

TEXAS SOUTHMOST COLLEGE

ANNUAL FINANCIAL REPORT

AUGUST 31, 2005

TEXAS SOUTHMOST COLLEGE
ANNUAL FINANCIAL REPORT

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TEXAS SOUTHMOST COLLEGE

ORGANIZATIONAL DATA

FOR THE FISCAL YEAR 2005

Board of Trustees

Officers

Chester Gonzalez	Chairperson
Rosemary Breedlove	Vice-chairperson
Eduardo Campirano	Secretary

Members

		Term Expires <u>August 31</u>
Roman Esparza	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
Melba M. Sanchez, CPA	District Controller

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Texas Southmost College District
Brownsville, Texas

We have audited the accompanying basic financial statements of Texas Southmost College as of and for the years ended August 31, 2005 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Texas Southmost College as of August 31, 2005 and 2004, and the changes in its net assets and its 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 our report dated November 15, 2005 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 audits.

The accompanying management's discussion and analysis on pages 7 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 cursive script, appearing to read "Long Chelton" followed by a flourish.

Brownsville, Texas
November 15, 2005

TEXAS SOUTHMOST COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2005

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, 2005. This discussion and analysis is to be read in conjunction with the College's financial statements which begin on page 22.

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.

As required by GASB No. 34 and No. 35, the current and prior year financials are prepared using the accrual basis of accounting, which is the same method used by most private sector companies, and focus on the financial condition of the College, results of operations and cash flows of the College as a whole. For purposes of discussion and analysis, we have provided a year to year comparative analysis of the financial statements.

The notes to the financial statements starting on page 26 provide narrative explanations and additional data needed for full disclosure in the financial statements.

USING THIS ANNUAL REPORT

(Continued)

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, and 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

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

operating revenues and expenses and non-operating revenues and expenses. The College is primarily dependent upon four sources of revenues: state allocations, 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 College's 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)

	August 31, <u>2005</u>	August 31, <u>2004</u>	<u>Change</u>
Current Assets	\$ 19.8	\$ 18.6	\$ 1.2
Noncurrent Assets			
Cash and Cash Equivalents - Restricted	22.5	1.4	21.1
Capital Assets, Net of Accumulated Depreciation	60.7	59.5	1.2
Other Non-Current Assets	<u>0.8</u>	<u>0.2</u>	<u>0.5</u>
Total Assets	<u>103.8</u>	<u>79.7</u>	<u>24.1</u>
Current Liabilities	14.9	11.2	3.7
Noncurrent Liabilities	<u>33.0</u>	<u>15.4</u>	<u>17.5</u>
Total Liabilities	<u>47.9</u>	<u>26.7</u>	<u>21.3</u>
Net assets:			
Invested in capital assets, net of related debt	25.5	42.6	-17.2
Restricted Expendable	27.8	7.7	20.1
Unrestricted	<u>2.6</u>	<u>2.7</u>	<u>-0.1</u>
Total Net Assets	\$ <u>55.9</u>	\$ <u>53.1</u>	\$ <u>2.8</u>

Total Assets increased by \$24.1 million. The major factor affecting this net increase is the sale and reinvestment of \$19.8 million in general obligation tax bonds for construction and renovation projects on campus beginning in fiscal year 2006.

Statement of Net Assets (continued)

Total liabilities increased by \$21.3 million. Included in this amount are: an increase of \$19.8 million in general obligation tax bonds and an increase in deferred revenues of \$1.8 million which represents tuition and fees for the Fall 2005 semester and is indicative of a growing enrollment.

Net assets (assets less liabilities) increased by 5% in fiscal year 2005, from \$53.1 million at August 31, 2004 to \$55.9 million at August 31, 2005. 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 \$2.6 million of total net assets at August 31, 2005.

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)

	Fiscal Year <u>2005</u>	Fiscal Year <u>2004</u>	<u>Change</u>
Operating Revenues	\$ 23.7	\$ 21.0	\$ 2.7
Operating Expenses	40.6	38.2	2.4
Non-Operating Revenues	20.7	21.5	(0.8)
Non-Operating Expenses	<u>1.0</u>	<u>0.9</u>	<u>0.1</u>
INCREASE IN NET ASSETS	\$ 2.8	\$ 3.4	\$ (0.6)
NET ASSETS - Beginning of Year	\$ <u>53.1</u>	\$ <u>49.1</u>	\$ <u>4.0</u>
Prior Period Adjustments		0.6	(0.6)
NET ASSETS - End of Year	\$ <u>55.9</u>	\$ <u>53.1</u>	\$ <u>2.8</u>

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

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

OPERATING REVENUE					
(in millions)					
	Fiscal Year 2005		Fiscal Year 2004		Increase/ (Decrease)
	<u>Amount</u>	<u>Percentage of Total</u>	<u>Amount</u>	<u>Percentage of Total</u>	
Net Tuition and Fees	19.4	81.8%	15.3	73.2%	4.1
Grants and Contracts	3.9	16.6%	4.9	23.4%	(1.0)
Auxiliary Enterprises	0.3	1.3%	0.6	2.4%	(0.3)
Other Operating Revenues	<u>0.1</u>	<u>0.3%</u>	<u>0.2</u>	<u>1.0%</u>	<u>(0.1)</u>
Total Operating Revenues	\$ <u>23.7</u>	<u>100.0%</u>	\$ <u>21.0</u>	<u>100.0%</u>	\$ <u>2.7</u>

Operating revenues were affected by the following key factors:

- Tuition and fees (net of scholarship discounts) increased as a result of a 4% increase in enrollment. Other factors affecting the tuition and fee increase are a \$1 per semester credit hour increase in resident in-district tuition, a \$2 per semester credit hour increase in resident out-of-district tuition, a \$24 per semester credit hour increase in non-resident tuition, an increase of \$6 in building use fee, a \$5 increase in computer use fee, the assessment of a \$25 advising fee for all students and the implementation of \$2 library fee.
- Grants and Contracts revenues decreased primarily as a result of non-governmental grants and contracts received in fiscal year 2004. 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 beginning in 2002 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 fiscal year 2004.

