



SOUTHMOST UNION JUNIOR COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED AUGUST 31, 2004

TEXAS SOUTHMOST COLLEGE

ANNUAL FINANCIAL REPORT

AUGUST 31, 2004

TEXAS SOUTHMOST COLLEGE
ANNUAL FINANCIAL REPORT

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TEXAS SOUTHMOST COLLEGE

ORGANIZATIONAL DATA

FOR THE FISCAL YEAR 2004

Board of Trustees

Officers

Chester Gonzalez	Chairperson
Rosemary Breedlove	Vice-chairperson
Eduardo Campirano	Secretary

Members

Term Expires
August 31

Mary Rose Cardenas	Brownsville, Texas	May, 2008
Rosemary Breedlove	Brownsville, Texas	May, 2010
David Oliveira	Brownsville, Texas	May, 2006
Chester Gonzalez	Brownsville, Texas	May, 2010
Dolly Zimmerman	Port Isabel, Texas	May, 2008
Dr. Roberto Robles	Brownsville, Texas	May, 2006
Eduardo Campirano	Brownsville, Texas	May, 2010

Principal Administrative Officers

Dr. Juliet V. Garcia	President, UTB/TSC
Dr. John P. Ronnau	Vice President for Administration and Partnership Affairs, UTB/TSC
Veronica Mendez	Assistant Vice President for Administration and Partnership Affairs
Melba M. Sanchez, CPA	District Controller

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southmost Union Junior College District
Brownsville, Texas

We have audited the accompanying basic financial statements of Texas Southmost College as of and for the year ended August 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas Southmost College as of August 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2004 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 7 through 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Texas Southmost College taken as a whole. The accompanying supplementary information, as described in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards and schedule of expenditures of state awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular, and are also not a required part of the financial statements. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Long Chilton" followed by a stylized flourish.

Brownsville, Texas
November 24, 2004



TEXAS SOUTHMOST COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2004

Management's discussion and analysis of Texas Southmost College's (the College) financial performance provides an overview of the College's financial activities for the fiscal year ended August 31, 2004. This discussion and analysis is to be read in conjunction with the College's financial statements which begin on page 20.

USING THIS ANNUAL REPORT

The financial statements presented in Exhibits 1, 2 and 3 are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public College's and Universities*. The required statements are: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The presentation of financial statements in this report are for current year operations. As a result of our Partnership with The University of Texas at Brownsville (UTB), it was determined that expense reporting by functional classifications should be done by the UTB/TSC partnership financial statements. Therefore, the financial statements as presented in this report are limited to the current year's operations and are not comparative to the prior fiscal year. In future years, a year to year comparative analysis will be included in for the financial statements.

As required by GASB Statements No. 34 and No. 35, the current year financials are prepared using the accrual basis of accounting, is the same method used by most private sector companies. They focus on the financial condition of the College, results of operations and cash flows of the College as a whole.



USING THIS ANNUAL REPORT (Continued)

The notes to the financial statements starting on page 24 provide narrative explanations and additional data needed for full disclosure.

The Statement of Net Assets

The Statement of Net Assets includes all the College's assets and liabilities and change in net assets as of the end of the fiscal year. The difference between total assets and total liabilities is the net assets. Increases and decreases to net assets is one indicator of whether the overall financial condition has improved or deteriorated during the year when considered with other factors such as enrollment, contact hours of instruction, student retention and other non-financial information. Finally, the statement of net assets is useful when determining the assets available for continuing the College's operations as well as how much the College owes to vendors, bondholders, and other entities at the end of the year.

The Statement of Net Assets includes assets and liabilities, current and non-current and net assets. Current assets are those which are available to satisfy current liabilities or liabilities that are due within one year. Non-current assets include capital assets, long-term investments and other assets, not classified as current. Non-current liabilities include bonds payable and other long-term commitments.

The Net Assets are divided into three major categories. The first category, Invested in Capital Assets Net of Related Debt, represents the College's net investment in property, plant and equipment owned by the institution. The next category is restricted net assets, which is further divided into two categories: nonexpendable and expendable. Expendable restricted net assets are available for expenditures but must be spent in accordance with the restrictions of donors and other external entities. The College only has Expendable Restricted Net Assets. The final category is Unrestricted Net Assets which are assets available to the institution for any lawful purpose of the College. Further detail regarding assets, liabilities and net assets is presented in the statement of net assets and notes to the financial statements.



The Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets represents the College's overall results of operations. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred regardless of when the cash is received or paid. The statement is divided into operating revenues and expenses and non-operating revenues and expenses. The College is primarily dependent upon four sources of revenues: state appropriations, tuition and fees, grants and contracts and property taxes. Since property taxes are classified as non-operating revenues (per GASB requirements), the College will generally display an operating deficit before taking into account its non-operating revenues. Therefore, total revenues and total expenses should be considered in assessing the change in the College's financial position. When total revenues exceed total expenses, the result is an increase in net assets. When the contrary occurs, the result is a decrease in Net Assets. Further detail is presented in the Statement of Revenues, Expenses and Changes in Net Assets and in the Notes to the Financial Statements.

The College's net assets (the difference between assets and liabilities) provide one measure of the College's financial health or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the College, however, non-financial factors should be considered as well, such as changes in the enrollment, property tax base, and the condition of the College's facilities.

The Statement of Cash Flows

The Statement of Cash Flows provides the College's cash receipts and payments for the year. This statement is not intended to replicate, on a cash basis, the operating statement. Instead, it is intended to compliment the accrual-basis financial statements by providing functional information about financing, capital and investing activities. The cash flow approach concentrates on the underlying nature of a transaction.

The information contained in the Statement of Cash Flows assesses the College's ability to generate future net cash flows, meet obligations as they come due and needs for external financing. In addition, differences between operating income and associated cash receipts and payments and the effects on the financial position of both its cash and its non-cash investing, capital and financing transactions can be identified.



FINANCIAL ANALYSIS

Statement of Net Assets

The following analysis focuses on the Statement of Net assets, which is condensed in Table 1.

TABLE 1
CONDENSED STATEMENT OF NET ASSETS
(in millions)

	<u>2004</u>
Current Assets	18.6
Capital Assets, Net of Accumulated Depreciation	59.5
Other Non-Current Assets	<u>1.6</u>
Total Assets	<u>79.7</u>
Current Liabilities	11.2
Noncurrent Liabilities	<u>15.4</u>
Total Liabilities	<u>26.7</u>
Net assets:	
Invested in capital assets, net of related debt	42.7
Restricted Expendable	7.7
Unrestricted	<u>2.7</u>
Total Net Assets	<u>53.1</u>

The College's total net assets were \$53.1 million as of August 31, 2004. The increase in total net assets as a result of this year's operations is \$3.4 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – represents \$2.7 million of total net assets at August 31, 2004.



Statement of Revenues, Expenses and Changes in Net Assets

The following analysis focuses on the Statement of Revenues, Expenses and Changes in Net Assets presented in condensed form in Table 2.

TABLE 2
CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
(in millions)

	<u>2004</u>
Operating Revenues	33.0
Operating Expenses	38.2
Non-Operating Revenues	9.5
Non-Operating Expenses	<u>0.9</u>
INCREASE IN NET ASSETS	3.4
NET ASSETS - Beginning of Year	<u>49.1</u>
Prior Period Adjustments	0.6
NET ASSETS - End of Year	<u>53.1</u>



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

Table 3 details the College's sources of operating revenue. The three key sources of operating revenues are: State Allocations, Tuition and Fees (net of scholarship discounts) and Grants and Contracts.

