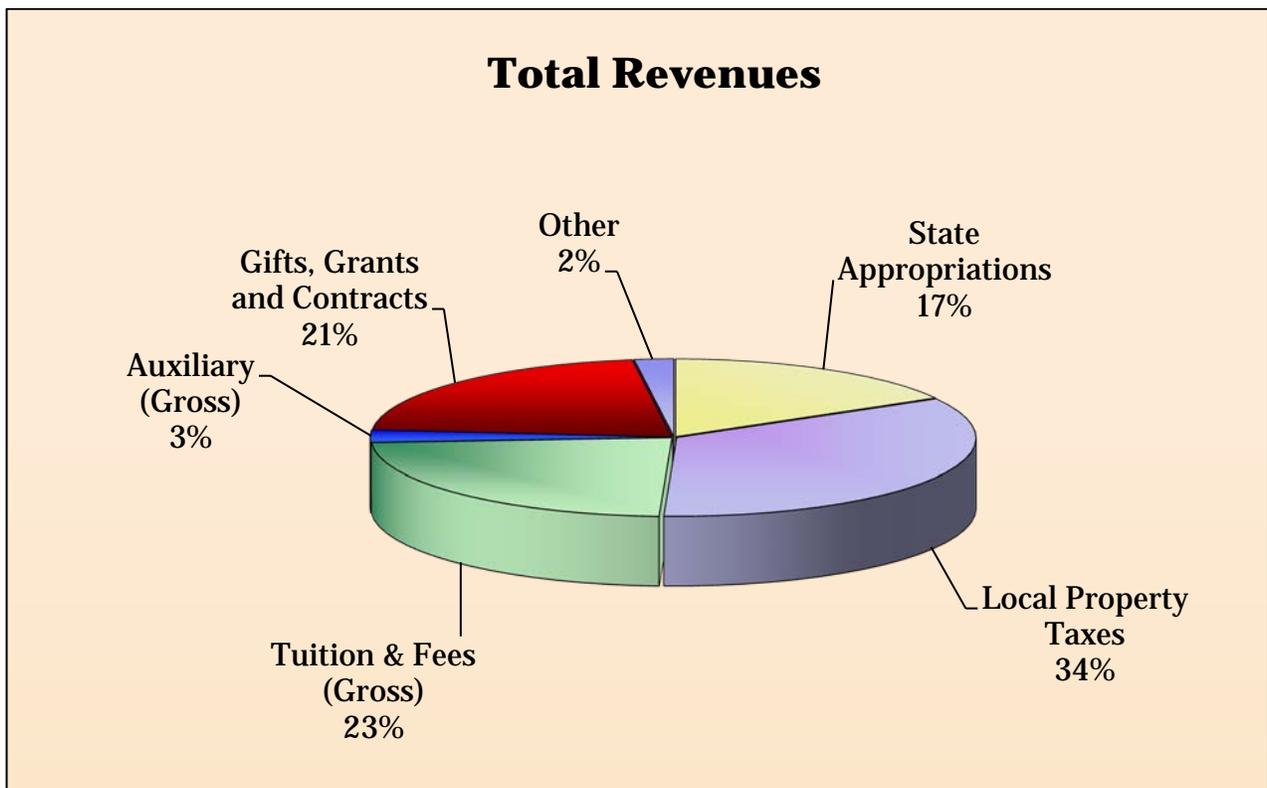
A review of longer term trends reflects an accelerated deterioration in state support for higher education. The decline in state appropriations as a percentage of total institutional revenues has led to more dependence on local revenue sources. Statistical Supplement #2, in the back of this report, indicates the following percentage increases in revenue from 2003 through 2012.

Tuition and fees	192%
State appropriations	(6.5)%
Property tax	117%

Revenues (Continued)

During the same period of time (2003 through 2012), student contact hours increased 19% and annual unduplicated credit student headcount increased 43%. (Statistical Supplements #6 and #9)

The chart below reflects revenues from all sources. For purposes of this presentation, tuition, fees and auxiliary revenues are shown prior to scholarship discounts. The Statements of Revenues, Expenses and Changes in Net Assets reflect these revenues net of scholarships.



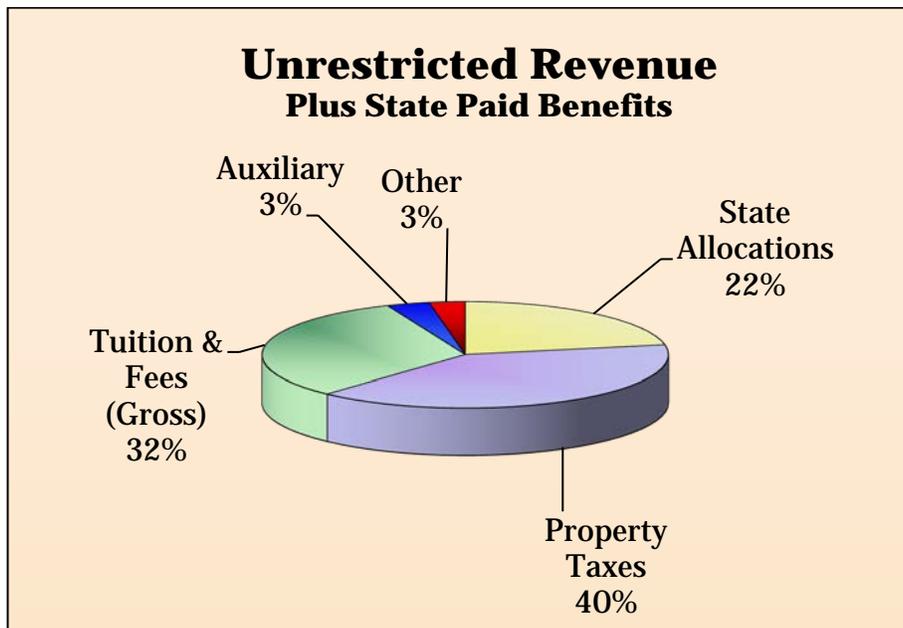
The following table illustrates the composition of total revenue for 2012 compared to 2002.

	Percentage of Total Revenues	
	2012	2002
State Appropriations	17%	30%
Local Property Taxes	34%	26%
Tuition and Fees (Gross)	23%	14%
Gifts Grants & Contracts	21%	23%
Auxiliary Services	3%	3%
Other	2%	4%
	100%	100%

Revenues (Continued)

A substantial portion of scholarships and capital projects are funded from private gifts, grants and contracts. This includes a growing amount of instructional equipment and operating costs which are funded from annual grants made by the Midland College Foundation, Inc. While each year the District receives substantial revenue from private sources, the amounts are not consistent from year-to-year.

Restricted resources are important to accomplish specific objectives; however, unrestricted resources are critical to ensure that the institution’s core mission is supported. Many revenues have donor or grantor restrictions with respect to how the funds can be used. The following chart reflects the source of funds supporting only the District’s unrestricted operations. Benefits provided by the state are considered restricted, but are included in the graphic because they support the District’s unrestricted operations.



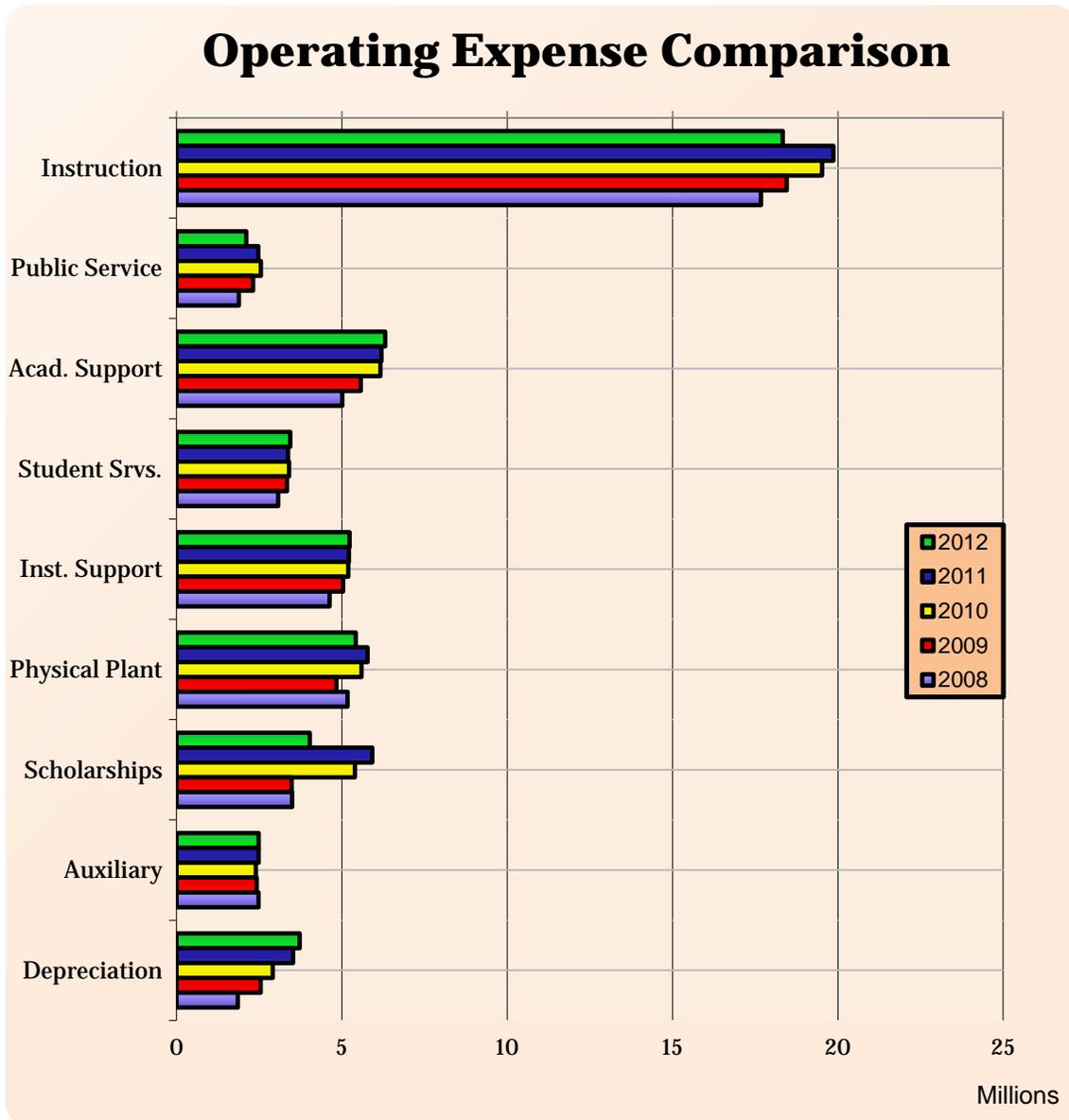
Operating Expenses by Functional Classification

Functional classifications are the traditional categories that have been used to show expenses. They represent the type of programs and services provided. The chart on the following page shows the District’s 2012 expenses compared to the 2011, 2010, 2009, and 2008 expenses.