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

Table 4 details the College's sources of non-operating revenues. The key sources of non-operating revenues are: State Appropriations and Ad Valorem Taxes.

TABLE 4
OPERATING REVENUE
(in millions)

	<u>Fiscal Year</u> 2005		<u>Fiscal Year</u> 2004		<u>Increase/</u> <u>(Decrease)</u>
	<u>Amount</u>	<u>Percentage</u> <u>of Total</u>	<u>Amount</u>	<u>Percentage</u> <u>of Total</u>	
State Appropriations	10.8	52.2%	12.0	55.9%	(1.2)
Ad Valorem Taxes	9.1	44.0%	8.5	39.4%	0.6
Investment Income	0.7	3.4%	0.4	1.9%	0.3
Gain on Disposal of Capital Assets	0.0	0.0%	0.4	2.0%	(0.4)
Other Non-Operating Revenues	<u>0.1</u>	<u>0.4%</u>	<u>0.2</u>	<u>0.8%</u>	<u>(0.1)</u>
Total Non-Operating Revenues	\$ <u>20.7</u>	<u>100.0%</u>	\$ <u>21.5</u>	<u>100.0%</u>	\$ <u>(0.8)</u>

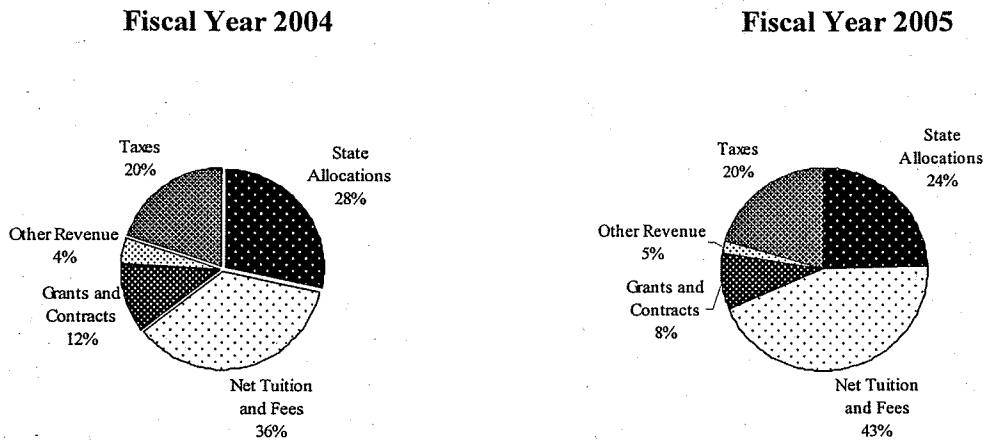
Non-operating revenues were affected by the following key factors:

- State appropriations were awarded for the 2004-2005 biennia and remained flat year over year, however, Table 4 reflects a reduction due to a change in reporting for insurance appropriations. Insurance appropriations are made to TSC under the University of Texas System and beginning with fiscal year 2005 will be reported in the UTB/TSC partnership financial statements.
- Property tax revenue increased by more than \$0.6 million as a result of an 11% increase in assessed property valuations. The tax rate for the Texas Southmost College District was reduced from \$0.1314 per \$100 valuation in fiscal year 2004 to \$0.128782 per \$100 valuation in fiscal year 2005.

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

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 5 shows a comparison of the breakdown of total revenues by source for the College in Fiscal Years 2005 and 2004.

TABLE 5
Total Revenues
(Operating and Non-operating)



In both fiscal year 2004 and 2005, tuition and fees account for the largest source of revenue (36% and 43%, respectively) for the College. State allocations are the next largest revenue source at 28% in fiscal year 2004 and 24% in fiscal year 2005. Property taxes have remained steady at 20% of total revenues.

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

Table 6 displays the breakdown of operating expenses by natural classification for the College.

TABLE 6
Natural Classification
(in millions)

	<u>Fiscal Year</u> <u>2005</u>	<u>Fiscal Year</u> <u>2004</u>	<u>Change</u>
Salaries	\$ 0.3	\$ 0.4	\$ (0.1)
Benefits	0.1	0.1	0.0
Supplies and Services	2.9	3.8	-0.9
Contract Services - UTB	35.8	32.6	3.2
Depreciation	<u>1.5</u>	<u>1.3</u>	<u>0.2</u>
Total Operating Expenses	\$ <u>40.6</u>	\$ <u>38.2</u>	\$ <u>2.4</u>

Table 7 displays the breakdown of the College's expenses by functional classification.

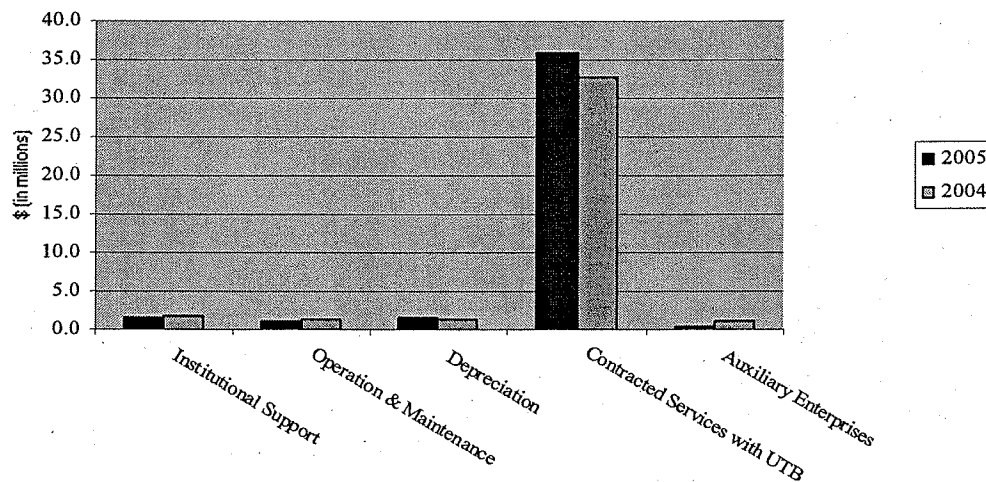
TABLE 7
OPERATING EXPENSES
Functional Classification
(in millions)

	<u>2005</u>	<u>2004</u>	<u>Change</u>
<u>Educational and General</u>			
Institutional Support	\$ 1.7	\$ 1.8	\$ (0.1)
Operation and Maintenance of Plant	1.1	1.3	(0.2)
Contract Services - UTB	35.8	32.6	3.2
Depreciation	<u>1.5</u>	<u>1.3</u>	<u>0.2</u>
Total Educational Activities	40.1	37.0	3.1
Auxiliary Enterprises	<u>0.5</u>	<u>1.2</u>	<u>(0.7)</u>
Total Operating Expenses	\$ <u>40.6</u>	\$ <u>38.2</u>	\$ <u>2.4</u>

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

Table 8 also displays the breakdown of the College's expenses by functional classification.