TABLE 3
OPERATING REVENUE
 (in millions)

	Fiscal Year	
	2004	
	<u>Amount</u>	<u>Percentage of Total</u>
State Allocations	\$ 12.0	36.4%
Net Tuition and Fees	15.3	46.4%
Grants and Contracts	4.9	14.9%
Auxiliary Enterprises	0.5	1.7%
Other Operating Revenues	<u>0.2</u>	<u>0.6%</u>
Total Operating Revenues	\$ <u>33.0</u>	<u>100.00%</u>

Operating revenues were affected by the following key factors:

- State allocations were reduced by 6%. This reduced state allocations by \$0.75 million.
- Tuition and fees (net of scholarship discounts) increased as a result of a 10% increase in enrollment. Other factors affecting the tuition and fee increase are a \$2 per semester credit hour increase in resident tuition, a \$20 increase in non-resident tuition and a \$7 increase in the building use fee.
- Grants and Contracts revenues decreased as a result of one time awards of local grants in prior years. The College was awarded a grant in the amount of \$5.5 million from the Greater Brownsville Investment Corporation (GBIC) over a two year period for the renovation of the College's International Technology Education and Commerce Campus (ITECC). The Department of Education also awarded the college a \$1 million grant for the renovation of space at the ITECC for the International Innovation Center. The remaining balance of these awards was received in the current fiscal year. Increased enrollment resulted in an increase of federal grants and contracts awarded to the College.



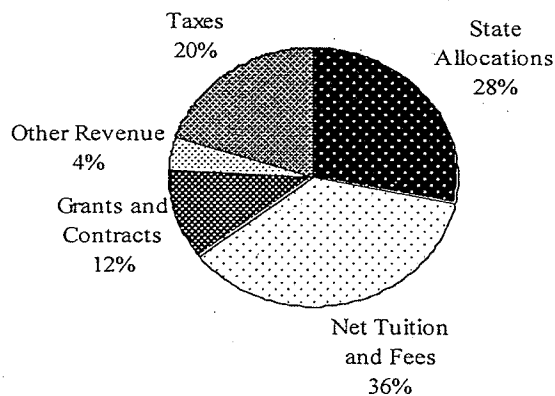
Statement of Revenues, Expenses and Changes in Net Assets (continued)

Property taxes, which are listed under the non-operating revenue section as per GASB 34/35, are a key revenue source for the College. Property tax revenue increased by more than \$0.7 million as a result of an 8% increase in assessed property valuations. The tax rate for the Southmost Union Junior College District remained the same as the previous year at \$0.1314 per \$100 valuation.

Key sources of revenue in total for the College are state allocations, grants and contracts, property taxes and tuition and fees (net of scholarship discounts). Table 4 shows a breakdown of total revenues by source for the College in Fiscal Year 2004.

TABLE 4
Total Revenues
(Operating and Non-operating)

Fiscal Year 2004



In fiscal year 2004, tuition and fees made up the largest source of revenue (36%) for the College. State allocations are the next largest revenue source at 28%. These two sources along with property tax revenue provide the bulk of the College's total revenue. Grants and contracts account for 12% of the total revenue.



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

Table 5 displays the breakdown of operating expenses by natural classification for the College.

TABLE 5
OPERATING EXPENSES
Natural Classification
(in millions)

	<u>2004</u>
Salaries	\$ 0.4
Benefits	0.1
Supplies and Services	3.8
Contract Services - UTB	32.6
Depreciation	<u>1.3</u>
Total Operating Expenses	\$ <u>38.2</u>

Table 6 displays the breakdown of the College's expenses by functional classification.

TABLE 6
OPERATING EXPENSES
Functional Classification
(in millions)

	<u>2004</u>
<u>Educational and General</u>	
Institutional Support	1.8
Operation and Maintenance of Plant	1.3
Contract Services - UTB	32.6
Depreciation	<u>1.3</u>
Total Educational Activities	37.0
Auxiliary Enterprises	<u>1.2</u>
Total Operating Expenses	\$ <u>38.2</u>



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

The College operates under a partnership agreement with The University of Texas at Brownsville (UTB). Under this agreement, the College contracts with UTB to provide instruction and other essential services. The College's expenses for these services are reflected under the Contract Services –UTB category. The University of Texas at Brownsville releases an Annual Financial Report detailing total expenses for both the College and University and should be reviewed in conjunction with this report for further information.

The Statement of Revenues, Expenses and Changes in Net Assets reflects a prior period adjustment in the amount of \$0.566 million. Adjustments were made for student emergency loans recorded and capital assets not previously recognized in prior periods. Student emergency loans receivables were recorded in prior periods but are being accounted for on the UTB/TSC financial statements; therefore this adjustment reverses amounts previously recorded on the College's financial statements. Capital assets and related accumulated depreciation for buildings that were valued at less than \$100 thousand had not been recognized. This adjusting entry records these capital assets on the College's financial statements.

Statement of Cash Flows

The Condensed Statement of Cash Flows appears in Table 7. The complete Statement of Cash Flows appears in page 22 of this report.

TABLE 7
CONDENSED STATEMENT OF CASH FLOWS
(in millions)

	<u>2004</u>
Cash Provided/ Used By:	
Operating Activities	(1.5)
Noncapital Financing Activities	7.5
Capital and Related Financing Activities	(7.3)
Investing Activities	<u>0.4</u>
NET INCREASE (DECREASE) IN CASH	(0.9)
CASH - Beginning of Year	<u>9.6</u>
CASH - End of Year	<u>8.7</u>



Statement of Cash Flows (continued)

Total Cash and Cash Equivalents decreased by \$1 million during the year. Major factors impacting cash and cash equivalents are described below by source.

Operating Activities: Cash used for operating activities (state appropriations, tuition and fees, grants and contracts and auxiliary charges less payments for contracted services and to employees and suppliers) totaled \$1.6 million. Major sources of cash provided were receipts from tuition and fees, net of scholarship allowances and discounts (\$16.1 million) and state appropriations (\$12 million). The College's major cash outlay was for contracted services with UTB (\$32.6 million) as per the Partnership agreement, whereby UTB provides for the instruction and essential educational services to students.

Non-capital Financing Activities: The College had a positive non-capital financing cash flow of \$7.5 million. Receipts from the collection of property taxes totaled \$7.4 million. Property taxes were collected at a rate of 94% of the current year's tax levy. (See Table 8 for more information on property taxes).

Capital Financing Activities: Capital financing activities resulted in a cash outflow of \$5.5 million. The College refinanced the 1994 Refunding Bonds and received \$8.3 million upon the issuance of 2004 Refunding Bonds. The College also received \$1.6 million for the sale of Duffey Plaza. Cash outlays of approximately \$6.5 million were primarily used for renovations of ITECC, purchases of condominiums on the peninsula and the purchase of furniture and fixtures from the bookstore vendor. Cash inflows of \$1.4 million resulted from the collection of property taxes for the funding of the College's 1987 and 2004 debt service obligations. Principal and interest payments for all bonds totaled \$5.7 million.

Investing Activities Activity for the current year is due to investment earnings of \$0.4 million generated from the College's various checking accounts.

Property taxes are an essential source of revenue for the College. The following table provides information regarding tax collection and assessed valuation for the Southmost Union Junior College District.



Statement of Cash Flows (continued)

Table 8

Property Tax Information

	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2003</u>	<u>Percent Change</u>
Total Tax Rate per \$100	\$ 0.1314	\$ 0.1314	-
Total Tax Collections	\$ 8,194,351	\$ 7,581,926	8.1%
Tax Collection Rate	93.9%	93.1%	-
Assessed Valuation	\$6,253,829,856	\$5,810,141,434	7.6%

The District's total tax rate did not change from the previous year; however, total tax assessments increased by about 7.6% due to increased valuation. The District's current year tax collection rate has remained steady over the past few years at about 93%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of Fiscal Year 2004 the College had approximately \$59.5 million (net of accumulated depreciation) invested in a broad range of capital assets, including instructional and athletic facilities, maintenance of buildings and equipment.