Total expenses for 2012 were less than 2011 expenses by approximately \$3.7 million, or 6.8%. Of this amount, restricted expenses decreased by \$4.4 million and unrestricted expenses increased by approximately \$714 thousand. The decrease in restricted expenditures is primarily the result of a \$1.2 million decrease in Pell grants, the completion of a Workforce Investment Act grant and the discontinuance of the Carl Perkins Vocation Tech Prep program by the Department of Education.

Operating Expenses by Functional Classification (Continued)

Total expenses for 2011 exceeded 2010 by approximately \$1.7 million, or 3.2%. Depreciation expense accounted for approximately \$614,000 and scholarships accounted for approximately \$525,000 of the increase. Unrestricted and auxiliary expenses increased by only \$334,000. Most of this increase was the result of an across the board salary increase of 2.5% which was offset by the elimination of several positions during 2011.



Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also helps users assess the District’s ability to generate net cash flows needed to meet its obligations as they come due and its need for external financing.

Summary of Statement of Cash Flows

	2012	2011	2010
Cash Provided By (Used In):			
Operating Activities	\$ (27,686,367)	(30,552,822)	(28,008,376)
Non-Capital Financing Activities	34,528,478	35,616,236	33,673,988
Capital and Related Financing Activities	(6,309,322)	(3,492,397)	(11,548,111)
Investing Activities	(2,807,901)	(3,326,729)	617,403
Changes in Cash and Cash Equivalents	\$ (2,275,112)	(1,755,712)	(5,265,096)

The primary cash receipts from operating activities consist of tuition and fees, housing, board and grant revenue. Cash outlays include payment of wages, benefits, supplies, utilities and scholarships. State allocations and ad valorem taxes were the primary source of non-capital financing. Accounting standards require that we reflect this source of revenue as non-operating, even though these resources are classified as operating revenues in the District’s budget.

Cash flows from Capital and Related Financing Activities include proceeds from the issuance of debt, principal and interest disbursements and payments for buildings and other capital acquisitions.

Cash flows from investing activities represent the annual effect of the purchase, sale and maturity of investments, along with interest received from those investments.

Capital Assets and Debt Administration

The table below reflects the District’s year-end capital asset balances, net of accumulated depreciation.

Schedule of Capital Assets
(in thousands)

	2012	2011	2010	2009
Land	\$ 2,551	2,553	2,553	2,553
Library Books & Collections	450	505	479	477
Construction in Progress	921	3,143	13,716	16,599
Buildings	85,325	83,329	72,508	63,941
Land Improvements	6,411	5,503	5,313	3,136
Furniture, Equipment, Vehicles	7,738	6,642	5,886	5,104
	\$ 103,396	101,675	100,455	91,810

Midland College District

Management Discussion and Analysis For the Year Ending August 31, 2012

Capital Assets and Debt Administration (Continued)

Capital assets additions totaled approximately \$5.5 million in 2012 and \$5 million in 2011. Additions during these years included construction of the F. Marie Hall SimLife Center, softball field complex, warehouse shade cover, renovations to the Pevehouse Administration Building, along with improvements and expansion of the campus computer network infrastructure.

As of August 31, 2012 and 2011, the District's bond rating by Moody's Investors Service ("Moody's") and Standard and Poor's (S&P) is "Aa2" and "AA", respectively.

The District had outstanding debt of approximately \$46 million and \$48 million as of August 31, 2012 and 2011, respectively.

Schedule of Outstanding Debt (in thousands)

	2012	2011	2010	2009
General Obligation Bonds	\$ 32,595	34,267	35,800	37,268
Revenue Bonds	13,316	13,912	14,482	15,027
	<u>\$ 45,911</u>	<u>48,179</u>	<u>50,282</u>	<u>52,295</u>

Economic Factors That Will Affect the Future

The District relies heavily on ad valorem taxes, state appropriations and tuition as its primary sources of operating revenue. The District continues to enjoy the benefits of a strong local economy which has resulted in significant increases in taxable values. Subsequent to this reporting period, the net assessed valuation of the District increased by approximately 25% for 2013. Tuition and fee revenues are expected to remain stable, even though a very attractive local job market has created enrollment challenges as some students choose to defer their educational goals in order to pursue lucrative employment opportunities.

State appropriations were less in 2012 than at any other year since 2001, and 2013 State appropriations are 3.7% less than 2012. The District's has been advised to expect further reductions in state funding for the biennium that begins with fiscal year 2014.

In May of 2012, the voters in Pecos County voted to authorize a Branch Campus Maintenance Tax to support the District's operations in Pecos County. This additional local revenue, along with increases in other local revenue sources will assist in providing the offset for reductions in state funding.

The District will continue to make necessary adjustments to internal budgetary allocations and to consider increases in other revenue sources in order to absorb the impact of state funding reductions, with the goal of minimizing the impact upon the institution's core mission.

Economic Factors That Will Affect the Future (Continued)

The District 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 2012-13 or subsequent fiscal years.

Requests for Information

This annual financial report is designed to provide interested stakeholders with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to the Vice President of Administrative Services at Midland College, 3600 N. Garfield, Midland, TX 79705.

/s/Rick Bender

Rick Bender

Vice President of Administrative Services

FINANCIAL STATEMENTS

Midland College District
STATEMENTS OF NET ASSETS

Exhibit 1

Years ended August 31,

	<u>2012</u>	<u>2011</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 3,629,082	5,522,359
Short-term investments	22,075,140	19,052,772
Accounts receivable, net	2,059,697	2,380,692
Deferred charges	2,132,921	2,061,053
Inventories	6,495	4,233
Prepaid expenses	41,661	7,858
Deposits	<u>20,472</u>	<u>20,472</u>
Total current assets	<u>29,965,468</u>	<u>29,049,439</u>
Non-current Assets:		
Restricted cash and cash equivalents	2,645,382	3,027,217
Endowment investments	4,415,557	4,597,678
Deferred charges	408,869	429,658
Capital assets, net	103,396,417	101,674,552
Other assets-Split Interest Agreements	<u>43,365</u>	<u>40,910</u>
Total non-current assets	<u>110,909,590</u>	<u>109,770,015</u>
Total Assets	<u>\$ 140,875,058</u>	<u>138,819,454</u>
LIABILITIES:		
Current Liabilities:		
Accounts payable	\$ 1,543,775	2,442,086
Accrued liabilities	1,793,714	670,800
Accrued compensable absences – current portion	603,360	580,706
Funds held for others	64,084	68,598
Deferred revenues	3,984,684	4,212,544
Bonds payable – current portion	2,642,278	2,193,582
Deposits	<u>73,900</u>	<u>68,700</u>
Total current liabilities	<u>10,705,795</u>	<u>10,237,016</u>
Non-current Liabilities:		
Accrued compensable absences	1,002,967	936,266
Bonds payable – non-current portion	<u>43,269,068</u>	<u>45,985,280</u>
Total non-current liabilities	<u>44,272,035</u>	<u>46,921,546</u>
Total Liabilities	<u>54,977,830</u>	<u>57,158,562</u>

Midland College District**Exhibit 1****STATEMENTS OF NET ASSETS (CONTINUED)****Years ended August 31,**

	<u>2012</u>	<u>2011</u>
NET ASSETS:		
Invested in capital assets, net of related debt	59,195,618	56,980,348
Restricted for:		
Nonexpendable:		
Student aid	4,527,155	4,170,012
Instructional programs	846,473	845,985
Expendable:		
Student aid	3,205,225	2,831,986
Instructional programs	1,036,541	1,083,927
Capital projects	1,248,301	3,343,277
Debt service	360,484	225,050
Unrestricted	<u>15,477,431</u>	<u>12,180,307</u>
Total Net Assets (Schedule D)	<u>85,897,228</u>	<u>81,660,892</u>
Total Liabilities and Net Assets	\$ <u>140,875,058</u>	<u>138,819,454</u>

The notes to the financial statements are an integral part of these statements.

Midland College District

Exhibit 2

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

Years ended August 31,

	<u>2012</u>	<u>2011</u>
REVENUES		
Operating revenues		
Tuition and fees (net of discounts of \$4,101,199 and \$3,965,339, respectively)	\$ 10,416,495	9,595,412
Federal grants and contracts	2,692,944	3,787,431
State grants and contracts	516,938	653,076
Local grants and contracts	825,306	816,996
Non-governmental grants and contracts	845,240	884,564
Sales and services of educational activities	432,113	399,000
Investment income – program restricted	206,353	276,985
Auxiliary enterprises (net of discounts of \$617,055 and \$536,538, respectively)	937,735	1,042,315
General operating revenues	<u>585,404</u>	<u>498,907</u>
Total operating revenues (Schedule A)	<u>17,458,528</u>	<u>17,954,686</u>
EXPENSES		
Operating expenses		
Instruction	18,335,285	19,866,246
Public service	2,111,742	2,474,617
Academic support	6,310,875	6,196,985
Student services	3,442,219	3,374,108
Institutional support	5,234,132	5,214,522
Operation and maintenance of plant	5,421,370	5,777,841
Scholarships and fellowships (net of discounts of \$3,685,835 and \$3,384,418, respectively)	4,031,281	5,920,646
Auxiliary enterprises (net of discounts of \$617,055 and \$536,538, respectively)	2,713,591	2,485,029
Depreciation	<u>3,724,300</u>	<u>3,525,817</u>
Total operating expenses (Schedule B)	<u>51,324,795</u>	<u>54,835,811</u>
OPERATING LOSS	<u>(33,866,267)</u>	<u>(36,881,125)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	10,397,190	12,686,691
Maintenance ad valorem taxes	18,111,373	16,932,448
Debt service ad valorem taxes	3,068,852	3,072,104
Federal revenue, non-operating	5,599,410	6,850,456
Gifts	1,763,307	2,083,151
Investment income	25,767	33,299
Contributions in aid of construction	734,717	3,044,185
Interest on capital related debt	(1,993,509)	(2,131,674)
Gain (loss) on disposal of fixed assets	70,356	(16,096)
Additions to permanent endowments	356,606	160,825
Other non-operating expenses	<u>(31,466)</u>	<u>(41,979)</u>
Net non-operating revenues (Schedule C)	<u>38,102,603</u>	<u>42,673,410</u>

Midland College District

Exhibit 2

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS (CONTINUED)**

Years ended August 31,

	<u>2012</u>	<u>2011</u>
Increase in net assets	4,236,336	5,792,285
Net assets – beginning of year	<u>81,660,892</u>	<u>75,868,607</u>
Net assets – end of year	\$ <u>85,897,228</u>	<u>81,660,892</u>

The notes to the financial statements are an integral part of these statements.