TABLE 8
OPERATING EXPENSES
Functional Classification
(in millions)



The College operates under a partnership agreement with The University of Texas at Brownsville. Under this agreement, the College contracts with UTB to provide instruction and other related essential services. This contract is the largest expense for the College as is reflected in the Contract Services-UTB category. In fiscal year 2004 and 2005, this amount represented 85% and 88% of total expenses, respectively. The increase of \$3.5 million from fiscal year 2004 to fiscal year 2005 is primarily as a result of increased tuition and fees that are committed to the partnership under the agreement. 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.

Statement of Cash Flows

The Condensed Statement of Cash Flows appears in Table 9. The complete Statement of Cash Flows appears in page 24 and 25 of this report.

TABLE 9
CONDENSED STATEMENT OF CASH FLOWS
(in millions)

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Cash Provided/ Used By:			
Operating Activities	\$ (15.7)	\$ (13.5)	\$ (2.2)
Noncapital Financing Activities	18.6	19.5	(0.9)
Capital and Related Financing Activities	16.4	(7.3)	23.7
Investing Activities	<u>0.7</u>	<u>0.4</u>	<u>0.3</u>
NET INCREASE (DECREASE) IN CASH	\$ 20.0	\$ (0.9)	\$ 20.9
CASH - Beginning of Year	\$ <u>8.7</u>	\$ <u>9.6</u>	<u>(1.0)</u>

Total Cash and Cash Equivalents increased by \$20.0 million during the year. Major factors impacting cash and cash equivalents are described below by source.

Operating Activities: Cash flows from operating resulted in an outflow of \$15.7 million. The major sources of cash receipts was from tuition and fees, net of scholarship allowances and discounts (\$19.4 million). The College's major cash outlay was for contract services with UTB (\$37.5 million).

Non-capital Financing Activities: The College had a positive cash flow of \$18.6 million from the collection of property taxes and receipt of state appropriations. Property taxes were collected at a rate of 95% of the current year's tax levy. (See table 9.1 below for more information on property taxes.)

Capital and Related Financing Activities: Capital and related financing activities resulted in a cash inflow of \$16.4 million. Cash outlays of approximately \$13 million were made for continued renovations of ITECC, purchases of land and property, the refunding of debt for the Student Union revenue bonds (\$7.1 million) and principal and interest payments for all outstanding bonds. Cash inflows of \$29.4 million resulted from the collection of property taxes for the funding of the College's 1987/88 debt service obligation, issuance of tax bonds (\$19.8 million) and for the reissuance of bonds for the Student Union (\$7.9 million).

Statement of Cash Flows (continued)

Investing Activities: Cash flows from investing activities represent investment earnings generated from the College's various checking and savings 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 Texas Southmost College District.

Table 9.1
Property Tax Information

	<u>Fiscal Year</u> <u>2005</u>	<u>Fiscal Year</u> <u>2004</u>	<u>Percent</u> <u>Change</u>
Total Tax Rate per \$100	\$ 0.128782	\$ 0.131400	-1.9%
Total Tax Collections	\$ 9,085,985	\$ 8,466,056	7.3%
Tax Collection Rate	94.9%	97.8%	-
Assessed Valuation	\$7,037,106,494	\$6,218,793,871	13.1%

The District's total tax rate decreased slightly by 1.9% from the previous year; however, total tax assessments increased by about 13.1% due to increased valuation. The District's tax collection rate has remained strong over the past two years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of Fiscal Year 2005 the College had approximately \$60.7 million (net of accumulated depreciation) invested in a broad range of capital assets, including instructional and athletic facilities, maintenance of buildings and equipment. Additions to capital assets totaled \$2.5 million and approximately \$2.0 million of the additions were for renovation of the International Technology Education and Commerce Campus (ITECC).

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 continues the process of renovating this facility called the ITECC which houses the College's workforce training and continuing education programs, technical training programs and other academic programs and provides space for a variety of community projects.

Debt (continued)

In February 2005, the College made the first bond issuance out of the total \$68 million in bonds that were approved by the voters in September of 2004. The issuance was for \$19.8 million and will be used for the construction of seven major capital projects on campus.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board of Trustees considered many factors when establishing the fiscal year 2006 budget and tax rates. The College expects tax revenue to increase modestly during fiscal year 2006. Continued growth in the tax base, due to population growth and increased valuation, are expected to be driving forces in increased collections. State allocations for the College are projected to increase by \$2.3 million in the coming year; however expenditures are expected to increase by more than this amount as the institution strives to meet the needs of an expanding enrollment.

In November 2004, the voters approved a \$68 million bond election. As a result, seven major capital projects are in the planning and design phases. These projects include: Music Education Complex, Renovations at ITECC, Early Childhood Development Center, Biomedical Research Facility, Campus Parking, Library, Library Improvements and Classroom Buildings. In addition, plans are also underway for a Wellness, Recreation and Kinesiology Complex, which is being funded through a combination of bond proceeds and student fees.

Enrollment growth at the College continues to increase at an average rate of approximately 6%. 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 the state allocation remain at least equal to that of the previous year. Any cuts will further affect direct services to students and seriously effect 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 at (956) 882-6567.