In fiscal year 2002, the College purchased a former shopping mall facility in an effort to meet the needs of a growing Community University. The College is in the process of renovating this facility, which has been named the International Technology Education and Commerce Campus (ITECC). The ITECC will house the College's workforce training and continuing education programs, technical training programs and other academic programs as well as provide space for a variety of community projects. This initial phase includes approximately \$10.3 million in renovations.

*Capital Assets (continued)*

The major capital outlays in the Fiscal Year 2004 for renovations at the ITECC totaled approximately \$7 million. These renovations were made to meet the needs of the steadily expanding enrollment at the College and were funded by internal and external funding which includes grants and accumulated fund balance.

Debt

The College's general obligation bond ratings, as assigned by *Moody's* and *Standard and Poor's* are AAA and A- respectively.

At year-end, the College had approximately \$16.8 million in outstanding debt. Table 9 summarizes these amounts by type of debt instrument.

Table 9

Bonds Payable at Fiscal Year End 2004
(in millions)

	Beginning of <u>the Year</u>	End of the <u>Year</u>
Refunding Tax Bonds	\$ 4.59	\$ 3.60
Student Union Building Bonds	8.56	8.36
Revenue Bonds	<u>4.95</u>	<u>4.87</u>
Total Bonds Payable	<u>\$18.10</u>	<u>\$16.82</u>

Tax bonds were issued in 2004 to refund the 1994 bonds which had refunded the original 1987 tax bonds. The source of revenue for this debt service is ad valorem tax levy.

The Student Union Building Bonds were issued in March of 2000. They were sold for the construction, operation and maintenance of the Student Union Building. This obligation is paid by student union fees assessed to the students.



Debt (continued)

In May 2002, the College issued a \$5 million Revenue Bond to fund various capital projects on campus. These projects included the acquisition of ITECC and the development of the student housing project, The Village at Fort Brown, among other improvements. Pledged revenues derived from tuition and fees, student and employee parking fees and interest on investment earnings are the sources for debt service.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board of Trustees considered many factors when establishing the fiscal year 2005 budget and tax rates. The College expects tax revenue to increase modestly during fiscal year 2005. Continued growth in the tax base, due to population growth and increased valuation, are expected to be driving forces in increased collections. Expenditures are expected to increase as it strives to meet the needs of an expanding enrollment.

Major capital projects are underway, including continued renovations at ITECC. Current projects include The Prax Orive Technical Training Center, which houses the College's technical training programs (auto mechanics, air conditioning, building trades and drafting programs) and other academic programs. ITECC will also provide space for a variety of community programs.

Enrollment growth at the College continues to increase at an average rate of approximately 7%. A similar increase is expected for the coming year. In order for the College to meet the needs of its growing enrollment, it is essential that previous cuts in state allocations be restored. Additional reductions in state funding will further affect direct services to students and seriously affect the College's effort to help meet the state's goal of "closing the gaps."

CONTACTING THE COLLEGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the College's finances and to show the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Vice President for Administration and Partnership Affairs Office at (956) 544-3879.

TEXAS SOUTHMOST COLLEGE

STATEMENT OF NET ASSETS

August 31, 2004

ASSETS**Current Assets:**

Cash and cash equivalents (Note 4)	\$ 7,191,013
Accounts receivable – net (Note 14)	10,943,230
Prepaid expenses	<u>450,784</u>
Total Current Assets	<u>18,585,027</u>

Noncurrent Assets:

Cash and cash equivalents (Note 4)	1,396,831
Endowment Investments (Note 4)	50,935
Unamortized bond issuance cost	179,339
Capital assets net (Note 5)	<u>59,507,652</u>
Total Noncurrent Assets	<u>61,134,757</u>

Total Assets	<u>79,719,784</u>
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LIABILITIES**Current Liabilities:**

Accounts payable (Note 14)	1,088,076
Accrued liabilities	5,493
Funds held for others	8,303
Deferred revenues (Note 2)	8,664,222
Bonds payable – current portion (Note 6)	<u>1,440,000</u>
Total Current Liabilities	<u>11,206,094</u>

Noncurrent Liabilities:

Accrued compensable absences (Notes 6 and 12)	23,882
Unamortized bond premium	40,910
Bonds payable (Note 6)	<u>15,380,000</u>
Total Noncurrent Liabilities	<u>15,444,792</u>

Total Liabilities	<u>26,650,886</u>
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NET ASSETS

Invested in capital assets, net of related debt	42,687,652
Restricted for:	
Expendable	
Endowment	55,522
Capital Projects	4,950,474
Debt Service	2,605,510
Other	90,480
Unrestricted	<u>2,679,260</u>
Total Net Assets (Schedule D)	<u>\$ 53,068,898</u>

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

TEXAS SOUTHMOST COLLEGE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended August 31, 2004

Operating Revenues	
State Allocations	\$ 12,016,457
Tuition and Fees (net of discounts of \$2,942,520)	15,309,239
Federal Grants and Contracts	1,005,612
State Grants and Contracts	2,473,345
Local Grants and Contracts	59,098
Non-Governmental Grants and Contracts	1,393,286
Auxiliary Enterprises (net of discounts)	547,432
General Operating Revenues	<u>201,051</u>
Total Operating Revenues (Schedule A)	33,005,520
Operating Expenses	
Institutional Support	1,763,905
Operation and Maintenance of Plant	1,280,925
Auxiliary Enterprises	1,183,702
Depreciation	1,327,481
Contracted services with UTB	<u>32,626,780</u>
Total Operating Expenses (Schedule B)	<u>38,182,793</u>
Operating Loss	(5,177,273)
Non-Operating Revenues (Expenses)	
Maintenance Ad Valorem Taxes	7,172,781
Debt Service Ad Valorem Taxes	1,293,275
Investment income	401,080
Interest on Capital Related Debt	(912,383)
Gain on Disposal of Fixed Assets	432,842
Other Non-Operating Revenues	178,163
Other Non-Operating Expenses	<u>(23,322)</u>
Net Non-Operating Revenues (Schedule C)	<u>8,542,436</u>
Increase in Net Assets	3,365,163
Net Assets	
Net Assets – Beginning of Year	49,137,564
Prior Period Adjustments (Note 26)	<u>566,171</u>
Net Assets – End of Year	<u>\$ 53,068,898</u>

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

TEXAS SOUTHMOST COLLEGE

STATEMENT OF CASH FLOWS

Year Ended August 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from students and other customers	\$ 16,081,205
Receipts from state allocations, grants and contracts	16,235,161
Payments to suppliers for goods and services	(4,243,389)
Transfers to UTB	(29,614,736)
Payments to or on behalf of employees	(338,584)
Loans issued to students	(429,021)
Other receipts	748,483
Net cash used by operating activities	<u>(1,560,881)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Receipts from ad valorem taxes	7,384,070
Other receipts	136,051
Net cash provided by non-capital financing activities	<u>7,520,121</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Proceeds on issuance of capital debt	3,640,910
Ad Valorem tax revenue	1,353,690
Proceeds from the sale of capital assets	1,623,175
Purchases of capital assets	(8,265,414)
Payments on capital debt – principal	(4,799,744)
Payments on capital debt – interest	(912,383)
Net cash used by capital and related financing activities	<u>(7,359,766)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	406,717
Net cash provided by investing activities	<u>406,717</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(993,809)</u>
CASH AND CASH EQUIVALENTS – September 1	<u>9,581,653</u>
CASH AND CASH EQUIVALENTS – August 31	<u>\$ 8,587,844</u>

(Continued)

TEXAS SOUTHMOST COLLEGE
STATEMENT OF CASH FLOWS -- CONTINUED
Year Ended August 31, 2004

RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (5,177,273)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:	
Depreciation expense	1,327,481
Changes in assets and liabilities:	
Receivables (net)	539,191
Notes receivable	(429,021)
Prepaid expenses	12,038
Accounts payable	61,027
Compensated absences	(2,402)
Deferred revenue	<u>2,108,078</u>
Net cash used by operating activities	<u>\$ (1,560,881)</u>

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

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2004

1. **Reporting Entity**

Texas Southmost College (TSC) was established in 1926, in accordance with the laws of the State of Texas, to serve the educational needs of Brownsville and the surrounding communities. The Southmost Union Junior College District was established in 1949 and is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

2. **Summary of Significant Accounting Policies**

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships 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). Scholarships are transferred to University of Texas – Brownsville to be awarded to students. Amounts transferred to UTB are recorded as tuition discounts.