Midland College District

Exhibit 3

STATEMENTS OF CASH FLOWS

Years ended August 31,

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 11,410,010	11,228,165
Receipts from grants and contracts	5,236,355	6,114,105
Payments to suppliers for goods and services	(13,490,093)	(15,229,791)
Payments to or on behalf of employees	(27,642,402)	(27,551,789)
Payments for scholarships and fellowships	(4,090,180)	(6,102,200)
Other receipts	<u>889,943</u>	<u>988,688</u>
Net cash used in operating activities	<u>(27,686,367)</u>	<u>(30,552,822)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	8,720,332	9,461,352
Receipts from ad valorem taxes	18,127,258	18,943,939
Receipts from non-operating federal revenue	5,599,410	6,850,456
Receipts from gifts or grants for other than capital purposes	1,763,307	2,083,151
Receipts from student organizations and other agency transactions	32,248	57,442
Payments to student organizations and other agency transactions	(36,762)	(52,087)
Receipts from private gifts for endowment purposes	354,151	313,962
Other non-operating payments	<u>(31,466)</u>	<u>(41,979)</u>
Net cash provided by non-capital financing activities	<u>34,528,478</u>	<u>35,616,236</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds on issuance of capital debt	27,676,238	-
Receipts from ad valorem taxes – debt services	3,066,944	3,074,219
Receipts from capital grants and gifts	734,717	3,044,185
Purchases of capital assets	(5,898,636)	(5,405,218)
Payments on capital debt – principal	(29,943,755)	(2,102,790)
Payments on capital debt – interest	<u>(1,944,830)</u>	<u>(2,102,793)</u>
Net cash used in financing activities	<u>(6,309,322)</u>	<u>(3,492,397)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	449,724	3,200,000
Interest on investments	32,346	31,247
Purchase of investments	<u>(3,289,971)</u>	<u>(6,557,976)</u>
Net cash used in investing activities	<u>(2,807,901)</u>	<u>(3,326,729)</u>
(Decrease) in cash and cash equivalents	<u>(2,275,112)</u>	<u>(1,755,712)</u>
Cash and cash equivalents – September 1	<u>8,549,576</u>	<u>10,305,288</u>
Cash and cash equivalents – August 31	\$ <u>6,274,464</u>	<u>8,549,576</u>

Midland College District**Exhibit 3****STATEMENTS OF CASH FLOWS (CONTINUED)****Years ended August 31,**

	<u>2012</u>	<u>2011</u>
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	\$ (33,866,267)	(36,881,125)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	3,724,300	3,525,817
Payments made directly by state for benefits	1,676,858	3,225,339
Changes in related assets and liabilities:		
Receivables, net	300,440	(34,445)
Deferred expenses	(71,868)	(214,909)
Inventories	(2,262)	(217)
Prepaid expenses	(33,804)	39,364
Accounts payable	(389,474)	(629,256)
Accrued liabilities	1,114,215	42,612
Compensated absences	89,355	(30,670)
Deferred revenue	<u>(227,860)</u>	<u>404,668</u>
Net cash used by operating activities	\$ <u>(27,686,367)</u>	<u>(30,552,822)</u>

The notes to the financial statements are an integral part of these statements.

Midland College District

NOTES TO FINANCIAL STATEMENTS

August 31, 2012 and 2011

NOTE 1 – REPORTING ENTITY

Midland College District (the “District”) was established in 1972, in accordance with the laws of the State of Texas, to serve the educational needs of the public and the surrounding communities. The District is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (“GASB”) Statement No. 14. While the District receives funding from local, state and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (“TPEG”), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.033). 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 Program Funds

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

Other Tuition Discounts

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

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

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

Encumbrance Accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. Encumbrances outstanding at year end, that were provided for in the subsequent year's budget, are reported as designations of net assets since they do not constitute expenditures or liabilities.

Cash and Cash Equivalents

The District'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.

Pledges

The District recognizes pledges in the financial statements when all applicable eligibility requirements, including time requirements, are met. Pledges are reported as restricted revenues prior to the fulfillment of all applicable eligibility requirements.

Deferred Revenue and Expenditures

Deferred revenue relates to student tuition, fees received during the current fiscal period for classes to be held in the following period. Similarly, deferred expenditures represent scholarship funds expended in the current period relating to the following period.

Bond issuance costs are reflected as deferred charges under non-current assets.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Investments

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

Budgetary Data

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for current operating funds for the fiscal year beginning September 1. The budget, which is prepared on the accrual basis of accounting, is adopted by the

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Data (Continued)

District's Board of Trustees. A copy of the approved budget 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.

Capital Assets

Capital assets are recorded at cost. Donated capital assets are valued at their estimated fair market value on the date received. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. The District reports depreciation under a single-line as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

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

Estimates

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

Operating and Non-Operating Revenue and Expense Policy

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

Characterization of Title IV Grant Revenue

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

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

GASBS No. 64

GASB Statement 64, *Derivative Instruments: Application of Hedging Accounting Termination Provisions—an amendment of GASB Statement No. 53*, was issued June 2011. GASB 64 is to clarify whether an effective hedging relationship continues after the replacement of a swap counter-party or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.

GASBS No. 65

GASBS Statement 65, *Items Previously Reported as Assets and Liabilities*, was issued March 2012. This 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. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASBS No. 66

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, was issued March 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 3 – AUTHORIZED INVESTMENTS

The Board of Trustees of the District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act (Section 2256.001, Texas Government Code). The investments of the District are in compliance with Trustees' investment policies. 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

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act of 1995 (Section 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) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by this state or the United States or its instrumentalities, (5) obligations of political subdivisions rated not less than A by a national investment rating firm, (6) certificates of deposit, (7) repurchase agreements and (8) other instruments and obligations authorized by statute.

Cash and Short-Term Investments: Investment policies for cash and short-term investments, as set forth by the Board of Trustees, authorize the District to invest in interest-bearing time deposits, short-term cash funds, money market funds, intermediate cash fund, U.S. Government-backed obligations and commercial paper. All investments must be held by the financial institutions organized under Federal or State law.

Investments: Investment policies as set forth by the Board of Trustees also authorize the District to invest in bonds or other securities.

Deposits: At August 31, 2012 and 2011, the carrying amount of the District's deposits was \$6,268,764 and \$8,544,476, respectively; and bank balances equaled \$6,272,108 and \$8,952,693. Bank balances of \$426,109 and \$776,696 are covered by federal depository insurance and \$5,845,999 and \$8,175,997 were covered by collateral pledged in the District's name. The collateral was held by the District or by its Agent. There were no uncollateralized bank balances at either year end. (This would have included any bank balance that was collateralized with securities held by the pledging financial institution's department or agent but not in the District's name). The District held \$22,075,140 and \$19,052,772 in state approved public investment pools at August 31, 2012 and 2011, respectively.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

Cash and Deposits

	<u>2012</u>	<u>2011</u>
Bank Deposits		
Demand Deposits	\$ 492,633	514,399
Money Market Deposits	<u>5,776,131</u>	<u>8,030,077</u>
	6,268,764	8,544,476
Petty Cash on Hand	<u>5,700</u>	<u>5,100</u>
Total Cash and Deposits	\$ <u>6,274,464</u>	<u>8,549,576</u>

Reconciliation of Deposits and Investments to Exhibit 1

<u>Type of Security</u>	<u>August 31, 2012 Market Value</u>	<u>August 31, 2011 Market Value</u>
U.S. Government Securities	\$ 4,365,825	4,547,885
Public Funds Investment Pools	22,075,140	19,052,772
Bond Mutual Funds	<u>49,732</u>	<u>49,793</u>
Total Investments	\$ <u>26,490,697</u>	<u>23,650,450</u>
Total Cash and Deposits	\$ 6,274,464	8,549,576
Total Investments	<u>26,490,697</u>	<u>23,650,450</u>
Total Deposits and Investments	\$ <u>32,765,161</u>	<u>32,200,026</u>
Cash and Temporary Investments (Exhibit 1)	\$ 28,349,604	27,602,348
Investments (Exhibit 1)	<u>4,415,557</u>	<u>4,597,678</u>
Total Deposits and Investments	\$ <u>32,765,161</u>	<u>32,200,026</u>

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

<u>Investment Type</u>	<u>Investment Maturities in Years</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 2</u>	<u>2 to 5</u>	<u>5 to 10</u>
Public Funds Investment Pools	\$ 22,075,140	22,075,140	-	-	-
U.S. Government Securities	4,365,825	509,476	747,563	1,697,607	1,411,179
Bond Mutual Funds	<u>49,732</u>	-	<u>49,732</u>	-	-
Total Fair Value	\$ <u>26,490,697</u>	<u>22,584,616</u>	<u>797,295</u>	<u>1,697,607</u>	<u>1,411,179</u>

As of August 31, 2011 the District had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities in Years</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 2</u>	<u>2 to 5</u>	<u>5 to 10</u>
Public Funds Investment Pools	\$ 19,052,772	19,052,772	-	-	-
U.S. Government Securities	4,547,885	713,279	523,510	1,473,620	1,837,476
Bond Mutual Funds	<u>49,793</u>	-	<u>49,793</u>	-	-
Total Fair Value	\$ <u>23,650,450</u>	<u>19,766,051</u>	<u>573,303</u>	<u>1,473,620</u>	<u>1,837,476</u>

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk: In order to limit exposure to fair value losses arising from increasing interest rates, the District has established maturity limitations for each fund group. Operating funds are primarily invested in instruments that offer high liquidity and have maturities corresponding with the short to intermediate operating needs of the District. Plant funds and other capital project funds have maturities which correspond to the associated project or debt service dates. Endowment funds are invested in long-term treasury or agency securities. In addition, state law limits the maturities of collateralized mortgage obligations to no more than 10 years and limits maturities of commercial paper and banker’s acceptances to no more than 270 days. Repurchase agreements are limited to 2 years and reverse repurchase agreements are not to exceed 90 days.

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 of states, agencies, counties, cities and other political subdivisions must be rated at least A. Applicable credit ratings of investments at August 31, 2012 and 2011 are reported below:

<u>Investment Type</u>	<u>Credit Rating</u>
U.S. Government Securities	S&P: AAA
TexPool	S&P: AAAM
Lone Star Government Overnight	S&P: AAAM
TexSTAR	S&P: AAAM
Texas Daily	S&P: AAAM

Concentration of Credit Risk: The District does not place a limit on the amount the District may invest in any one issuer. More than 5% of the District’s investments are in TexPool Local Government Investment Pool (34%), Texas Daily Local Government Investment Pool (17%), TexSTAR Local Government Investment Pool (10%) and Lone Star Government Overnight Pool (7%).

Custodial Credit Risk: The District’s investments have no custodial credit risk.