TEXAS SOUTHMOST COLLEGE

STATEMENTS OF NET ASSETS

August 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 4)	\$ 6,116,884	\$ 7,191,013
Accounts receivable – net (Note 14)	13,169,042	10,943,230
Prepaid expenses	504,540	450,784
Total Current Assets	<u>19,790,466</u>	<u>18,585,027</u>
Noncurrent Assets:		
Restricted – cash and cash equivalents (Note 4)	22,538,651	1,396,831
Endowment Investments (Note 4)	56,113	50,935
Unamortized bond issuance cost	716,217	179,339
Capital assets net (Note 5)	<u>60,683,786</u>	<u>59,507,652</u>
Total Noncurrent Assets	<u>83,994,767</u>	<u>61,134,757</u>
Total Assets	<u>103,785,233</u>	<u>79,719,784</u>
LIABILITIES		
Current Liabilities:		
Accounts payable (Note 14)	1,102,663	1,088,076
Accrued liabilities	386,186	5,493
Funds held for others	8,303	8,303
Deferred revenues	10,484,791	8,664,222
Bonds payable – current portion (Note 6)	<u>2,965,000</u>	<u>1,440,000</u>
Total Current Liabilities	<u>14,946,943</u>	<u>11,206,094</u>
Noncurrent Liabilities:		
Accrued compensable absences	32,421	23,882
Bonds payable (Note 6)	<u>32,961,043</u>	<u>15,420,910</u>
Total Noncurrent Liabilities	<u>32,993,464</u>	<u>15,444,792</u>
Total Liabilities	<u>47,940,407</u>	<u>26,650,886</u>
NET ASSETS		
Invested in capital assets, net of related debt	25,473,960	42,646,742
Restricted for:		
Expendable		
Endowment	61,007	55,522
Capital Projects	23,834,686	4,950,474
Debt Service	3,728,115	2,605,510
Other	101,486	90,480
Unrestricted	<u>2,645,572</u>	<u>2,720,170</u>
Total Net Assets (Schedule D)	<u>\$ 55,844,826</u>	<u>\$ 53,068,898</u>

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

TEXAS SOUTHMOST COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended August 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Tuition and Fees (net of discounts of \$1,272,943 and \$2,942,520, respectively)	\$ 19,399,841	\$ 15,309,239
Federal Grants and Contracts	869,082	1,005,612
State Grants and Contracts	2,571,007	2,473,345
Local Grants and Contracts	433,976	59,098
Non-Governmental Grants and Contracts	-	1,393,286
Auxiliary Enterprises (net of discounts)	336,811	547,432
General Operating Revenues	<u>57,235</u>	<u>201,051</u>
Total Operating Revenues (Schedule A)	23,667,952	20,989,063
Operating Expenses		
Institutional Support	1,675,074	1,763,905
Operation and Maintenance of Plant	1,110,738	1,280,925
Auxiliary Enterprises	526,633	1,183,702
Depreciation	1,478,895	1,327,481
Contracted services with UTB	<u>35,814,126</u>	<u>32,626,780</u>
Total Operating Expenses (Schedule B)	40,605,466	38,182,793
Operating Loss	(16,937,514)	(17,193,730)
Non-Operating Revenues (Expenses)		
State Appropriations	10,843,232	12,016,457
Maintenance Ad Valorem Taxes	7,878,273	7,172,781
Debt Service Ad Valorem Taxes	1,207,712	1,293,275
Investment income	689,732	401,080
Interest on Capital Related Debt	(961,286)	(912,383)
Gain on Disposal of Capital Assets	-	432,392
Other Non-Operating Revenues	84,552	178,613
Other Non-Operating Expenses	<u>(28,773)</u>	<u>(23,322)</u>
Net Non-Operating Revenues (Schedule C)	19,713,442	20,558,893
Increase in Net Assets	2,775,928	3,365,163
Net Assets		
Net Assets – Beginning of Year	53,068,898	49,137,564
Prior Period Adjustments	-	566,171
Net Assets – End of Year	<u>\$ 55,844,826</u>	<u>\$ 53,068,898</u>

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

TEXAS SOUTHMOST COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended August 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 21,154,130	\$ 16,081,205
Receipts from grants and contracts	3,623,356	4,218,704
Payments to suppliers for goods and services	(2,976,283)	(4,243,389)
Transfers to UTB	(37,474,485)	(29,614,736)
Payments to or on behalf of employees	(333,171)	(338,584)
Loans issued to students	-	(429,021)
Other receipts	315,116	748,483
Net cash used by operating activities	<u>(15,691,337)</u>	<u>(13,577,338)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from state appropriations	10,843,232	12,016,457
Receipts from ad valorem taxes	7,734,773	7,384,070
Other receipts	56,176	136,051
Other payments	(2,085)	-
Net cash provided by non-capital financing activities	<u>18,632,096</u>	<u>19,536,578</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds on issuance of capital debt	28,240,030	3,640,910
Proceeds from ad valorem taxes	1,204,246	1,353,690
Proceeds from the sale of capital assets	-	1,623,175
Purchases of capital assets	(2,655,029)	(8,265,414)
Payments on capital debt – principal	(9,711,774)	(4,799,744)
Payments on capital debt – interest	(635,095)	(912,383)
Net cash provided (used) by capital and related financing activities	<u>16,442,378</u>	<u>(7,359,766)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	684,554	406,717
Net cash provided by investing activities	<u>684,554</u>	<u>406,717</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,067,691	(993,809)
CASH AND CASH EQUIVALENTS – September 1	<u>8,587,844</u>	<u>9,581,653</u>
CASH AND CASH EQUIVALENTS – August 31	<u>\$ 28,655,535</u>	<u>\$ 8,587,844</u>

(Continued)

TEXAS SOUTHMOST COLLEGE

STATEMENT OF CASH FLOWS – CONTINUED

Years Ended August 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (16,937,514)	\$ (17,193,730)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	1,478,895	1,327,481
Changes in assets and liabilities:		
Receivables (net)	(2,078,847)	539,191
Notes receivable	-	(429,021)
Prepaid expenses	(53,756)	12,038
Accounts payable	70,777	61,027
Compensated absences	8,539	(2,402)
Deferred revenue	<u>1,820,569</u>	<u>2,108,078</u>
Net cash used by operating activities	<u>\$ (15,691,337)</u>	<u>\$ (13,577,338)</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:		
Interest	961,286	912,383
Income taxes	-	-

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

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2005

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 in 2005 officially changed its name to Texas Southmost College District. Texas Southmost College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

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

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2005

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

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.