Other Tuition Discounts

The College awards tuition and fee scholarships from institutional funds to students who qualify. Scholarships are transferred to University of Texas – Brownsville to be awarded to students. Amounts transferred to UTB are recorded as tuition discounts.

Basis of Accounting

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

Budgetary Data

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

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2004

2. Summary of Significant Accounting Policies -- Continued

Cash and Cash Equivalents

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

Investments

In accordance with GASB 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.

Capital Assets

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

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

Library books are capitalized but not depreciated. Library books will be written off as the books are removed from service.

Deferred Revenues

Tuition and fees of \$8,611,697 and, prepaid rents of \$52,525 have been reported as deferred revenues at August 31, 2004.

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 College distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The College also recognizes as operating revenue allocations from the state. The major non-operating revenue is property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The operation of the Bookstore is not performed by the College.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2004

2. **Summary of Significant Accounting Policies – Continued**

State allocations are classified as operating revenues because the college is a separate primary government and is not included as part of the Texas state-wide CAFR. In addition, Texas state allocations are program specific for instructional services provided on behalf of the State and are affected by performance through a formal funding process based on contact hours of instruction provided.

3. **Authorized Investments**

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

4. **Deposits and Investments**

At August 31, 2004, the carrying amount of Texas Southmost College's deposits was \$8,587,844 and total bank balances equaled \$9,202,641. Bank balances of \$100,000 are covered by federal depository insurance and \$9,102,641 were covered by collateral pledged in Texas Southmost College's name for the year ended August 31, 2004. The collateral was held by Texas Southmost College or by its agent (Category 1). There were no bank balances which were collateralized with securities held by the pledging financial institution's trust department or agent in Texas Southmost College's name (Category 2). There were no bank balances uncollateralized at fiscal year end (Category 3).

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

Cash and Deposits

	<u>2004</u>
Bank Deposits	
Demand Deposits – Unrestricted	\$ 7,188,403
Demand Deposits – Restricted	1,396,831
Cash and Cash Equivalents	
Petty Cash on Hand	<u>2,610</u>
Total Cash and Deposits	<u>\$ 8,587,844</u>

To comply with the reporting requirements of GASB 3, *Investments (including Repurchase Agreements)*, and *Reverse Repurchase Agreements*, Texas Southmost College's investments are categorized under "Investment Categories" to give an indication of credit risk assumed by Texas Southmost College at year end. Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2004

4. Deposits and Investments – Continued

The following categories of credit risk are included:

- Category 1: Investments that are insured or registered or for which the securities are held by the institution or its agent in the institution's name.
- Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the institution's name.
- Category 3: Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the institution's name.

Categorized Investments – August 31, 2004

Type of Security	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Corporate Bonds	\$ 50,935	\$ -	\$ -	\$ 50,935	\$ 50,935
TOTALS	<u>\$ 50,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,935</u>	<u>\$ 50,935</u>

Reconciliation of Deposits and Investments to Exhibit 1

Type of Security	Market Value August 31, 2004
Cash and Deposits	\$ 8,587,844
Investments	50,935
Total Deposits and Investments	<u>\$ 8,638,779</u>
Cash and Temporary Investments (Exhibit 1)	7,191,013
Cash and Temporary Investments – Restricted (Exhibit 1)	1,396,831
Investments (Exhibit 1)	50,935
TOTAL DEPOSITS AND INVESTMENTS	<u>\$ 8,638,779</u>

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2004

5. Capital Assets

Capital assets activity for the year ended August 31, 2004 was as follows:

	Balance September 1, 2003	Increases	Decreases	Reclassification	Balance August 31, 2004
<u>Not Depreciated:</u>					
Land	\$ 3,896,868	\$ 107,582	\$ 354,890	\$ -	\$ 3,649,560
Library Books	8,422,239	-	-	-	8,422,239
Construction in Process	7,463,060	6,790,966	-	(1,172,959)	13,081,067
Subtotal	<u>19,782,167</u>	<u>6,898,548</u>	<u>354,890</u>	<u>(1,172,959)</u>	<u>25,152,866</u>
<u>Buildings and Other Capital Assets:</u>					
Buildings and Building Improvements	46,221,633	142,233	1,258,280	1,140,981	46,246,567
Other Real Estate Improvements	7,106,805	118,450	-	31,978	7,257,233
Total Buildings and Other Real Estate Improvements	53,328,438	260,683	1,258,280	1,172,959	53,503,800
Furniture, Machinery, and Equipment	8,471,506	199,495	-	-	8,671,001
Total Buildings and Other Capital Assets	<u>61,799,944</u>	<u>460,178</u>	<u>1,258,280</u>	<u>1,172,959</u>	<u>62,174,801</u>
<u>Accumulated Depreciation:</u>					
Buildings and Building Improvements	(15,603,572)	(777,821)	67,947	-	(16,313,446)
Other Real Estate Improvements	(3,690,228)	(201,439)	-	-	(3,991,667)
Total Buildings and Other Real Estate Improvements	(19,293,800)	(1,079,260)	67,947	-	(20,305,113)
Furniture, Machinery, and Equipment	(7,266,681)	(248,221)	-	-	(7,514,902)
Total Accumulated Depreciation	<u>(26,560,481)</u>	<u>(1,327,481)</u>	<u>67,947</u>	<u>-</u>	<u>(27,820,015)</u>
Total Buildings and Other Capital Assets	<u>35,239,463</u>	<u>(867,303)</u>	<u>1,190,333</u>	<u>-</u>	<u>34,354,786</u>
Net Capital Assets	<u>\$ 55,021,630</u>	<u>\$ 6,031,245</u>	<u>\$ 1,545,223</u>	<u>\$ -</u>	<u>\$ 59,507,652</u>

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2004

6. Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2004 was as follows:

	Balance September 1, 2004	Additions	Reductions	Balance August 31, 2004	Current Portion
Bonds					
General obligation bonds	\$ 4,590,000	\$ 3,600,000	\$ 4,590,000	\$ 3,600,000	\$ 1,125,000
Revenue bonds	13,505,000	-	285,000	13,220,000	315,000
Subtotal	18,095,000	3,600,000	4,875,000	16,820,000	1,440,000
Accrued compensable absences	8,646	15,236	-	23,882	-
Total long-term liabilities	\$ 18,103,646	\$ 3,615,236	\$ 4,875,000	\$ 16,843,882	\$ 1,440,000

7. Debt Obligations

Debt service requirements at August 31, 2004 were as follows (amounts in 000's):

For the Year Ended August 31,	General Revenue Bond			Revenue Bond			Total Bonds	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest
2005	\$ 1,125	\$ 68	\$ 1,193	\$ 315	\$ 737	\$ 1,052	\$ 1,440	\$ 805
2006	1,130	43	1,173	335	720	1,055	1,465	763
2007	1,165	17	1,182	370	703	1,073	1,535	720
2008	180	2	182	460	684	1,144	640	686
2009	-	-	-	485	659	1,144	485	659
2010-2014	-	-	-	2,850	2,874	5,724	2,850	2,874
2015-2019	-	-	-	4,990	1,806	6,796	4,990	1,806
2020-2024	-	-	-	2,760	706	3,466	2,760	706
2025	-	-	-	655	39	694	655	39
	<u>\$ 3,600</u>	<u>\$ 130</u>	<u>\$ 3,730</u>	<u>\$ 13,220</u>	<u>\$ 8,928</u>	<u>\$ 22,148</u>	<u>\$ 16,820</u>	<u>\$ 9,058</u>

8. Bonds Payable

General information related to bonds payable is summarized below:

Student Union Building Fees Revenue Bonds, Series 2000

- To refinance, construct, operate, maintain, renovate and improve the Student Union Building used by the students
- Issued revenue bonds on February 1, 2000
- \$9,025,000, all authorized bonds have been issued
- Source of revenue for debt service – Student Union fees

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2004

8. Bonds Payable – Continued

Bonds payable are due in annual installments varying from \$155,000 to \$655,000 with interest rates ranging from 5.0% to 6.0% with the final installment due in 2025. Future principal and interest expense requirements are summarized below.