NOTE 5 – AD VALOREM TAXES RECEIVABLE

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

At August 31, 2012:	
Assessed valuation of the District	\$ 13,392,178,730
Less exemptions	<u>894,062,066</u>
Net assessed valuation of the District	\$ <u>12,498,116,664</u>
At August 31, 2011:	
Assessed valuation of the District	\$ 12,792,105,810
Less exemptions	<u>1,070,269,848</u>
Net assessed valuation of the District	\$ <u>11,721,835,962</u>

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 5 – AD VALOREM TAXES RECEIVABLE (CONTINUED)

At August 31, 2012:

	<u>Maintenance and Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized tax rate per \$100 valuation (Maximum per enabling legislation)	\$.3000	.50000	.8000
Assessed tax rate per \$100 valuation	\$.1438	.0241	.1679

At August 31, 2011:

	<u>Maintenance and Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized tax rate per \$100 valuation (Maximum per enabling legislation)	\$.3000	.50000	.8000
Assessed tax rate per \$100 valuation	\$.1439	.0260	.1699

Taxes levied for the years ended August 31, 2012 and 2011 are \$20,979,214 and \$19,915,399, respectively. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

At August 31, 2012:

<u>Taxes Collected</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 17,604,247	2,951,350	20,555,597
Delinquent taxes collected	526,886	88,333	615,219
Penalties and interest collected	<u>162,604</u>	<u>27,260</u>	<u>189,864</u>
Total collections	\$ <u>18,293,737</u>	<u>3,066,943</u>	<u>21,360,680</u>

At August 31, 2011:

<u>Taxes Collected</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 16,503,131	2,970,845	19,473,976
Delinquent taxes collected	426,559	76,788	503,347
Penalties and interest collected	<u>147,687</u>	<u>26,585</u>	<u>174,272</u>
Total collections	\$ <u>17,077,377</u>	<u>3,074,218</u>	<u>20,151,595</u>

Tax collections (including penalties, interest and delinquent collections) for the years ended August 31, 2012 and 2011 were in excess of 100% of the respective year tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 5 – AD VALOREM TAXES RECEIVABLE (CONTINUED)

Ad valorem taxes receivable includes the following:

	<u>2012</u>	<u>2011</u>
Current unrestricted fund	\$ 492,160	516,598
Debt service fund	<u>85,401</u>	<u>82,465</u>
	577,561	599,063
Allowance for uncollectible taxes	<u>202,146</u>	<u>209,672</u>
Net ad valorem taxes receivable	\$ <u><u>375,415</u></u>	<u><u>389,391</u></u>

NOTE 6 – CAPITAL ASSETS

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

	<u>Balance September 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance August 31, 2012</u>
<u>Not Depreciated:</u>				
Land	\$ 2,553,002	-	1,590	2,551,412
Collectibles	42,000	-	-	42,000
Construction in process	<u>3,143,374</u>	<u>2,984,530</u>	<u>5,207,362</u>	<u>920,542</u>
Subtotal	<u>5,738,376</u>	<u>2,984,530</u>	<u>5,208,952</u>	<u>3,513,954</u>
<u>Other Capital Assets:</u>				
Buildings	103,722,806	3,982,707	-	107,705,513
Land improvements	6,308,716	1,224,654	-	7,533,370
Library books	1,869,394	47,853	-	1,917,247
Furniture, machinery, vehicles and other equipment	<u>13,559,372</u>	<u>2,470,122</u>	<u>302,334</u>	<u>15,727,160</u>
Subtotal	<u>125,460,288</u>	<u>7,725,336</u>	<u>302,334</u>	<u>132,883,290</u>
<u>Accumulated Depreciation:</u>				
Buildings	20,394,286	1,986,011	-	22,380,297
Land improvements	806,192	316,000	-	1,122,192
Library books	1,406,245	60,653	-	1,466,898
Furniture, machinery, vehicles and other equipment	<u>6,917,389</u>	<u>1,361,636</u>	<u>247,585</u>	<u>8,031,440</u>
Subtotal	<u>29,524,112</u>	<u>3,724,300</u>	<u>247,585</u>	<u>33,000,827</u>
Net other capital assets	<u>95,936,176</u>	<u>4,001,036</u>	<u>54,749</u>	<u>99,882,463</u>
Net capital assets	\$ <u><u>101,674,552</u></u>	<u><u>6,985,566</u></u>	<u><u>5,263,701</u></u>	<u><u>103,396,417</u></u>

Midland College District
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
August 31, 2012 and 2011

NOTE 6 – CAPITAL ASSETS (CONTINUED)

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

	Balance September 1, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance August 31, <u>2011</u>
Not Depreciated:				
Land	\$ 2,553,002	-	-	2,553,002
Collectibles	-	42,000	-	42,000
Construction in process	<u>13,716,238</u>	<u>2,004,037</u>	<u>12,576,901</u>	<u>3,143,374</u>
Subtotal	<u>16,269,240</u>	<u>2,046,037</u>	<u>12,576,901</u>	<u>5,738,376</u>
Other Capital Assets:				
Buildings	90,951,982	12,770,824	-	103,722,806
Land improvements	5,834,305	474,411	-	6,308,716
Library books	1,823,135	46,259	-	1,869,394
Furniture, machinery, vehicles and other equipment	<u>12,201,318</u>	<u>2,201,085</u>	<u>843,031</u>	<u>13,559,372</u>
Subtotal	<u>110,810,740</u>	<u>15,492,579</u>	<u>843,031</u>	<u>125,460,288</u>
Accumulated Depreciation:				
Buildings	18,443,612	1,950,674	-	20,394,286
Land improvements	521,486	284,706	-	806,192
Library books	1,344,100	62,145	-	1,406,245
Furniture, machinery, vehicles and other equipment	<u>6,315,503</u>	<u>1,228,292</u>	<u>626,406</u>	<u>6,917,389</u>
Subtotal	<u>26,624,701</u>	<u>3,525,817</u>	<u>626,406</u>	<u>29,524,112</u>
Net other capital assets	<u>84,186,039</u>	<u>11,966,762</u>	<u>216,625</u>	<u>95,936,176</u>
Net capital assets	\$ <u>100,455,279</u>	<u>14,012,799</u>	<u>12,793,526</u>	<u>101,674,552</u>

NOTE 7 – LONG-TERM LIABILITIES

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

	Balance September 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance August 31, <u>2012</u>	Current Portion
Bonds					
General obligation bonds	\$ 34,266,862	27,676,239	29,347,755	32,595,346	2,009,278
Revenue bonds	<u>13,912,000</u>	-	<u>596,000</u>	<u>13,316,000</u>	<u>633,000</u>
Total bonds	<u>48,178,862</u>	<u>27,676,239</u>	<u>29,943,755</u>	<u>45,911,346</u>	<u>2,642,278</u>
Other liabilities					
Compensated absences	<u>1,516,972</u>	<u>258,283</u>	<u>168,928</u>	<u>1,606,327</u>	<u>603,360</u>
Total long-term liabilities	\$ <u>49,695,834</u>	<u>27,934,522</u>	<u>30,112,683</u>	<u>47,517,673</u>	<u>3,245,638</u>

Midland College District
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
August 31, 2012 and 2011

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

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

	Balance September 1, 2010	Additions	Reductions	Balance August 31, 2011	Current Portion
<u>Bonds</u>					
General obligation bonds	\$ 35,799,651	-	1,532,789	34,266,862	1,597,582
Revenue bonds	<u>14,482,000</u>	-	<u>570,000</u>	<u>13,912,000</u>	<u>596,000</u>
Total bonds	<u>50,281,651</u>	-	<u>2,102,789</u>	<u>48,178,862</u>	<u>2,193,582</u>
<u>Other liabilities</u>					
Compensated absences	<u>1,547,642</u>	<u>44,931</u>	<u>75,601</u>	<u>1,516,972</u>	<u>580,706</u>
Total long-term liabilities	<u>\$ 51,829,293</u>	<u>44,931</u>	<u>2,178,390</u>	<u>49,695,834</u>	<u>2,774,288</u>

NOTE 8 – DEBT OBLIGATIONS

Bonds Payable

Debt service requirements at August 31, 2012, were as follows:

For the Year Ended August 31,	Revenue Bonds		General Obligation Bonds		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 633,000	647,437	1,765,000	1,135,175	2,398,000	1,782,612
2014	654,000	617,623	1,850,000	1,067,194	2,504,000	1,684,817
2015	689,000	583,693	1,940,000	993,850	2,629,000	1,577,543
2016	720,000	551,428	889,052	2,063,048	1,609,052	2,614,476
2017	755,000	515,366	2,050,000	916,100	2,805,000	1,431,466
2018-2022	3,900,000	2,010,951	11,720,000	3,330,500	15,620,000	5,341,451
2023-2027	4,845,000	958,607	11,580,000	738,400	16,425,000	1,697,007
2028	<u>1,120,000</u>	<u>41,620</u>	-	-	<u>1,120,000</u>	<u>41,620</u>
Total cash payments	\$ 13,316,000	5,926,725	31,794,052	10,244,267	45,110,052	16,170,992
Unamortized Prem/Disc	-	-	<u>801,294</u>	<u>(801,294)</u>	<u>801,294</u>	<u>(801,294)</u>
Total	<u>\$ 13,316,000</u>	<u>5,926,725</u>	<u>32,595,346</u>	<u>9,442,973</u>	<u>45,911,346</u>	<u>15,369,698</u>

NOTE 9 – BONDS PAYABLE

General information related to bonds and notes payable is summarized below:

1998 Revenue Bonds (O'Shaughnessy Residence Hall)

- District Building Revenue Bond, Series 1998
- The bond was used to build a women's resident hall.
- Issued on June, 1, 1998
- Original amount issued \$3,500,000; amount authorized \$3,500,000
- Source of payment – pledged revenues

Bonds payable are due in semi-annual installments varying from \$161,245 to \$162,050 at an interest rate of 4.5%. The final installment is due in 2013.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 9 – BONDS PAYABLE (CONTINUED)

1999 Revenue Bonds (Men's Residence Hall)

- District Building Revenue Bond, Series 1999
- The bond was used to build a men's residence hall.
- Issued on September 1, 1999
- Original amount issued \$3,500,000; amount authorized \$3,500,000
- Source of payment – pledged revenues

Bonds payable are due in semi-annual installments varying from \$162,737 to \$164,349 at an interest rate of 4.7%. The final installment is due in 2014.

2008 Revenue Bonds

- District Building Revenue Bond and Refunding, Series 2008
- The bond was used to complete construction and purchase equipment for college buildings and facilities.
- Issued on July 30, 2008
- Original amount issued, \$12,355,000; amount authorized, \$12,355,000
- Source of payment – pledged revenues

Bonds payable are due in semi-annual installments varying from \$133,418 to \$639,033, at an interest rate of 4.94%. The final installment is due in 2028.

2005 General Obligation Bonds

- General Obligation Bonds, Series 2005
- The bonds were used for constructing & equipping college buildings & facilities.
- Issued on July, 1 2005
- Original amount issued \$40,775,000: amount authorized \$41,769,999
- Bond issued at net premium of \$1,636,765
- Source of payment – Ad valorem taxes

Bonds payable are due in semi-annual installments varying from \$74,766 to \$3,234,766 with partial interest rates ranging from 3.5% to 5.0%. The final installment was originally due in 2026, but due to refunding the final installment will now be in 2015.