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 of \$100,000 to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The 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, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

Deferred Revenues

Tuition and fees of \$10,483,723 and \$8,611,697 have been reported as deferred revenues at August 31, 2005 and 2004, respectively.

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 major non-operating revenue are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The operation of the Bookstore is not performed by the College.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

2. Summary of Significant Accounting Policies – Continued

Comparative Data/Reclassification

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of the changes in the system's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

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

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

Cash and Deposits

	<u>2005</u>	<u>2004</u>
Bank Deposits		
Demand Deposits – Unrestricted	\$ 6,114,274	\$ 7,188,403
Demand Deposits – Restricted	22,538,651	1,396,831
Cash and Cash Equivalents		
Petty Cash on Hand	2,610	2,610
Total Cash and Deposits	<u>\$ 28,655,535</u>	<u>\$ 8,587,844</u>

Reconciliation of Deposits and Investments to Exhibit 1

<u>Type of Security</u>	Market Value August 31, <u>2005</u>	Market Value August 31, <u>2004</u>
Total Cash and Deposits	\$ 28,655,535	\$ 8,587,844
Total Investments	<u>56,113</u>	<u>50,935</u>
Total Deposits and Investments	<u>\$ 28,711,648</u>	<u>\$ 8,638,779</u>
Cash and Temporary Investments (Exhibit 1)	\$ 6,116,884	\$ 7,191,013
Cash and Temporary Investments – Restricted (Exhibit 1)	22,538,651	1,396,831
Investments (Exhibit 1)	<u>56,113</u>	<u>50,935</u>
Total Deposits and Investments	<u>\$ 28,711,648</u>	<u>\$ 8,638,779</u>

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

4. Deposits and Investments – Continued

As of August 31, 2005 the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years) 8 -10</u>
U.S. Government Securities	\$ -	\$ -
U.S. Treasuries	-	-
Commercial Paper	-	-
Investment Pool	-	-
Certificate of Deposit	-	-
Common Stock	56,113	56,113
Municipal Bonds	-	-
Total Fair Value	<u>\$ 56,113</u>	<u>\$ 56,113</u>

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

At August 31, 2005 the College’s investments consisted of savings accounts which are reported as cash and cash equivalents on the Statement of Net Assets and common stocks that were donated to the College. The stocks are been held in an endowment fund and have donor restrictions.

5. Capital Assets (With Estimate of Library Book Depreciation)

Capital assets activity for the year ended August 31, 2005 was as follows:

	<u>Balance September 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclassification</u>	<u>Balance August 31, 2005</u>
<u>Not Depreciated:</u>					
Land	\$ 3,649,560	\$ 159,823	\$ -	\$ -	\$ 3,809,383
Library Books	8,422,239	-	-	-	8,422,239
Construction in Process	13,081,067	-	-	(13,037,606)	43,461
Subtotal	<u>25,152,866</u>	<u>159,823</u>	<u>-</u>	<u>(13,037,606)</u>	<u>12,275,083</u>
<u>Buildings and Other Capital Assets:</u>					
Buildings and Building Improvements	46,246,567	2,495,206	-	13,037,606	61,779,379
Other Real Estate Improvements	7,257,233	-	-	-	7,257,233
Total Buildings and Other Real Estate Improvements	53,503,800	2,495,206	-	13,037,606	69,036,612
Furniture, Machinery, and Equipment	8,671,001	-	-	-	8,671,001
Total Buildings and Other Capital Assets	<u>62,174,801</u>	<u>2,495,206</u>	<u>-</u>	<u>13,037,606</u>	<u>77,707,613</u>

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

5. Capital Assets (With Estimate of Library Book Depreciation) – Continued

	Balance September 1, 2004	Increases	Decreases	Reclassification	Balance August 31, 2005
<u>Accumulated Depreciation:</u>					
Buildings and Building Improvements	(16,313,446)	(918,906)	-	-	(17,232,352)
Other Real Estate Improvements	(3,991,667)	(308,187)	-	-	(4,299,854)
Total Buildings and Other Real Estate Improvements	(20,305,113)	(1,227,093)	-	-	(21,532,006)
Furniture, Machinery, and Equipment	(7,514,902)	(251,802)	-	-	(7,766,704)
Total Accumulated Depreciation	(27,820,015)	(1,478,895)	-	-	(29,298,910)
Total Buildings and Other Capital Assets	34,354,786	1,016,311	-	13,3037,606	48,408,703
Net Capital Assets	\$ 59,507,652	\$ 1,176,134	\$ -	\$ -	\$ 60,683,786

Please note that the college will begin to depreciate library books in the next fiscal year. To facilitate the transition, the College has estimated its collection of library books to be valued at \$8,422,239. Based on a fifteen year useful life, that amount would indicate \$6,316,679 of accumulated depreciation and \$561,483 of depreciation expense for the fiscal year 2005.