Year Ending August 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 225,000	\$ 468,881	\$ 693,881
2006	235,000	457,631	692,631
2007	250,000	445,881	695,881
2008	260,000	433,131	693,131
2009	275,000	419,611	694,611
Beyond 5 years	<u>7,110,000</u>	<u>3,986,872</u>	<u>11,096,872</u>
Total	<u>\$ 8,355,000</u>	<u>\$ 6,212,007</u>	<u>\$ 14,567,007</u>

Combined Fee Revenue Bonds, Series 2002

- To fund various capital projects and facilitate property acquisition
- Issued revenue bonds on May 30, 2002
- \$5,000,000, all authorized bonds have been issued
- Source of revenue for debt service – Tuition fees, student & employee parking fees and investment earnings

Bonds payable are due in annual installments varying from \$50,000 to \$2,295,000 with an interest rate of 5.5% with the final installment due in 2017. Future principal and interest expense requirements are summarized below. Bond issuance costs totaled \$138,250, which is being amortized over the life of the bonds. Amortization expense for the year totaled \$8,006.

Year Ending August 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 90,000	\$ 267,575	\$ 357,575
2006	100,000	262,625	362,625
2007	120,000	257,125	377,125
2008	200,000	250,525	450,525
2009	210,000	239,525	449,525
Beyond 5 years	<u>4,145,000</u>	<u>1,438,800</u>	<u>5,583,800</u>
Total	<u>\$ 4,865,000</u>	<u>\$ 2,716,175</u>	<u>\$ 7,581,175</u>

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2004

8. Bonds Payable – Continued

Limited Tax Refunding Bonds, Series 2004

- To refund certain outstanding Refunding Tax Bonds, Series 1994
- Issued refunding bonds on February 18, 2004
- \$3,600,000, all authorized bonds have been issued
- Source of revenue for debt service – ad valorem tax levy

Bonds payable are due in annual installments varying from \$180,000 to \$1,125,000 with interest at 2.25% and the final installment due in February 2008.

Future principal and interest expense requirements are summarized below. Bond issuance costs totaled \$97,478 and bond premium totaled \$47,884 which is amortized over the life of the bonds. Amortization expense for the year totaled \$14,215 and \$6,985, respectively.

Year Ending August 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,125,000	\$ 68,344	\$ 1,193,344
2006	1,130,000	42,975	1,172,975
2007	1,165,000	17,156	1,182,156
2008	180,000	2,025	182,025
Total	<u>\$ 3,600,000</u>	<u>\$ 130,500</u>	<u>\$ 3,730,500</u>

9. Advance Refunding Bonds

Refunded \$3,600,000 of Refunding Tax Bonds, Series 1994.

- Issued refunding bonds on February 18, 2004.
- \$3,600,000, all authorized bonds have been issued.
- General Obligation Bonds – Limited Tax Refunding Bonds, Series 2004.
- Average interest rate of bonds refunded – 2.25%.
- Net proceeds from Refunding Series -- \$3,605,417; after payment of \$84,176 in underwriting fees, insurance, and other issue costs.
- Additional \$-0- of 1994 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 2004 Series bonds.
- The 1994 Series bonds are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant Fund Group. At year end there were no defeased bonds outstanding.
- Advance refunding of the 1994 Series bonds reduce by \$162,212.
- Economic Gain -- \$146,397 difference between the net present value of the old and new debt service payments.
- Accounting Gain -- \$162,212 accounting gain was resulted from the advanced refunding.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2004

10. Employees' Retirement Plan

The State of Texas has joint contributory retirement plans for almost all its employees. One of the primary plans in which the College participates is administered by the Teacher Retirement System of Texas. The percentages of participant salaries currently contributed by the state and by each participant are 6.0% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System does not separately account for each of its component government agencies because it bears sole responsibility for retirement commitments beyond contributions fixed by the Legislature.

The state has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts. The percentage of participant salaries currently contributed by the state and each participant are 6.0% and 6.65%, respectively. The College does not contribute for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense to the State for the College was \$17,815 for the fiscal year ended August 31, 2004. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for all College employees was \$296,912 for fiscal year 2004. The total payroll of employees covered by the Teacher Retirement System was \$228,232, and the total payroll of employees covered by the Optional Retirement System was \$68,680 for fiscal year 2004.

11. Deferred Compensation Program

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants.

As of August 31, 2004, the College has one employee participating in a deferred compensation program. Because this is an individual annuity contract, the College has no additional or unfunded liability for this program.

12. Compensable Absences

Full-time employees earn annual leave beginning on the first day of employment at the same rate and with the same limit as state employees as published each biennium in the General Appropriations Act. Employees who have completed six months of continuous employment are entitled to be paid for any unused vacation upon termination of employment. The College recognized the accrued liability for the unpaid annual leave for in the amounts of \$23,882 for 2004. Sick leave is earned at the rate of 8 hours per month and may accumulate to a maximum of 60 working days. The College's policy is to recognize the cost of sick leave when paid.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2004

13. Pending Lawsuits and Claims

On August 31, 2004, there were no lawsuits or claims involving Texas Southmost College.

14. Disaggregation of Receivables and Payables Balances

Receivables

Receivables at August 31, 2004 were as follows:

	<u>2004</u>
Taxes Receivable	\$ 1,541,984
Federal Receivable	130,429
Accounts Receivable	12,134
Other Receivable – Due from UTB	<u>9,344,782</u>
Subtotal	<u>11,029,329</u>
Allowance for Doubtful Accounts	<u>86,099</u>
TOTAL RECEIVABLES	<u>\$ 10,943,230</u>

Payables

Payables at August 31, 2004 were as follows:

	<u>2004</u>
Vendors Payable	\$ 73,820
Salaries and Benefits Payable	3,434
Other Payable – Due to UTB	<u>1,010,822</u>
Subtotal	<u>1,088,076</u>
Allowance for Doubtful Accounts	<u>-</u>
TOTAL PAYABLES	<u>\$ 1,088,076</u>

15. Funds Held in Trust by Others

The balances, or transactions, of funds held in trust by others on behalf of Texas Southmost College are not reflected in the financial statements. At August 31, 2004 there were no such funds for the benefit of the College.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2004

16. **Contract and Grant Awards**

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. There were no contracts or grants awarded during fiscal year 2004 for which monies have not been received nor funds expended.

17. **Self-Insured Plans**

The College has no self-insured arrangements.

18. **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. At year end there were no retirees and there was no cost to the state.