2012 General Obligation Refunding Bonds

- General Obligation Refunding Bonds, Series 2012
- The bonds were used for an advance refunding of the General Obligation Bonds, Series 2005.
- Issued May 23, 2012
- Original amount issued 26,839,052; amount authorized 26,839,052.
- Bond issued at a net premium of \$3,443,375.
- Source of payment – Ad valorem taxes

Bonds payable are due at semi-annual installments varying from \$648,181 to \$3,234,766 with interest rates ranging from 2% to 22.9%. The average coupon rate is 3.7%. The final installment is due in 2026.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 10 – ADVANCE REFUNDING BONDS

- Refunded \$26,840,000 of General Obligation Bonds, Series 2005.
- Issued refunding bonds on May 23, 2012.
- \$26,839,052, all authorized bonds have been issued.
- General Obligation Bonds – Refunding Series 2012.
- Average interest rate of bonds refunded – 4.85%.
- Net proceeds from Refunding Series – \$29,939,453; after payment of \$342,973 in underwriting fees, insurance, and other issuance costs.
- Additional \$427,441 of 2005 Series sinking fund monies was used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 2005 Series bonds.
- The 2005 Series bonds refunded are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant Fund Group.
- Advance refunding of the 2005 Series bonds reduced the District's debt service payments over the next 15 years by approximately \$1,848,132.
- Economic Gain – \$1,514,536 difference between the net present value of the old and new debt service payments.
- Debt service requirements decreased by \$2,275,573 as a result from the advanced refunding.

NOTE 11 – DEFEASED BONDS OUTSTANDING

Bond Issue	Year Refunded	Par Value Outstanding
General Bonds Series 2005	2012	\$26,840,000
Total		\$26,840,000

NOTE 12 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at August 31, were as follows:

	<u>2012</u>	<u>2011</u>
Student Receivables	\$ 777,294	793,170
Taxes Receivable	577,561	599,063
State Receivable	174,559	111,924
Federal Receivable	379,297	688,049
Accounts Receivable	868,151	893,870
Interest Receivable	<u>38,405</u>	<u>44,984</u>
Subtotal	2,815,267	3,131,060
Allowance for Doubtful Accounts	<u>(755,570)</u>	<u>(750,368)</u>
Total Receivables	\$ <u>2,059,697</u>	<u>2,380,692</u>

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 12 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES (CONTINUED)

Payables

Payables at August 31, were as follows:

	<u>2012</u>	<u>2011</u>
Vendors Payable	\$ 1,364,099	2,274,657
Students Payable	<u>179,676</u>	<u>167,429</u>
Total Payables	\$ <u>1,543,775</u>	<u>2,442,086</u>

NOTE 13 – EMPLOYEES' RETIREMENT PLANS

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

Teacher Retirement System of Texas

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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 6.40% for the fiscal years 2012 and 2011 and a state contribution rate of 6% and 6.644% for fiscal years 2012 and 2011, respectively. In certain instances the reporting district is required to make all or a portion of the state's 6.0% contribution for fiscal year 2012 and 6.644% for fiscal year 2011.

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 Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.0% and 6.65%, respectively. The District contributes 1.31% for employees who were participating in the Optional Retirement Program prior to September 1, 1995 and .4% for all other employees. 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.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 13 – EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Optional Retirement Plan (Continued)

Funding Policy (Continued). The total payroll for all District employees was \$23,287,067 and \$24,033,538 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the Teacher Retirement System was \$12,436,613 and \$12,476,043 and the total payroll of employees covered by the Optional Retirement System was \$7,484,338 and \$8,078,657 for fiscal years 2012 and 2011, respectively.

The retirement expense for both the teacher retirement system and the optional retirement program to the State for the District was \$532,793 and \$1,160,835 for the fiscal years ended August 31, 2012 and 2011, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the District.

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 state. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution was \$1,144,065 and \$2,051,558 for the years ended August 31, 2012 and 2011, respectively, for retired and active employees. The cost of providing these benefits for retirees is not separable from the cost of providing benefits for the active employees.

NOTE 15 – COMPENSATED ABSENCES

Accumulated unpaid vacation pay is accrued as incurred in accordance with NCGA Statement 4, *Accounting and Financial Reporting for Claims and Judgments and Compensated Absences*.

NOTE 16 – SELF INSURED WORKERS COMPENSATION

Employees can earn annual vacation leave at the rate of 10 days per year for the first 10 years up to a maximum of 20 days per year after 20 years of service. There is no requirement that annual leave be taken, but the maximum permissible accumulation is 15 days for employees with less than ten years of service. Employees with 10-20 years of service may accumulate up to 22-1/2 days and employees with over 20 years of service may accumulate up to 30 days. At termination, employees are paid for any accumulated annual vacation leave not to exceed their annual entitlement. The liability for accumulated unpaid vacation leave was approximately \$560,000 and \$535,000 on August 31, 2012 and 2011, respectively.

Employees earn sick leave at the rate of 1-1/2 days per month for the first six months of employment, and at a rate of one day for each month thereafter. Sick days may be accumulated up to 90 days. Upon retirement, or upon termination with 10 years or more service, the employee may be paid for any accumulated sick leave in excess of 30 days, at a rate of 1/2 of the employee's current base salary. If an employee terminates prior to 10 years of service, all accumulated sick leave is forfeited. The accrued sick leave amounted to approximately \$991,000 and \$847,000 on August 31, 2012 and 2011, respectively.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 16 – SELF INSURED WORKERS COMPENSATION (CONTINUED)

Effective December 1991 through August 1996, the District participated in a public entity risk pool for workers compensation. The participants of the pool include several other community and junior college districts and public school districts. Effective September 1996, the District has worker's compensation insurance through a fully funded insurance provider. The District maintains a liability for any outstanding claims incurred from December 1991 through August 1996 based on the administrator's evaluation.

The plan provided coverage to each participant in amounts up to the lesser of each participant's individual loss fund or \$200,000. The District's loss fund at August 31, 2012 and 2011 was \$2,828 and \$2,970, respectively. Each workers compensation claim in excess of \$200,000 is covered by a "stop-loss" policy. The plan does not provide for any other type of insurance. The District retains no risk of loss for any other types of claims as the District purchases insurance from commercial insurance carriers for all other types of risk coverage. As of August 31, 2012, the District had an estimated claims accrual of approximately \$2,828 for workers compensation claims and had paid claims in 2011 totaling approximately \$139.

NOTE 17 – FUND BALANCES

Ending fund balances at August 31 were as follows:

	<u>2012</u>	<u>2011</u>
Current funds:		
Fund balance, unrestricted	\$ 14,291,016	10,993,892
Fund balance, auxiliary enterprises	1,186,415	1,186,415
Fund balance, restricted	<u>6,885,904</u>	<u>7,259,190</u>
Total, current fund balance	22,363,335	19,439,497
Fund balance, endowment and similar funds	5,373,628	5,015,997
Fund balance, plant funds	<u>58,160,265</u>	<u>57,205,398</u>
Fund balance, primary government	\$ <u>85,897,228</u>	<u>81,660,892</u>

NOTE 18 – LITIGATION

In the ordinary course of business, the District is involved with various claims and potential litigation. Management does not believe that any of these matters will have a material adverse effect on the financial position of the District.

NOTE 19 – CONTRACTS AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are report as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2012 and 2011 for which monies have not been received nor funds expended total \$2,816,254 and \$3,253,865. All of these amounts were from Federal Contract and Grant Awards.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 20 – INCOME TAXES

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

NOTE 21 – SPLIT INTEREST AGREEMENTS

The District has a beneficial interest in a split interest agreement in which it will receive 25% of the remaining assets upon the death of the lead beneficiaries. The District recognized \$2,455 and \$2,316 representing the discounted present value of the expected distributions for the years ended August 31, 2012 and 2011, respectively. The contribution receivable was approximately \$43,000 and \$41,000 as of August 31, 2012 and 2011, respectively.

NOTE 22 – COMMITMENTS

As of August 31, 2011, the District has awarded the following contracts for construction projects:

Magnetic Door Locks	\$	1,332,091
Davidson Health Science Renovation	\$	1,681,846

NOTE 23 – RELATED PARTY

Midland College Foundation, Inc. (the "Foundation"), an independent corporation organized for the purpose of fund raising to benefit the District, made contributions of \$677,190 and \$3,990,935 in fiscal years 2012 and 2011, respectively. The Foundation advanced funds to the District for the completion of the expansion of the Cogdell Learning Center. Future allocations from a Federal Title V grant will be used to repay the funds advanced. At year end 2012, \$113,968 was payable to the Foundation for this advance. Two trustees of the District are also on the Board of Directors of the Foundation.

NOTE 24 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (IN ACCORDANCE WITH GASB STATEMENT NO. 45)

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

ERS issues a publicly available financial report that includes 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/>.

Midland College District

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2012 and 2011

NOTE 24 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (IN ACCORDANCE WITH GASB STATEMENT NO. 45) (CONTINUED)

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

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS Board of Trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB Statement No. 45.

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

The District's contributions to SRHP for the years ended August 31, 2012, 2011 and 2010 were \$62,441, \$59,286 and \$44,138, respectively, which equaled the required contributions each year.

In addition to the SRHP, the District also contributes funds for dental and life insurance benefits for retirees. The District's contributions for the years ended August 31, 2012, 2011 and 2010 were \$41,422, \$37,092 and \$35,683, respectively, which equaled the required contributions each year.

NOTE 25 – CONTINGENCY

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

During the 2011 legislative session, the Texas Legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted general revenue appropriation for each year of the biennium state budget.

There is no pending litigation to resolve the constitutional funding requirements nor has there been an attempt to collect any shortfall contributions from any community college district.

The District has recorded a liability of approximately \$492,000 pending the resolution of this issue.

NOTE 26 – SUBSEQUENT EVENTS

Management of the District has performed an evaluation of the District's activity through December 6, 2012, the date these financial statements were available for issuance and noted no significant event that would require recording or disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

Midland College District

Schedule A

SCHEDULE OF DETAILED OPERATING REVENUES

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2012 Total</u>	<u>2011 Memorandum Total</u>
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 3,649,934	-	3,649,934	-	3,649,934	3,645,498
Out-of-district resident tuition	3,859,204	-	3,859,204	-	3,859,204	3,370,343
Non-resident tuition	647,101	-	647,101	-	647,101	544,582
TPEG – credit (set aside) *	396,216	-	396,216	-	396,216	383,776
State-funded continuing education	1,487,963	-	1,487,963	-	1,487,963	1,481,829
TPEG – non-credit (set aside) *	95,030	-	95,030	-	95,030	94,704
Non-state funded continuing educational programs	<u>281,651</u>	<u>-</u>	<u>281,651</u>	<u>-</u>	<u>281,651</u>	<u>250,570</u>
Total tuition	<u>10,417,099</u>	<u>-</u>	<u>10,417,099</u>	<u>-</u>	<u>10,417,099</u>	<u>9,771,302</u>
Fees:						
General use fee	2,517,862	-	2,517,862	-	2,517,862	1,948,570
Lab fees	480,439	-	480,439	-	480,439	449,131
Distance learning fee	766,854	-	766,854	-	766,854	763,164
Installment plan fees	20	-	20	-	20	40
Private flight instruction	140,401	-	140,401	-	140,401	489,758
Other	<u>195,019</u>	<u>-</u>	<u>195,019</u>	<u>-</u>	<u>195,019</u>	<u>138,786</u>
Total fees	<u>4,100,595</u>	<u>-</u>	<u>4,100,595</u>	<u>-</u>	<u>4,100,595</u>	<u>3,789,449</u>
Scholarship allowances and discounts:						
Scholarships	(1,263,167)	-	(1,263,167)	-	(1,263,167)	(898,871)
Remissions and exemptions - state	(228,802)	-	(228,802)	-	(228,802)	(206,636)
Remissions and exemptions - local	(186,562)	-	(186,562)	-	(186,562)	(374,284)
Title IV federal grants	(2,149,219)	-	(2,149,219)	-	(2,149,219)	(2,053,618)
TPEG awards	(185,835)	-	(185,835)	-	(185,835)	(194,892)
Other state grants	(73,916)	-	(73,916)	-	(73,916)	(209,269)
Other local grants	<u>(13,698)</u>	<u>-</u>	<u>(13,698)</u>	<u>-</u>	<u>(13,698)</u>	<u>(27,769)</u>
Total scholarship allowances	<u>(4,101,199)</u>	<u>-</u>	<u>(4,101,199)</u>	<u>-</u>	<u>(4,101,199)</u>	<u>(3,965,339)</u>
Total net tuition and fees	<u>10,416,495</u>	<u>-</u>	<u>10,416,495</u>	<u>-</u>	<u>10,416,495</u>	<u>9,595,412</u>