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	19,782,167	6,898,548	354,890	(1,172,959)	25,152,866
<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	61,799,944	460,178	1,258,280	1,172,959	62,174,801

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

5. Capital Assets (With Estimate of Library Book Depreciation) – Continued

	Balance September 1, 2003	Increases	Decreases	Reclassification	Balance August 31, 2004
<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)	(301,439)	-	-	(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	(26,560,481)	(1,327,481)	67,947	-	(27,820,015)
Total Buildings and Other Capital Assets	35,239,463	(867,303)	1,190,333	1,172,959	34,354,786
Net Capital Assets	\$ 55,021,630	\$ 6,031,245	\$ 1,545,223	\$ -	\$ 59,507,652

6. Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2005 was as follows:

	Balance September 1, 2004	Additions	Reductions	Balance August 31, 2005	Current Portion
<u>Bonds</u>					
General obligation bonds	\$ 3,600,000	\$ 19,805,000	\$ 1,125,000	\$22,280,000	\$ 2,570,000
Revenue bonds	13,220,000	7,985,000	7,490,000	13,715,000	395,000
Plus premium on bonds	40,910	473,831	(23,802)	490,939	-
Less deferred amounts on Refunding	-	(571,561)	11,665	(559,896)	-
Subtotal	16,860,910	27,692,270	8,602,863	35,926,043	2,965,000
Accrued compensable absences	23,882	8,539	-	32,421	-
Total long-term liabilities	\$ 16,884,792	\$ 27,700,809	\$ 8,602,863	\$ 35,958,464	\$ 2,965,000

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

6. Long-Term Liabilities – Continued

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

	Balance September 1, 2003	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
Plus premium on capital appreciation bonds	-	47,894	6,984	40,910	-
Less deferred amounts on Refunding	-	-	-	-	-
Subtotal	<u>18,095,000</u>	<u>3,647,894</u>	<u>4,881,984</u>	<u>16,860,910</u>	<u>1,440,000</u>
<u>Accrued compensable absences</u>	<u>8,646</u>	<u>15,236</u>	<u>-</u>	<u>23,882</u>	<u>-</u>
Total long-term liabilities	<u>\$ 18,103,646</u>	<u>\$ 3,663,130</u>	<u>\$ 4,881,984</u>	<u>\$ 16,884,792</u>	<u>\$ 1,440,000</u>

7. Debt Obligations

Debt service requirements at August 31, 2005 were as follows (amounts in 000's):

For the Year Ended	General Obligation Bonds			Revenue Bonds			Total Bonds	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest
August 31,								
2006	\$ 2,570	\$ 1,235	\$ 3,805	\$ 395	\$ 634	\$ 1,029	\$ 2,965	\$ 1,869
2007	1,165	783	1,948	435	616	1,051	1,600	1,399
2008	180	768	948	525	595	1,120	705	1,363
2009	-	766	766	550	568	1,118	550	1,334
2010	855	753	1,608	585	540	1,125	1,440	1,293
2011-2015	4,705	3,329	8,034	3,295	2,305	5,600	8,000	5,634
2016-2020	5,685	2,350	8,035	4,990	1,221	6,211	10,675	3,571
2021-2025	7,120	919	8,039	2,940	404	3,344	10,060	1,323
	<u>\$ 22,280</u>	<u>\$ 10,903</u>	<u>\$ 33,183</u>	<u>\$ 13,715</u>	<u>\$ 6,883</u>	<u>\$ 20,598</u>	<u>\$ 35,995</u>	<u>\$ 17,786</u>

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

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 and investment income.

Bonds payable are due in annual installments varying from \$235,000 to \$275,000 with interest rates ranging from 5.0% to 6.0% with the final installment due in 2009. Future principal and interest expense requirements are summarized below.

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 235,000	\$ 52,457	\$ 287,457
2007	250,000	40,707	290,707
2008	260,000	27,957	287,957
2009	<u>275,000</u>	<u>14,437</u>	<u>289,437</u>
Total	<u>\$ 1,020,000</u>	<u>\$ 135,558</u>	<u>\$ 1,155,558</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.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

8. Bonds Payable – Continued

Year Ending August 31,	Principal	Interest	Total
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
2010	225,000	227,975	452,975
Beyond 5 years	<u>3,920,000</u>	<u>1,210,825</u>	<u>5,130,825</u>
Total	<u>\$ 4,775,000</u>	<u>\$ 2,448,600</u>	<u>\$ 7,223,600</u>

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 \$1,130,000 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 years totaled \$24,369 and \$11,974, respectively.

Year Ending August 31,	Principal	Interest	Total
2006	\$ 1,130,000	\$ 42,975	\$ 1,172,975
2007	1,165,000	17,156	1,182,156
2008	<u>180,000</u>	<u>2,025</u>	<u>182,025</u>
Total	<u>\$ 2,475,000</u>	<u>\$ 62,156</u>	<u>\$ 2,537,156</u>

Student Union Building Fees Revenue Refunding Bonds, Series 2005

- To advance refund a portion of the District's outstanding debt, to wit \$7,110,000.
- Issued refunding bonds on February 17, 2005.
- \$7,985,000, all authorized bonds have been issued.
- Source of revenue for debt service – Student Union Building Fees charged to UTB/TSC students and interest earning on the College's funds.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

8. Bonds Payable – Continued

Bonds payable are due in annual installments varying from \$60,000 to \$640,000 with interest at 3% to 5% and the final installment due August 2025.

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 60,000	\$ 319,353	\$ 379,353
2007	65,000	317,553	382,553
2008	65,000	315,603	380,603
2009	65,000	313,653	378,653
2010	360,000	311,540	671,540
Beyond 5 years	<u>7,305,000</u>	<u>2,718,943</u>	<u>10,023,943</u>
Total	<u>\$ 7,920,000</u>	<u>\$ 4,296,645</u>	<u>\$ 12,216,645</u>

Limited Tax Bonds, Series 2005

- To be used for the construction and equipment of school buildings and purchase of necessary sites.
- Issued tax bonds on February 15, 2005.
- Source of revenue for debt service – ad valorem tax levy.

Bonds payable are due in annual installments varying from \$1,440,000 to \$1,570,000 with interest at 3% to 5% and the final installment due August 2025.

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,440,000	\$ 1,191,863	\$ 2,631,863
2007	-	765,775	765,775
2008	-	765,775	765,775
2009	-	765,775	765,775
2010	855,000	752,950	1,607,950
Beyond 5 years	<u>17,510,000</u>	<u>6,599,052</u>	<u>24,109,052</u>
Total	<u>\$ 19,805,000</u>	<u>\$ 10,841,190</u>	<u>\$ 30,646,190</u>

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2005

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.