19. **Ad Valorem Tax**

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

At August 31,:

	<u>2004</u>
Assessed Valuation of the College:	\$6,816,320,997
Less: Exemptions	597,527,126
Less: Abatements	-
Net Assessed Valuation of the College	<u>\$6,218,793,871</u>

	<u>2004</u>		
	<u>Current</u>	<u>Debt</u>	<u>Total</u>
	<u>Operations</u>	<u>Service</u>	
Authorized Tax Rate per \$100 valuation	\$.350000	\$.500000	\$.850000
Assessed Tax Rate per \$100 valuation	\$.112041	\$.019359	\$.131400

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2004

19. Ad Valorem Tax – Continued

Section 130.122 of the Texas Education Code, as amended, limits a junior College district's tax rate to \$1.00 per \$100 taxable assessed valuation (of which a maximum of \$0.50 may be pledged for bond debt service), and the District is further restricted by local referendum which limits the tax rate for local maintenance to \$0.35.

Taxes levied for the year ended August 31, 2004 amounted to \$8,171,495 including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

	2004		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current Taxes Collected	\$ 6,811,826	\$ 1,179,341	\$ 7,991,167
Delinquent Taxes Collected	\$ 349,046	\$ 100,666	\$ 449,712
Penalties and Interest Collected	\$ 214,275	\$ 48,508	\$ 262,783
Less:			
Discounts and Commissions	\$ (202,366)	\$ (35,240)	\$ (237,606)
Total Collections	<u>\$ 7,172,781</u>	<u>\$ 1,293,275</u>	<u>\$ 8,466,056</u>

Tax collections for the year ended August 31, 2004 were 97.79 percent of the current tax levy. Allowance for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted for the use of maintenance and/or general obligation debt service.

20. Income Taxes

The College is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the year ended August 31, 2004.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2004

21. Risk Management

The College is exposed to various risks of loss related to torts, theft, damage or destruction of purchased assets. The College carries commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three years.

22. Construction Commitments

At August 31, 2004, the Texas Southmost College had the following construction commitments:

<u>Project</u>	<u>Remaining Balance</u>
ITECC: Orive Tech Training Center	\$ 4,547,357
ITECC: Workforce Training & Cont. Education	1,814,946
ITECC: Incubator & Business Dev.	1,441,452
ITECC: General	4,084,797
ITECC: BEDC	574,085
ITECC: Auto Body	170,214
ITECC: Mexican Counsel	1,575
Cueto Building	<u>446,639</u>
Total	<u>\$ 13,081,065</u>

23. Grants and Contract Contingencies

The District participates in various grant programs that are governed by various rules and regulations of the grantor agencies. All grants and contracts of the College are passed through to the University of Texas – Brownsville in accordance with the partnership agreement between the two schools. UTB meets all the characteristics of a subrecipient as outlined in Circular A-133 however, it is not being treated as a subrecipient because the partnership agreement is intended to allow UTB to act for and on behalf of the College. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent UTB has not complied with the rules and regulations governing the grants, the College would be held accountable and any refund of money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the College's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

24. Related Parties

The Texas Southmost College Foundation, Inc. is a nonprofit organization with the purpose of supporting the educational and other activities of the College. Texas Southmost College does not appoint a voting majority nor does it fund or is obligated to pay debt related to this association. The College does not have the ability to significantly influence the policies of this Foundation. The Foundation solicits donations and acts as coordinator of gifts made by other parties. It remitted unrestricted gifts of \$183,384 to UTB during the year ended August 31, 2004. The College furnished certain services, such as office space, utilities and some staff assistance, at no cost to the Foundation.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2004

25. Subsequent Events

On November 2, 2004 the voters of the District passed a \$68 million bond election. The bonds will be used for the construction of classrooms, parking, and expansion of the library, a center for early childhood studies and center for alzheimer's, diabetes, cancer and heart disease. The bonds will be payable from the levy and collection of a direct and continuing ad valorem tax.

26. Prior Period Adjustment

A prior period adjustment was necessary to eliminate the student loan receivables. All loans are awarded by the University of Texas – Brownsville and are recorded as receivable from the students on their financial statements. The result of this adjustment was to decrease the loan receivable and decrease the fund balance by \$429,021. Additionally, the District capitalized several depreciable assets that had been expensed in prior years. The effect of this adjustment was to increase capital assets by \$1,569,308, increase accumulated depreciation by \$574,116 and increase investment in plant assets by \$995,192.

27. Financial Presentation

The financial statements of the College are not being presented in comparative format because of changes to the reporting format. The College in prior years had reported Title IV funds as received by the institution and either used the funds to offset tuition revenue or report scholarship awards. Title IV funds are awarded to UTB with the funds deposited directly to UTB. Additionally, the College had reported functional expenses when there are none. Under the partnership agreement between the College and the University of Texas – Brownsville, the College transfers designated funds to cover the cost of instruction and administrative expenses.

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

Board of Trustees
Southmost Union Junior College District
Brownsville, Texas

We have audited the financial statements of Texas Southmost College as of and for the year ended August 31, 2004, and have issued our report thereon dated November 24, 2004. 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

In planning and performing our audit, we considered Texas Southmost College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Texas Southmost College in a separate letter dated November 24, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Texas Southmost College's financial statements are free of material misstatement, we performed test 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*.

Public Funds Investment Act

We have performed tests designed to verify the College's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2004, no instances of noncompliance were found.

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

Long Chilton LLP

Brownsville, Texas
November 24, 2004

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

Board of Trustees
Southmost Union Junior College District
Brownsville, Texas

Compliance

We have audited the compliance of Texas Southmost College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs and the State of Texas Single Audit Circular that are applicable to each of its major state programs for the year ended August 31, 2004. The College'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 College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133 and 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 College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Texas Southmost College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended August 31, 2004.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Long Chilton LLP

Brownsville, Texas
November 24, 2004

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF OPERATING REVENUES

Year Ended August 31, 2004

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2004 Total</u>
State Allocations:					
Education and general state support	\$ 10,842,542	\$ -	\$ -	\$ -	\$ 10,842,542
State group insurance	-	1,173,915	-	-	1,173,915
State retirement matching	-	-	-	-	-
Remedial education	-	-	-	-	-
Nursing growth	-	-	-	-	-
Total State Allocation	<u>10,842,542</u>	<u>1,173,915</u>	<u>-</u>	<u>-</u>	<u>12,016,457</u>
Tuition:					
State funded credit courses:					
In-district resident tuition	4,003,132	-	-	-	4,003,132
Out-of-district resident tuition	1,015,743	-	-	-	1,015,743
Non-resident tuition	1,726,087	-	-	-	1,726,087
TPEG – credit (set aside) *	305,144	-	-	-	305,144
State-funded continuing education					
TPEG – non-credit (set aside) *	-	-	-	-	-
Non-state funded					
Educational programs	-	-	-	-	-
Total Tuition	<u>7,050,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,050,106</u>
Fees:					
Distance learning fee	-	-	-	-	-
Installment plan fees	-	-	-	-	-
Non-instructional contract training fees	9,111,327	-	-	2,090,056	11,201,383
Prior year tuition and fees	-	-	-	-	-
Total Fees	<u>9,111,327</u>	<u>-</u>	<u>-</u>	<u>2,090,056</u>	<u>11,201,383</u>
Scholarship allowance and discounts:					
Remissions and exemptions – state	-	-	-	-	-
Remissions and exemptions – local	(1,449,953)	-	-	-	(1,449,953)
Reduced tuition paid	(69,500)	-	-	-	(69,500)
Title IV federal grant	-	-	-	-	-
Other federal grants	-	-	-	-	-
TPEG awards	(302,212)	-	-	-	(302,212)
Other state grants	(1,120,855)	-	-	-	(1,120,855)
Total Scholarship Allowances	<u>(2,942,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,942,250)</u>
Total net tuition and fees	<u>13,219,183</u>	<u>-</u>	<u>-</u>	<u>2,090,056</u>	<u>15,309,239</u>