Midland College District

Schedule A

SCHEDULE OF DETAILED OPERATING REVENUES (CONTINUED)

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2012 Total</u>	<u>2011 Memorandum Total</u>
Additional operating revenues:						
Federal grants and contracts	-	2,692,944	2,692,944	-	2,692,944	3,787,431
State grants and contracts	-	516,938	516,938	-	516,938	653,076
Local grants and contracts	544,924	280,382	825,306	-	825,306	816,996
Non-governmental grants and contracts	553,487	282,363	835,850	9,390	845,240	884,564
Sales and services of educational activities	432,113	-	432,113	-	432,113	399,000
Investment income (program restricted)	-	187,192	187,192	19,161	206,353	276,985
General operating revenues	<u>395,647</u>	<u>189,757</u>	<u>585,404</u>	<u>-</u>	<u>585,404</u>	<u>498,907</u>
Total additional operating revenues	<u>1,926,171</u>	<u>4,149,576</u>	<u>6,075,747</u>	<u>28,551</u>	<u>6,104,298</u>	<u>7,316,959</u>
Auxiliary enterprises:						
Bookstore **	-	-	-	234,847	234,847	268,905
Residential/food service (net of discounts of \$617,055 and \$536,538, respectively)	-	-	-	543,801	543,801	604,258
Athletics	-	-	-	19,146	19,146	28,742
Other	-	-	-	<u>139,941</u>	<u>139,941</u>	<u>140,410</u>
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>937,735</u>	<u>937,735</u>	<u>1,042,315</u>
Total Operating Revenues (Exh. 2)	\$ <u>12,342,666</u>	<u>4,149,576</u>	<u>16,492,242</u>	<u>966,286</u>	<u>17,458,528</u> (Exhibit 2)	<u>17,954,686</u> (Exhibit 2)

* In accordance with Education Code 56.033, \$491,246 and \$478,480 for years ended August 31, 2012 and 2011, respectively, of tuition was set aside for Texas Public Education grants (TPEG).

** The Midland College Bookstore is outsourced. Bookstore revenue is derived from lease payments. Accordingly, there are no scholarship allowances and discounts related to bookstore revenues.

Midland College District

Schedule B

**SCHEDULE OF OPERATING EXPENSES
BY OBJECT**

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

	Operating Expenses			2012 Total	2011 Memorandum Total
	Salaries and Wages	Benefits			
		State	Local		
Unrestricted - Educational Activities					
Instruction	\$ 11,551,752	-	2,500,903	1,906,244	15,958,899
Public service	646,873	-	81,794	154,032	882,699
Academic support	3,246,152	-	745,219	1,454,409	5,445,780
Student services	1,878,887	-	438,035	384,342	2,701,264
Institutional support	2,854,218	-	688,950	1,437,122	4,980,290
Operation and maintenance of plant	920,547	-	339,067	3,733,912	4,993,526
Scholarships and fellowships	-	-	-	16,648	16,648
Total Unrestricted Educational Activities	<u>21,098,429</u>	<u>-</u>	<u>4,793,968</u>	<u>9,086,709</u>	<u>34,979,106</u>
Restricted – Educational Activities					
Instruction	612,621	1,024,495	94,203	645,067	2,376,386
Public service	417,414	-	109,794	701,835	1,229,043
Academic support	239,117	174,774	66,454	384,750	865,095
Student services	208,108	180,415	61,899	290,533	740,955
Institutional support	-	253,842	-	-	253,842
Operation and maintenance of plant	-	43,332	-	384,512	427,844
Scholarships and fellowships	-	-	-	4,014,633 *	4,014,633
Total Restricted Educational Activities	<u>1,477,260</u>	<u>1,676,858</u>	<u>332,350</u>	<u>6,421,330</u>	<u>9,907,798</u>
Total Educational Activities	22,575,689	1,676,858	5,126,318	15,508,039 **	44,886,904
Auxiliary Enterprises	899,617	-	235,433	1,578,541	2,713,591
Depreciation Expense – Buildings and other real estate improvements	-	-	-	2,302,011	2,302,011
Depreciation Expense – Equipment and furniture	-	-	-	1,422,289	1,422,289
Total Operating Expenses	\$ <u>23,475,306</u>	<u>1,676,858</u>	<u>5,361,751</u>	<u>20,810,880</u>	<u>51,324,795</u> (Exhibit 2)

* net of discounts of \$3,685,835

** net of discounts of \$617,055

Midland College District

Schedule C

SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2012 Total</u>	<u>2011 Memorandum Total</u>
NON-OPERATING REVENUES:					
State appropriations					
Education and general state support	\$ 8,526,507	-	-	8,526,507	8,878,553
State group insurance	-	1,144,065	-	1,144,065	2,064,504
State retirement matching	-	532,793	-	532,793	1,160,835
Professional nursing shortage reduction	-	(161,500)	-	(161,500)	121,500
American Airpower Heritage Museum	-	355,325	-	355,325	461,299
Total state appropriations	8,526,507	1,870,683	-	10,397,190	12,686,691
Maintenance and valorem taxes					
Maintenance and valorem taxes	18,111,373	-	-	18,111,373	16,932,448
Debt service and valorem taxes					
Debt service and valorem taxes	-	3,068,852	-	3,068,852	3,072,104
Federal Revenue, non-operating	-	5,599,410	-	5,599,410	6,850,456
Gifts	-	1,763,307	-	1,763,307	2,083,151
Investment income	21,252	4,515	-	25,767	33,299
Gain on disposal of capital assets	70,356	-	-	70,356	-
Contributions in aid of construction					
Contributions in aid of construction	-	734,717	-	734,717	3,044,185
Additions to permanent endowments					
Additions to permanent endowments	-	356,606	-	356,606	160,825
Total non-operating revenues	26,729,488	13,398,090	-	40,127,578	44,863,159
NON-OPERATING EXPENSES:					
Interest on capital related debt					
Interest on capital related debt	-	(1,993,509)	-	(1,993,509)	(2,131,674)
Loss on disposal of capital assets					
Loss on disposal of capital assets	-	-	-	-	(16,096)
Other non-operating expense					
Other non-operating expense	-	(31,466)	-	(31,466)	(41,979)
Total non-operating expenses	-	(2,024,975)	-	(2,024,975)	(2,189,749)
Net non-operating revenues	\$ 26,729,488	11,373,115	-	38,102,603 (Exhibit 2)	42,673,410 (Exhibit 2)

Midland College District

Schedule D

SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY

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

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted Expendable	Non- Expendable	Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
Current:							
Unrestricted	\$ 14,291,016	-	-	-	14,291,016	14,291,016	-
Board designated	-	-	-	-	-	-	-
Restricted	-	5,490,067	-	-	5,490,067	5,490,067	-
Auxiliary enterprises	1,186,415	-	-	-	1,186,415	1,186,415	-
Endowment:							
Quasi:							
Unrestricted	-	-	-	-	-	-	-
Endowment:							
True	-	-	5,373,628	-	5,373,628	-	5,373,628
Plant:							
Debt service	-	360,484	-	-	360,484	-	360,484
Investment in plant	-	-	-	59,195,618	59,195,618	-	59,195,618
Total Net Assets, August 31, 2012	15,477,431	5,850,551	5,373,628	59,195,618	85,897,228 (Exhibit 1)	20,967,498	64,929,730
Total Net Assets, August 31, 2011	12,180,307	7,484,240	5,015,997	56,980,348	81,660,892 (Exhibit 1)	19,439,497	62,221,395
Net Increase in Net Assets	\$ 3,297,124	(1,633,689)	357,631	2,215,270	4,236,336 (Exhibit 2)	1,528,001	2,708,335

Midland College District

Schedule E

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2011

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Document/ Pass-Through Grantor's Number</u>	<u>Pass-Through Disbursement and Expenditures</u>
<u>U.S. Department of Education</u>			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Education			
Opportunity Grant	84.007	P007A114070	\$ 52,438
Federal College Work-Study Program	84.033	P033A114070	89,787
Federal Pell Grant Program	84.063	P063P113245	5,457,186
Federal Direct Student Loans	84.268	P268K123245	390,975
Higher Education – Institutional Aid – Title V Cooperative Hispanic Serving Institutions	84.031S	P031S080021	645,617
TRIO Cluster:			
Student Support Services	84.042A	P042A100039	250,647
Upward Bound	84.047A	P047A090014	255,442
Pass-Through From:			
Texas Education Agency			
Adult Basic Education – Federal/Corrections	84.002A	124100017110426	213,628
Sul Ross State University			
Title V Cooperative Hispanic Institutions Transfer Access Project	84.031S	P031S100067	97,931
Texas Higher Education Coordinating Board			
Carl Perkins – Voc. Ed. – Basic	84.048	124256	169,850
Carl Perkins – WECM	84.048	121107	<u>154,818</u>
Subtotal – CFDA 84.048			324,668
Total U.S. Department of Education			<u>7,778,319</u>
<u>U.S. Department of Health and Human Services</u>			
Pass-Through From:			
Texas Tech University			
Area Health Education Centers Point of Service Maintenance and Enhancement	93.107	1 U77HP16497-03-00	77,899
Texas Education Agency			
Adult Basic Education – Federal TANF	93.558	123625017110401	42,479
Pitt Community College			
ARRA-Health Information Technology	93.721	90CC78/02-04	194,832
ARRA-Health Information Technology	93.721	90CC0078/02	<u>353,598</u>
Subtotal – CFDA 93.721			548,430
Total Department of Health and Human Services			<u>668,808</u>

Midland College District

Schedule E

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Year Ended August 31, 2011

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Document/ Pass-Through Grantor's Number</u>	<u>Pass-Through Disbursement and Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Hispanic Serving Institutions Assisting Communities	14.514	HSIAC-10-TX-04	224,410
<u>National Science Foundation</u>			
Pass-Through From: University of Texas System Alliance for Minority Participation	47.076	HRD-0703584	11,792
 Total Federal Financial Assistance			\$ <u>8,683,329</u>