Refunded \$7,110,000 of Student Union Fees Revenue Bonds, Series 2000

- Issued refunding bonds on March 4, 2005.
- \$7,985,000, all authorized bonds have been issued.
- Revenue Bonds – Student Union Fees Revenue Refunding Bonds, Series 2005.
- Average interest rate of bonds refunded – 5.50%.
- Net proceeds from Refunding Series -- \$7,711,906; after payment of \$232,753 in underwriting fees, insurance, and other issue costs.
- The 2000 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.
- Economic Gain -- \$318,984 difference between the net present value of the old and new debt service payments.
- Accounting Gain -- \$542,750 accounting gain was resulted from the advanced

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.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2005

10. Employees' Retirement Plan – Continued

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 \$18,072 and \$17,815 for the fiscal years ended August 31, 2005 and 2004, respectively. 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 \$286,349 and \$296,912 for fiscal years 2005 and 2004, respectively. The total payroll of employees covered by the Teacher Retirement System was \$229,162 and \$228,232 for fiscal years 2005 and 2004, respectively, and the total payroll of employees covered by the Optional Retirement System was \$72,043 and \$68,680 for fiscal years 2005 and 2004, respectively.

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 \$32,421 for 2005 and 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.

13. Pending Lawsuits and Claims

On August 31, 2005, there were no lawsuits or claims involving Texas Southmost College.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

14. Disaggregation of Receivables and Payables Balances

Receivables

Receivables at August 31, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Taxes Receivable	\$ 1,696,685	\$ 1,541,984
Federal Receivable	228,544	130,429
Accounts Receivable	72,416	12,134
Accrued interest receivables	231,523	-
Other Receivable – Due from UTB	<u>11,024,708</u>	<u>9,344,782</u>
Subtotal	<u>13,253,876</u>	<u>11,029,329</u>
Allowance for Doubtful Accounts	<u>84,834</u>	<u>86,099</u>
TOTAL RECEIVABLES	<u>\$ 13,169,042</u>	<u>\$ 10,943,230</u>

Payables

Payables at August 31, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Vendors Payable	\$ 61,390	\$ 73,820
Salaries and Benefits Payable	7,882	3,434
Other Payable – Due to UTB	<u>1,033,391</u>	<u>1,010,822</u>
Subtotal	<u>1,102,663</u>	<u>1,088,076</u>
Allowance for Doubtful Accounts	<u>-</u>	<u>-</u>
TOTAL PAYABLES	<u>\$ 1,102,663</u>	<u>\$ 1,088,076</u>

15. 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 2005 and 2004 for which monies have not been received nor funds expended.

16. Self-Insured Plans

The College has various self-insured arrangements for coverage in the areas of employee health insurance, worker's compensation, unemployment compensation, and medical liability. Employee health and medical liability plans are funded. Worker's compensation and unemployment compensation plans are on a pay-as-you-go basis, in which no assets are set aside.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

17. **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. At August 31, 2005 the College did not have any retired employees participating in post-retirements health care and life insurance benefits.

18. **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>2005</u>	<u>2004</u>
Assessed Valuation of the College:	\$7,737,975,139	\$6,816,320,997
Less: Exemptions	700,868,645	597,527,126
Less: Abatements	-	-
Net Assessed Valuation of the College	<u>\$7,037,106,494</u>	<u>\$6,218,793,871</u>

	<u>2005</u>			<u>2004</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized Tax Rate per \$100 valuation	\$.350000	\$.500000	\$.850000	\$.350000	\$.500000	\$.850000
Assessed Tax Rate per \$100 valuation	\$ 0.111825	\$ 0.016957	\$.128782	\$.112041	\$.019359	\$.131400

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.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

18. Ad Valorem Tax – Continued

Taxes levied for the years ended August 31, 2005 and 2004 amounted to \$9,062,544 and \$8,171,495, respectively including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

	2005			2004		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes Collected	\$ 7,498,528	\$ 1,120,231	\$ 8,618,759	\$ 6,811,826	\$ 1,179,341	\$ 7,991,167
Delinquent Taxes Collected	\$ 357,126	\$ 72,360	\$ 429,486	\$ 349,046	\$ 100,666	\$ 449,712
Penalties and Interest Collected	\$ 245,108	\$ 49,195	\$ 294,303	\$ 214,275	\$ 48,508	\$ 262,783
Less: Discounts and Commissions	\$ (222,489)	\$ (34,074)	\$ (256,563)	\$ (202,366)	\$ (35,240)	\$ (237,606)
Total Collections	<u>\$ 7,878,273</u>	<u>\$ 1,207,712</u>	<u>\$ 9,085,985</u>	<u>\$ 7,172,781</u>	<u>\$ 1,293,275</u>	<u>\$ 8,466,056</u>

Tax collections for the years ended August 31, 2005 and 2004 were 94.98 percent and 97.79 percent, respectively 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.

19. 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 years ended August 31, 2005 and 2004.

20. 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.

TEXAS SOUTHMOST COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
Year Ended August 31, 2005

21. Construction Commitments

At August 31, 2005 and 2004, Texas Southmost College had the following construction commitments:

<u>Project</u>	<u>2005 Remaining Balance</u>	<u>2004 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	-	446,639
University Boulevard Parking Lot	1,179,396	-
GYM Repairs	65,974	-
ITECC: Campus Cooling Tower	<u>395,000</u>	<u>-</u>
 Total	 <u>\$ 1,640,355</u>	 <u>\$ 13,081,065</u>

22. Grants and Contract Contingencies

The College 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.

23. 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 \$230,028 and \$183,384 to UTB during the years ended August 31, 2005 and 2004. The College furnished certain services, such as office space, utilities and some staff assistance, at no cost to the Foundation.



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

Board of Trustees
Texas Southmost College District
Brownsville, Texas

We have audited the financial statements of Texas Southmost College as of and for the years ended August 31, 2005 and 2004, and have issued our report thereon dated November 15, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 an opinion 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.

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*.

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.

A handwritten signature in cursive script that reads "Long Chilton" followed by a flourish.