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF OPERATING REVENUES – CONTINUED

Year Ended August 31, 2004

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2004 Total</u>
Additional Operating Revenues:					
Federal grants and contracts	-	1,005,612	-	-	1,005,612
State grants and contracts	-	2,473,345	-	-	2,473,345
Local grants and contracts	59,098	-	-	-	59,098
Non-governmental grants and contracts	1,393,286	-	-	-	1,393,286
Sales and services of educational activities	-	-	-	-	-
General operating revenues	<u>201,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>201,051</u>
Total additional operating revenues	<u>1,653,435</u>	<u>3,478,957</u>	<u>-</u>	<u>-</u>	<u>5,132,392</u>
Auxiliary Enterprises:					
Bookstore	-	-	-	-	-
Less Discounts	-	-	-	-	-
Food Service	-	-	-	-	-
Center for Educational Telecommunications	-	-	-	-	-
Business Incubation Center	-	-	-	-	-
Universities Center	-	-	-	-	-
Student Programs	-	-	-	547,432	547,432
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>547,432</u>	<u>547,432</u>
Total Operating Revenues	<u>\$ 25,715,160</u>	<u>\$ 4,652,872</u>	<u>\$ -</u>	<u>\$ 2,637,488</u>	<u>\$ 33,005,520</u>

(Exhibit 2)

* In accordance with Education Code 56.033, \$305,144 for year August 31, 2004 of tuition was set aside for Texas Public Education.

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF OPERATING EXPENSES BY OBJECT

Year Ended August 31, 2004

	Salaries and Wages	Benefits		Other Expenses	2004
		State	Local		
Unrestricted – Educational Activities					
Instruction	\$ -	\$ -	\$ -	\$ -	\$ -
Public Service	-	-	-	-	-
Academic Support	-	-	-	-	-
Student Services	-	-	-	-	-
Institutional Support	268,755	-	30,232	1,464,918	1,763,905
Operation and Maintenance of Plant	-	-	-	1,280,925	1,280,925
Scholarships and Fellowships	-	-	-	-	-
Contract Services – UTB	-	-	-	32,626,780	32,626,780
Total Unrestricted Educational Activities	268,755	-	30,232	35,372,623	35,671,610
Restricted – Educational Activities					
Instruction	-	-	-	-	-
Public Service	-	-	-	-	-
Academic Support	-	-	-	-	-
Student Services	-	-	-	-	-
Institutional Support	-	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-	-
Scholarships and Fellowships	-	-	-	-	-
Total Restricted Educational Activities	-	-	-	-	-
Auxiliary Educational Activities	84,580	-	26,780	1,072,342	1,183,702
Depreciation Expense – Buildings and other real estate improvements	-	-	-	1,079,260	1,079,260
Depreciation Expense – Equipment and furniture	-	-	-	248,221	248,221
Total Operating Expenses	\$ 353,335	\$ -	\$ 57,012	\$ 37,772,446	\$ 38,182,793

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
Year Ended August 31, 2004

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2004 Total</u>
NON-OPERATING REVENUES:				
Ad valorem taxes	\$ -	\$ 8,466,056	\$ -	\$ 8,466,056
Gifts	-	-	-	-
Investment income	236,638	164,442	-	401,080
Gain on sale of investment	432,842	-	-	432,842
Contributions in aid of construction	-	-	-	-
Other non-operating revenue	<u>178,163</u>	<u>-</u>	<u>-</u>	<u>178,163</u>
Total non-operating revenues	847,643	8,630,498	-	9,478,141
NON-OPERATING EXPENSES:				
Interest on capital related debt	-	912,383	-	912,383
Loss on disposal of capital assets	-	-	-	-
Other non-operating expense	<u>23,322</u>	<u>-</u>	<u>-</u>	<u>23,322</u>
Total non-operating expenses	<u>23,322</u>	<u>912,383</u>	<u>-</u>	<u>935,705</u>
Net non-operating revenues	<u>\$ 824,321</u>	<u>\$ 7,718,115</u>	<u>\$ -</u>	<u>\$ 8,542,436</u>

Available for Current Operations:

<u>Yes</u>	<u>No</u>
\$ 2,363,053	\$ -
-	-
90,480	-
316,207	-
-	-
-	55,522
-	-
-	-
-	-
-	-
3,717,471	-
1,233,003	-
-	2,605,510
<u>42,687,652</u>	<u>-</u>
\$ 50,407,866	\$ 2,661,032
<u>46,775,198</u>	<u>2,362,366</u>
<u>566,171</u>	<u>-</u>
<u>47,341,369</u>	<u>2,362,366</u>
<u>\$ 3,066,497</u>	<u>\$ 298,666</u>

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended August 31, 2004

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Pass-Through Disbursements and Expenditures</u>
<u>U.S. Department of Agriculture</u>			
<i>Passed Through Texas Department of Human Services:</i>			
<i>Passed through to University of Texas – Brownsville</i>			
Child Care Food Program	10.558	75G7033	\$ <u>16,061</u>
<u>U.S. Department of Commerce</u>			
<i>Direct Program:</i>			
Public Works and Development Facilities	11.300	80-01-03392	<u>319,541</u>
<u>National Aeronautics & Space Administration</u>			
<i>Direct Program:</i>			
<i>Passed through to University of Texas – Brownsville</i>			
NASA Research Grant	43.000	NAG 9-1391	<u>38,965</u>
<u>U.S. Department of Education</u>			
<i>Passed Through Texas Higher Education Coordinating Board:</i>			
<i>Passed through to University of Texas – Brownsville</i>			
Carl D. Perkins – Vocational Education	84.048	44246	<u>585,070</u>
Leveraging Educational Assistance Partnership	84.069A	-	<u>12,380</u>
Total Department of Education			<u>597,450</u>
<u>U.S. Department of Human Services</u>			
<i>Passed Through Texas Migrant Authority, Inc.:</i>			
<i>Passed through to University of Texas – Brownsville</i>			
Child Day Care Center	93.667	031-0006	<u>33,595</u>
Total Federal Financial Assistance			<u>\$ 1,005,612</u>

Notes to the Schedule on the following page.

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For The Year Ended August 31, 2004

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Pass-Through Disbursements and Expenditures</u>
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Note 1: Federal Assistance Reconciliation

Federal revenue received by Texas Southmost College			
Federal grants and contracts – per schedule			\$ 1,005,612
Federal revenue received by University of Texas at Brownsville			<u>14,160,636</u>
 Total Federal Revenue			 <u>\$ 15,166,248</u>

Note 2: Significant Accounting Policies used in Preparing the Schedule

The expenditures included in the schedule are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the College and the University of Texas – Brownsville for the purpose 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 College has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 3: Expenditures from Federal Funds Received by UTB

The following federal funds were not subject to a federal single audit of Texas Southmost College:

<u>Program Name</u>			
Federal Pell Gant Program	84.063	-	\$ 13,493,705
SEOG	84.007	-	283,364
Federal Work Study Program	84.033	-	<u>383,567</u>
			 <u>\$ 14,160,636</u>

These funds were not subject to a federal single audit at Texas Southmost College because the University of Texas at Brownsville receives certain federal funds which are disbursed to Texas Southmost College students. These funds are audited as part of UTB's audit and are not included above.

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For The Year Ended August 31, 2004

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Pass-Through Disbursements and Expenditures</u>
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Note 4: Subrecipients

Under a partnership agreement with the University of Texas – Brownsville (UTB), UTB agreed to receive, administer, spend and comply with the grant requirements of all federal grants. All of the expenditures presented in the schedule with the exception of the Public Works and Development Facilities Grant were passed-through to UTB. UTB meets all the characteristics of a subrecipient as outlined in Circular A-133 however; it is not being treated as a subrecipient because the partnership agreement is intended to allow UTB to act for and on behalf of the College.