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts revenue – per Schedule A	\$ 2,692,944
Non-Operating Federal Revenue from Schedule C	5,599,410
Federal Direct Student Loans	<u>390,975</u>
 Total Federal Revenues per Schedule of Expenditures of Federal Awards	\$ <u>8,683,329</u>

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

Midland College District

Schedule F

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended August 31, 2011

State Grantor/Pass-Through Grantor/ Program Title	Grant/Contract Number	Pass-Through Disbursement and Expenditures
Direct Programs:		
Texas Education Agency Adult Basic Education	120100017110426	\$ 52,053
Texas Higher Education Coordinating Board Intensive College Readiness Program	-	136,889
Nursing Shortage Reduction	-	49,321
Texas College Work Study	-	12,105
Texas Grant	-	97,335
Texas Education Opportunity Grant	-	47,250
Subtotal Texas Higher Education Coordinating Board		342,900
Pass-Through From:		
Texas Tech University Area Health Education Center	04183-8	191,195
Total State Financial Assistance		\$ 586,148
Note 1: <u>State Assistance Reconciliation</u>		
Total State Financial Assistance		\$ 586,148
Nursing Shortage Reduction revenue reported on Schedule C		(49,321)
Intensive College Readiness program receipts in excess of expenditures		(19,889)
Total State Revenues per Schedule A		\$ 516,938

Note 2: Significant Accounting Policies Used in Preparing the Schedule

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

SINGLE AUDIT REPORTS



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Trustees
Midland College District
Midland, Texas

We have audited the financial statements of Midland College District (the "District") as of and for the year ended August 31, 2012, and have issued our report thereon dated December 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have performed tests designed to verify the District's compliance with the requirements of the Texas Public Funds Investment Act. During the year ended August 31, 2012, no instances of noncompliance were noted.

This report is intended solely for the information and use of management, the District's trustees, audit committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Johnson Miller & Co., CPA's PC

Midland, Texas
December 6, 2012



JOHNSON MILLER & CO., CPA's PC

Certified Public Accountants

A Professional Corporation

An Independent Member Of BDO Seidman Alliance

Midland, Texas
Odessa, Texas
Hobbs, New Mexico

**Independent Auditors' Report on
Compliance With Requirements That Could Have a Direct and
Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133
and the Provisions of the State of Texas Single Audit Circular**

The Board of Trustees
Midland College District
Midland, Texas

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

This report is intended for the information of the District's trustees, audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Johnson Miller & Co., CPA's PC

Midland, Texas
December 6, 2012

Midland College District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

August 31, 2012

The Board of Trustees
Midland College District
Midland, Texas

SECTION I - SUMMARY OF AUDITOR'S RESULTS

<u>Type of Auditor's Report issued</u>	Unqualified
Internal control over financial reporting:	
Material Weaknesses Identified?	No
Significant Deficiencies Identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No
<u>Federal and State Awards</u>	
Internal control over major programs:	
Material Weaknesses Identified?	No
Significant Deficiencies Identified that are not considered to be material weaknesses?	None reported
Type of Auditor's Report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 and State of Texas Single Audit Circular?	No

Midland College District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

August 31, 2012

Identification of Major Programs:

CFDA Numbers

Name of Federal Program or Cluster

84.007

Student Financial Aid Cluster:

Federal Supplemental Education Opportunity Grant

84.033

Federal College Work-Study Program

84.063

Federal Pell Grant Program

84.268

Federal Direct Student Loans

84.042A

Trio Cluster

Student Support Services

84.047A

Upward Bound

84.031S

Title V Cooperative Hispanic Servicing Institutions

93.721

Pitt Community College: ARRA – Health Information Technology

Name of State Program or Cluster

N/A

Intensive College Readiness Program

N/A

Area Health Education Center

Dollar threshold used to distinguish between type A and type B programs:

Federal programs threshold \$300,000;
State programs threshold \$300,000

Auditee qualified as low-risk auditee?

Yes

Section II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

Midland College District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

August 31, 2012

Section III – Federal or State Award Findings and Questioned Costs

No matters were reported.

Midland College District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

August 31, 2011

Section III – Federal or State Award Findings and Questioned Costs

No matters were reported.

STATISTICAL SUPPLEMENT

**Midland College District
Statistical Supplement 1
Net Assets by Component
Fiscal Years 2003-2012**
(unaudited)
(amounts expressed in thousands)

	For the Fiscal Year Ended August 31,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	\$ 59,196	56,980	55,616	51,224	45,506	41,441	37,892	34,671	31,788	29,545
Restricted - expendable	5,850	7,485	4,594	4,702	7,008	6,680	5,225	3,395	2,723	3,387
Restricted - nonexpendable	5,374	5,016	4,793	4,644	4,400	3,965	3,795	3,167	3,069	3,053
Unrestricted	15,477	12,180	10,866	10,735	10,634	9,275	7,096	6,228	5,807	4,825
Total primary government net assets	\$ 85,897	81,661	75,869	71,305	67,548	61,361	54,008	47,461	43,387	40,810

Midland College District
Statistical Supplement 2
Revenues by Source
Fiscal Years 2003-2012
(unaudited)

For the Year Ended August 31,

(amounts in 000's)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Tuition and Fees (net of discounts)	\$ 10,416	9,595	9,365	8,024	7,522	7,603	5,803	5,344	4,617	3,564
Federal Grants and Contracts	2,693	3,787	4,844	3,202	2,013	2,690	3,867	4,036	3,875	2,997
State Grants and Contracts	517	653	565	271	278	183	275	228	289	983
Local Grants and Contracts	825	817	894	829	861	736	612	756	633	399
Non-Governmental Grants and Contracts	845	885	578	722	1,073	699	796	271	152	119
Sales and services of educational activities	432	399	283	194	200	217	240	239	236	353
Investment income-program restricted	206	277	339	499	615	624	306	171	223	230
Auxiliary enterprises (net of discounts)	938	1,042	1,132	1,040	1,030	942	859	873	824	699
Other operating revenues	586	499	694	737	673	698	614	475	520	574
Total Operating Revenues	17,458	17,954	18,694	15,518	14,265	14,392	13,372	12,393	11,369	9,918
State Appropriations	10,397	12,687	13,206	13,862	13,656	13,498	13,418	11,113	10,954	11,117
Ad Valorem Taxes	21,180	20,004	18,936	17,743	16,676	15,419	14,312	10,917	10,068	9,763
Federal Revenue, non-operating	5,599	6,850	6,123	3,873	3,780	3,849	4,303	4,678	4,581	3,871
Gifts	1,763	2,083	1,802	1,622	1,505	1,443	1,882	2,138	1,176	833
Investment income	26	33	68	334	1,389	2,456	2,201	215	87	102
Contributions in aid of construction	735	3,044	931	1,572	2,313	731	176	3,557	1,048	-
Gain on disposal of fixed assets	70	-	16	-	-	-	16	-	-	-
Additions to permanent endowments	357	161	29	103	348	145	700	171	52	-
Other non-operating revenues	-	-	462	4,031	487	-	-	-	-	-
Total Non-Operating Revenues	40,127	44,862	41,573	43,140	40,154	37,541	37,008	32,789	27,966	25,686
Total Revenues	\$ 57,585	62,816	60,267	58,658	54,419	51,933	50,380	45,182	39,335	35,604

**Midland College District
Statistical Supplement 3
Program Expenses by Function
Fiscal Years 2003-2012
(unaudited)**

For the Year Ended August 31,

(amounts in 000's)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Instruction	\$ 18,336	19,866	19,525	18,456	17,676	17,266	16,686	16,042	13,840	14,014
Public service	2,112	2,475	2,551	2,316	1,887	2,242	2,430	2,195	2,054	2,699
Academic support	6,311	6,197	6,166	5,572	5,014	4,834	4,688	4,465	4,433	2,580
Student services	3,442	3,374	3,405	3,342	3,077	2,948	2,706	2,608	2,393	2,444
Institutional support	5,234	5,214	5,195	5,040	4,630	4,292	3,908	3,526	3,266	3,015
Operation and maintenance of plant	5,421	5,778	5,594	4,835	5,173	4,000	4,118	3,581	3,142	3,383
Scholarships & fellowships (net of discounts)	4,031	5,921	5,396	3,484	3,498	3,296	3,760	3,905	4,099	3,610
Auxiliary enterprises (net of discounts)	2,714	2,485	2,401	2,427	2,482	1,929	1,813	1,753	1,639	1,480
Depreciation	3,724	3,526	2,912	2,545	1,856	1,680	1,599	1,520	1,477	1,299
Total Operating Expenses	51,325	54,836	53,145	48,017	45,293	42,487	41,708	39,595	36,343	34,524
Interest on capital related debt	1,994	2,132	2,033	1,913	1,919	2,017	2,083	501	462	483
Loss on disposal of fixed assets	-	16	-	32	28	13	-	6	6	21
Other non-operating expenses	31	42	526	4,938	992	63	41	8	-	39
Total Non-Operating Expenses	2,025	2,190	2,559	6,883	2,939	2,093	2,124	515	468	543
Total Expenses	\$ 53,350	57,026	55,704	54,900	48,232	44,580	43,832	40,110	36,811	35,067

**Midland College District
Statistical Supplement 4
Tuition and Fees
Last Fifteen Academic Years
(unaudited)**

Resident Fees per Semester Credit Hour								
Academic Year (Fall)	In-District Tuition	Out-of-District Tuition	General Use Fee	Cost for 12 SCH In-District	Cost for 12 SCH Out-of-District	Increase from Prior Year In-District	Increase from Prior Year Out-of-District	
2011-12	\$ 53	\$ 87	\$ 19	\$ 864	\$ 1,272	14.29%	21.84%	
2010-11	49	73	14	756	1,044	5.00%	6.10%	
2009-10	46	68	14	720	984	5.26%	6.49%	
2008-09	43	63	14	684	924	7.55%	18.46%	
2007-08	43	55	10	636	780	-	-	
2006-07	43	55	10	636	780	17.78%	14.04%	
2005-06	37	49	8	540	684	-	14.00%	
2004-05	37	42	8	540	600	4.65%	4.17%	
2003-04	36	41	7	516	576	16.22%	23.08%	
2002-03	31	33	6	444	468	-	-	
2001-02	31	33	6	444	468	8.82%	8.33%	
2000-01	28	30	6	408	432	12.40%	11.63%	
1999-00	17	19	6	363	387	-	-	
1998-99	17	19	6	363	387	-	-	
1997-98	17	19	6	363	387	-	-	

Non-Resident Fees per Semester Credit Hour								
Academic Year (Fall)	Non-Resident Tuition Out of State	Non-Resident Tuition International	General Use Fee	Cost for 12 SCH Out of State	Cost for 12 SCH International	Increase from Prior Year Out of State	Increase from Prior Year International	
2011-12	\$ 126	\$ 126	\$ 19	\$ 1,740	\$ 1,740	20.83%	20.83%	
2010-11	106	106	14	1,440	1,440	4.35%	4.35%	
2009-10	101	101	14	1,380	1,380	6.48%	6.48%	
2008-09	94	94	14	1,296	1,296	14.89%	14.89%	
2007-08	84	84	10	1,128	1,128	-	-	
2006-07	84	84	10	1,128	1,128	9.30%	9.30%	
2005-06	78	78	8	1,032	1,032	2.38%	2.38%	
2004-05	76	76	8	1,008	1,008	23.53%	23.53%	
2003-04	61	61	7	816	816	15.25%	15.25%	
2002-03	53	53	6	708	708	-	-	
2001-02	53	53	6	708	708	5.36%	5.36%	
2000-01	50	50	6	672	672	46.41%	46.41%	
1999-00	25	25	6	459	459	-	-	
1998-99	25	25	6	459	459	-	-	
1997-98	25	25	6	459	459	-	-	

Note: In addition students may incur course related fees such as laboratory fees, testing fees and certification fees.