The College is the primary recipient of an Endowment Challenge Grant from the Department of Education which was passed-through to the Texas Southmost College Foundation, Inc. Under the grant's guidelines the corpus plus 50% of the aggregate earnings are restricted for a 20 year period ending June 2009.

<u>Program Title</u>	<u>CFDA No.</u>	<u>Amount</u>
Title III Endowment College Grant Program	84.031	\$5,150,947

TEXAS SOUTHMOST COLLEGE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For The Year Ended August 31, 2004

<u>Grantor Agency/Program Title</u>	<u>Number</u>	<u>Expenditures</u>
Texas Higher Education Coordinating Board Texas Grant Program		\$ 1,081,890
Texas College Work Study		67,064
Texas B-On Time Program		16,015
PSIG		20,379
Total State Financial Assistance		\$ 1,185,348

Note 1: State Assistance Reconciliation

State revenues per Schedule of Expenditures of State Awards		
State financial assistance		\$ 1,185,348
Lease payments from University of Texas – Brownsville		1,287,997
Total State Revenues per Schedule A		\$ 2,473,345

Note 2: Significant Accounting Policies used in Preparing the Schedule

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

Note 3: Subrecipients

Under a partnership agreement with the University of Texas – Brownsville (UTB), UTB agreed to receive, administer, spend and comply with the grant requirements of all state grants. All of the expenditures presented in the schedule were passed-through to UTB. UTB meets all the characteristics of a subrecipient as outlined in State Single Audit Circular, however; it is not being treated as a subrecipient because the partnership agreement is intended to allow UTB to act for and on behalf of the College.

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL/STATE AWARDS

Year Ended August 31, 2004

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

State Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

Type of auditors' 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? Yes No

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL/STATE AWARDS – CONTINUED
Year Ended August 31, 2004

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS – CONTINUED

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal/State Program or Cluster</u>
11.3000	Federal –
84.048	Public Works and Development Facilities Carl D. Perkins
N/A	State – Texas Grant Program

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

\$ 300,000

Auditee qualified as low-risk auditee?

Yes

No

II. FINANCIAL STATEMENT FINDINGS

A. Reportable Conditions in Internal Control

No matters were reported

B. Compliance Findings

No matters were reported

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL/STATE AWARDS

No matters were reported

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF CORRECTIVE ACTION FOR AUDIT FINDING AND QUESTIONED COSTS
For The Year Ended August 31, 2004

This schedule is not applicable.

TEXAS SOUTHMOST COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended August 31, 2004

None noted in prior year.

STATISTICAL SUPPLEMENT

TEXAS SOUTHMOST COLLEGE

REVENUE BY SOURCE

FOR THE YEAR ENDED AUGUST 31, 2004

(Excluding Auxiliaries)
(UNAUDITED)

State allocations	\$ 12,016,457	29.7%
Tuition and fees	15,309,239	36.5%
Taxes for current operations	8,466,056	20.2%
Federal and state grants	3,478,957	8.3%
Investment income	401,080	1.0%
Other income	<u>2,264,440</u>	<u>5.3%</u>
Total current funds revenues	\$ <u>41,936,229</u>	<u>100.0%</u>

TEXAS SOUTHMOST COLLEGE

HEADCOUNT ENROLLMENT

LAST 10 FISCAL YEARS

(UNAUDITED)

<u>Fiscal Year</u>	<u>Total</u>
1994-95	17,379
1995-96	17619
1996-97	19,124
1997-98	19,325
1998-99	19,187
1999-00	20,184
2000-01	19,545
2001-02	20,007
2002-03	21,685
2003-04	23,265

TEXAS SOUTHMOST COLLEGE
AD VALOREM TAX RATES ASSESSED *
LAST 10 FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
1994-95	0.061660	0.037320	0.098980
1995-96	0.056530	0.035840	0.092370
1996-97	0.055605	0.034154	0.089759
1997-98	0.055111	0.032878	0.087989
1998-99	0.097740	0.028345	0.126085
1999-00	0.096311	0.025715	0.122026
2000-01	0.105841	0.025559	0.131400
2001-02	0.108835	0.022565	0.131400
2002-03	0.110120	0.021280	0.131400
2003-04	0.112041	0.019359	0.131400

* Per \$100 Valuation

TEXAS SOUTHMOST COLLEGE

AD VALOREM TAX RATES AUTHORIZED *

LAST 10 FISCAL YEARS

(UNAUDITED)

<u>Fiscal Year</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
1994-95	0.500000	0.500000	1.000000
1995-96	0.500000	0.500000	1.000000
1996-97	0.500000	0.500000	1.000000
1997-98	0.500000	0.500000	1.000000
1998-99	0.500000	0.500000	1.000000
1999-00	0.500000	0.500000	1.000000
2000-01	0.500000	0.500000	1.000000
2001-02	0.500000	0.500000	1.000000
2002-03	0.500000	0.500000	1.000000
2003-04	0.350000 (1)	0.500000	0.850000

- Per \$100 Valuation

(1) Section 130.122 of the Texas Education Code, limits a junior College's district tax to \$1.00 per \$100 taxable assessed valuation.

The District is further restricted by local referendum limiting the tax rate for local maintenance to .035000.

TEXAS SOUTHMOST COLLEGE

NET ASSESSED VALUATION

LAST 10 FISCAL YEARS

(UNAUDITED)

<u>Fiscal Year</u>	<u>Assessed Valuation</u>	<u>Less: Exemptions</u>	<u>Net Assessed Valuation</u>
1994-95	\$ 3,218,211,242	\$ -	\$ 3,218,211,242
1995-96	3,333,499,914	-	3,333,499,914
1996-97	3,565,068,615	-	3,565,068,615
1997-98	3,805,347,875	-	3,805,347,875
1998-99	4,581,977,748	478,405,329	4,103,572,419
1999-00	4,944,006,077	489,425,756	4,454,580,321
2000-01	5,302,263,192	510,421,568	4,791,841,624
2001-02	5,842,242,809	540,161,957	5,302,080,852
2002-03	6,370,265,887	560,124,453	5,810,141,434
2003-04	6,816,320,997	597,527,126	6,218,793,871

TEXAS SOUTHMOST COLLEGE

AD VALOREM TAXES COLLECTED

LAST 10 FISCAL YEARS

(UNAUDITED)

<u>Fiscal Year</u>	<u>Current Tax Collections</u>	<u>Delinquent Collections</u>	<u>Total Tax Collections</u>
1994-95	\$ 2,878,581	\$ 171,100	\$ 3,049,681
1995-96	2,883,363	162,381	3,045,744
1996-97	2,988,483	166,340	3,154,823
1997-98	3,197,142	193,039	3,390,181
1998-99	4,813,210	164,595	4,977,805
1999-00	5,093,585	232,749	5,326,334
2000-01	5,897,883	263,647	6,161,530
2001-02	6,504,117	286,330	6,790,447
2002-03	7,087,958	426,366	7,514,324
2003-04	7,991,167	449,712	8,440,879

TEXAS SOUTHMOST COLLEGE

CONTACT HOUR HISTORY

LAST 10 FISCAL YEARS

(UNAUDITED)

Fiscal Year	Contact Hours		Total
	Academic	Voc Tech	
1994-95	\$ 2,114,512	\$ 917,633	\$ 3,032,145
1995-96	2,201,152	737,229	2,938,381
1996-97	2,357,296	768,349	3,125,645
1997-98	2,186,960	982,716	3,169,676
1998-99	2,190,320	870,372	3,060,692
1999-00	2,376,360	665,455	3,041,815
2000-01	2,349,504	574,934	2,924,438
2001-02	2,282,704	660,912	2,943,616
2002-03	2,409,401	943,108	3,352,509
2003-04	2,656,170	870,288	3,526,458