**Midland College District
Statistical Supplement 5
Assessed Value and Taxable Assessed Value of Property**

Fiscal Year	(amounts expressed in thousands)			Ratio of Taxable Assessed Value to Assessed Value	thousands	Direct Rate		
	Assessed Valuation of Property	Less: Exemptions	Taxable Assessed Value (TAV)		Total Taxes Assessed	Maintenance & Operations (a)	Debt Service (a)	Total (a)
2011-12	\$ 13,392,179	\$ 894,062	\$ 12,498,117	93.32%	\$ 20,979	\$ 0.143800	\$ 0.024100	\$ 0.167900
2010-11	12,792,106	1,070,270	11,721,836	91.63%	19,915	0.143940	0.025960	0.169900
2009-10	12,219,385	1,197,661	11,021,724	90.20%	18,949	0.144600	0.027328	0.171928
2008-09	11,660,357	1,293,329	10,367,028	88.91%	17,925	0.144600	0.028310	0.172910
2007-08	9,672,151	977,526	8,694,625	89.89%	16,617	0.157154	0.033966	0.191120
2006-07	7,985,268	536,613	7,448,655	93.28%	15,359	0.167481	0.038719	0.206200
2005-06	6,772,061	462,783	6,309,278	93.17%	14,177	0.179400	0.045300	0.224700
2004-05	6,120,653	461,916	5,658,737	92.45%	10,786	0.190600	-	0.190600
2003-04	5,668,701	456,955	5,211,746	91.94%	9,933	0.185200	0.005400	0.190600
2002-03	5,515,729	443,637	5,072,092	91.96%	9,667	0.185200	0.005400	0.190600
2001-02	5,580,072	412,052	5,168,020	92.62%	9,443	0.177800	0.005400	0.183200
2000-01	4,941,048	401,771	4,539,277	91.87%	7,412	0.157200	0.006100	0.163300
1999-00	4,852,382	388,745	4,463,637	91.99%	7,289	0.157200	0.006100	0.163300
1998-99	4,597,684	54,743	4,542,941	98.81%	7,418	0.157400	0.005900	0.163300

Source: Local Appraisal District

Notes: Property is assessed at full market value.

(a) per \$100 Taxable Assessed Valuation

**Midland College District
Statistical Supplement 6
State Appropriation per FTSE and Contact Hours
Last Ten Fiscal Years
(unaudited)**

Fiscal Year	Appropriation per FTSE			Appropriation per Contact Hour			
	State Appropriation (000's)	FTSE (1)	State Appropriation per FTSE	Academic Contact Hours (a) (000's)	Voc/Tech Contact Hours (a,b) (000's)	Total Contact Hours (000's)	State Appropriation per Contact Hour
2011-12	\$ 8,526	4,289	\$ 1,988	1,874	962	2,836	\$ 3.01
2010-11	8,879	4,518	1,965	1,966	1,062	3,028	2.93
2009-10	9,340	4,348	2,148	1,898	1,032	2,930	3.19
2008-09	9,877	3,989	2,476	1,742	939	2,681	3.68
2007-08	9,877	3,988	2,477	1,673	973	2,646	3.73
2006-07	9,371	4,041	2,319	1,715	944	2,659	3.52
2005-06	9,371	4,012	2,336	1,691	936	2,627	3.57
2004-05	8,039	4,031	1,994	1,682	943	2,625	3.06
2003-04	8,079	3,967	2,037	1,671	885	2,556	3.16
2002-03	7,870	3,686	2,135	1,539	853	2,392	3.29
2001-02	8,499	3,607	2,356	1,485	875	2,360	3.60
2000-01	8,102	3,395	2,386	1,390	820	2,210	3.67
1999-00	8,147	3,259	2,500	1,308	856	2,164	3.76
1998-99	6,594	3,177	2,076	1,194	956	2,150	3.07
1996-97	5,332	2,641	2,019	1,002	782	1,784	2.99

(a) Source CBM001
(b) Source CBM00A

Notes:

(1) FTSE is calculated by the following formula:

$$\frac{(\text{Total Semester Hours Taken by Credit Students (a)})}{30} + \frac{(\text{Total Contact Hours Taken by CE Students (b)})}{900}$$

	Voc-Tech Contact Hrs (000's)		
	Credit	CE	Total
11-12	750	212	962
10-11	863	199	1062
09-10	879	153	1032
08-09	782	157	939
07-08	779	194	973
06-07	740	204	944
05-06	717	219	936
04-05	716	227	943
03-04	650	235	885
02-03	660	193	853
01-02	620	255	875
00-01	633	187	820
99-00	731	125	856
98-99	810	146	956
96-97	666	116	782

Midland College District
Statistical Supplement 7
Faculty, Staff, and Administrators Statistics
(unaudited)

	Fiscal Year															
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Faculty																
Full-Time	145	135	154	155	141	134	129	119	116	110	109	100	94	89	86	83
Part-Time	162	195	184	160	156	135	120	135	125	129	134	134	141	153	143	145
Total	307	330	338	315	297	269	249	254	241	239	243	234	235	242	229	228
Percent																
Full-Time	47.2%	40.9%	45.6%	49.2%	47.5%	49.8%	51.8%	46.9%	48.1%	46.0%	44.9%	42.7%	40.0%	36.8%	37.6%	36.4%
Part-Time	52.8%	59.1%	54.4%	50.8%	52.5%	50.2%	48.2%	53.1%	51.9%	54.0%	55.1%	57.3%	60.0%	63.2%	62.4%	63.6%
Staff and Administrators																
Full-Time	263	264	254	256	249	239	241	237	226	209	206	181	179	163	162	162
Part-Time	328	258	357	320	375	358	369	354	356	361	342	335	327	284	169	175
Total	591	522	611	576	624	597	610	591	582	570	548	516	506	447	331	337
Percent																
Full-Time	44.5%	50.6%	41.6%	44.4%	39.9%	40.0%	39.5%	40.1%	38.8%	36.7%	37.6%	35.1%	35.4%	36.5%	48.9%	48.1%
Part-Time	55.5%	49.4%	58.4%	55.6%	60.1%	60.0%	60.5%	59.9%	61.2%	63.3%	62.4%	64.9%	64.6%	63.5%	51.1%	51.9%
Students per Full-Time Faculty	41.9	47.1	40.5	37.3	40.7	43.4	43.3	46.5	46.5	45.8	46.4	48.4	50.4	51.7	49.2	48.2
Students per Full-Time Staff Member	23.1	24.1	24.5	22.6	23.0	24.3	23.2	23.3	23.9	24.1	24.6	26.8	26.4	28.2	26.1	24.7
Average Annual Faculty Salary	\$52,169	55,834	55,216	54,623	52,021	50,636	49,335	49,446	47,783	47,498	47,196	44,264	41,864	41,219	40,892	39,395
Notes:																
Fall Headcount	6,071	6,358	6,230	5,784	5,733	5,819	5,589	5,531	5,392	5,041	5,060	4,842	4,733	4,602	4,233	4,000

**Midland College District
Statistical Supplement 8
Schedule of Capital Asset Information
Fiscal Years 2002 to 2012**

	Fiscal Year										
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Academic Buildings	22	22	22	20	19	19	19	19	17	16	16
Square footage (in thousands)	520	520	520	494	489	410	410	382	375	368	368
Libraries	1	1	1	1	1	1	1	1	1	1	1
Square footage (in thousands)	52	52	52	52	50	50	50	50	50	50	50
Administrative and Support Buildings	5	5	4	4	4	4	4	4	4	4	4
Square footage (in thousands)	70	70	58	58	58	58	58	58	58	58	58
Dormitories	3	3	3	3	3	3	3	3	3	3	2
Square footage (in thousands)	91	91	91	91	91	91	91	91	91	91	62
Number of Beds	286	286	286	286	286	286	286	286	286	286	192
Apartments	10	10	10	10	10	10	10	10	10	10	10
Square footage (in thousands)	12	12	12	12	12	12	12	12	12	12	12
Number of beds	20	20	20	20	20	20	20	20	20	20	20
Dining Facilities	1	1	1	1	1	1	1	1	1	1	1
Square footage (in thousands)	11	11	11	11	11	11	11	11	11	11	11
Athletic Facilities	6	6	5	5	3	3	3	3	3	3	3
Square footage (in thousands)	136	136	118	118	117	117	117	117	117	117	117
Multipurpose Center	1	1	1	1	1	1	1	1	1	1	1
Gymnasiums	2	2	1	1	1	1	1	1	1	1	1
Softball Dressing Facility	1	1	1	1							
Baseball Practice Facility	1	1	1	1							
Tennis Pro Shop	1	1	1	1	1	1	1	1	1	1	1
Plant Facilities	2	2	2	2	2	2	1	1	1	1	1
Square footage (in thousands)	26	26	26	26	26	26	7	7	7	7	7
Chapel	1	1	1	1	1	1	1	1			
Square footage (in thousands)	2	2	2	2	2	2	2	2			
Childrens Center	1	1	1	1	1	1	1	1	1	1	1
Square footage (in thousands)	11	11	11	11	6	6	6	6	6	6	6

**Midland College District
Statistical Supplement 9
Head Count Enrollment Trend
Credit Hour Students Only
(Unaudited)**

Fiscal Year	Fall	Spring	Sum I	Sum II	Duplicated Total	Unduplicated Total
1997-98	4,228	3,996	1,484	762	10,470	6,136
1998-99	4,576	4,529	1,637	832	11,574	6,583
1999-00	4,733	4,749	1,530	797	11,809	6,656
2000-01	4,842	4,954	1,439	1,042	12,277	6,870
2001-02	5,065	5,109	1,596	1,249	13,019	6,948
2002-03	5,041	5,410	1,707	1,380	13,538	7,606
2003-04	5,392	5,666	1,974	1,410	14,442	8,086
2004-05	5,531	5,797	1,881	1,548	14,757	8,456
2005-06	5,589	5,923	2,356	1,974	15,842	8,591
2006-07	5,819	6,076	2,158	2,184	16,237	9,039
2007-08	5,733	6,288	2,381	2,411	16,813	9,453
2008-09	5,784	6,321	2,530	2,546	17,181	9,608
2009-10	6,230	6,803	3,080	2,899	19,012	10,726
2010-11	6,358	7,316	3,507	2,682	19,863	11,131
2011-12	6,071	6,976	3,572	2,710	19,329	10,856

Data Source: CBM001