Brownsville, Texas
November 15, 2005

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF OPERATING REVENUES

Year Ended August 31, 2005 (With Memorandum Totals for the Year Ended August 31, 2004)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2005 Total</u>	<u>2004 Total</u>
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 4,323,570	\$ -	\$ 4,323,570	\$ -	\$ 4,323,570	\$ 4,003,132
Out-of-district resident tuition	1,004,320	-	1,004,320	-	1,004,320	1,015,743
Non-resident tuition	1,148,992	-	1,148,992	-	1,148,992	1,726,087
TPEG – credit (set aside) *	325,111	-	325,111	-	325,111	305,144
State-funded continuing education						
TPEG – non-credit (set aside)*	-	-	-	-	-	-
Non-state funded educational programs	-	-	-	-	-	-
Total Tuition	<u>6,801,993</u>	<u>-</u>	<u>6,801,993</u>	<u>-</u>	<u>6,801,993</u>	<u>7,050,106</u>
Fees:						
Distance learning fee	-	-	-	-	-	-
Installment plan fees	-	-	-	-	-	-
Non-instructional contract training fees	10,811,865	1,301,559	12,113,424	1,757,367	13,870,791	11,201,383
Prior year tuition and fees	-	-	-	-	-	-
Total Fees	<u>10,811,865</u>	<u>1,301,559</u>	<u>12,113,424</u>	<u>1,757,367</u>	<u>13,870,791</u>	<u>11,201,383</u>
Scholarship Allowances and Discounts:						
Remissions and exemptions – state	-	-	-	-	-	-
Remissions and exemptions – local	(887,517)	-	(887,517)	-	(887,517)	(1,449,953)
Reduced tuition paid	(62,700)	-	(62,700)	-	(62,700)	(69,500)
Title IV federal grant	-	-	-	-	-	-
Other federal grants	-	-	-	-	-	-
TPEG awards	(322,726)	-	(322,726)	-	(322,726)	(302,212)
Other state grants	-	-	-	-	-	(1,120,585)
Rising Star program	-	-	-	-	-	-
Other local grants	-	-	-	-	-	-
Total Scholarship Allowances	<u>(1,272,943)</u>	<u>-</u>	<u>(1,272,943)</u>	<u>-</u>	<u>(1,272,943)</u>	<u>(2,942,250)</u>
Total net tuition and fees	<u>16,340,915</u>	<u>1,301,559</u>	<u>17,642,474</u>	<u>1,757,367</u>	<u>19,399,841</u>	<u>15,309,239</u>
Additional Operating Revenues:						
Federal grants and contracts	-	869,082	869,082	-	869,082	1,005,612
State grants and contracts	-	2,571,007	2,571,007	-	2,571,007	2,473,345
Local grants and contracts	-	433,976	433,976	-	433,976	59,098
Non-governmental grants and contracts	-	-	-	-	-	1,393,286
Sales and services of educational activities	-	-	-	-	-	-
General operating revenues	57,235	-	57,235	-	57,235	201,051
Total additional operating revenues	<u>57,235</u>	<u>3,874,065</u>	<u>3,931,300</u>	<u>-</u>	<u>3,931,300</u>	<u>5,132,392</u>
Auxiliary Enterprises:						
Bookstore	-	-	-	-	-	-
Less Discounts	-	-	-	-	-	-
Food Service	-	-	-	-	-	-
Center for Educational Telecommunications	-	-	-	-	-	-
Business Incubation Center	-	-	-	-	-	-
Universities Center	-	-	-	-	-	-
Student Programs	-	-	-	336,811	336,811	547,432
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>336,811</u>	<u>336,811</u>	<u>547,432</u>
Total Operating Revenues	<u>\$ 16,398,150</u>	<u>\$ 5,175,624</u>	<u>\$ 21,573,774</u>	<u>\$ 2,094,178</u>	<u>\$ 23,667,952</u>	<u>\$ 20,989,063</u>
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.033, \$325,111 and \$302,212 for years August 31, 2005 and 2004, respectively, of tuition was set aside for Texas Public Education grants (TPEG).

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF OPERATING EXPENSES BY OBJECT

Year Ended August 31, 2005 (With Memorandum Totals for the Year Ended August 31, 2004)

	Operating Expenses					2005 Total	2004 Total
	Salaries and Wages	Benefits		Other Expenses			
		State	Local				
Unrestricted – Educational Activities							
Instruction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Service	-	-	-	-	-	-	-
Academic Support	-	-	-	-	-	-	-
Student Services	-	-	-	-	-	-	-
Institutional Support	284,333	-	32,877	1,357,864	1,675,074	1,763,905	
Operation and Maintenance of Plant	-	-	-	1,110,738	1,110,738	1,280,925	
Scholarships and Fellowships	-	-	-	-	-	-	-
Contract Services – UTB	-	-	-	<u>35,814,126</u>	<u>35,814,126</u>	<u>32,626,780</u>	
Total Unrestricted Educational Activities	<u>284,333</u>	-	<u>32,877</u>	<u>38,282,728</u>	<u>38,599,938</u>	<u>35,671,610</u>	
Restricted – Educational Activities							
Instruction	-	-	-	-	-	-	-
Public Service	-	-	-	-	-	-	-
Academic Support	-	-	-	-	-	-	-
Student Services	-	-	-	-	-	-	-
Institutional Support	-	-	-	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-	-	-	-
Scholarships and Fellowships	-	-	-	-	-	-	-
Total Restricted Educational Activities	-	-	-	-	-	-	-
Total Educational Activities	284,333	-	32,877	38,282,728	38,599,938	35,671,610	
Auxiliary Enterprises	54,063	-	6,004	466,566	526,633	1,183,702	
Depreciation Expense – Buildings and other real estate improvements	-	-	-	1,227,093	1,227,093	1,079,260	
Depreciation Expense – Equipment and furniture	-	-	-	<u>251,802</u>	<u>251,802</u>	<u>248,221</u>	
Total Operating Expenses	<u>\$ 338,396</u>	<u>\$ -</u>	<u>\$ 38,881</u>	<u>\$ 40,228,190</u>	<u>\$ 40,605,466</u>	<u>\$ 38,182,793</u>	
					(Exhibit 2)	(Exhibit 2)	

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES

Year Ended August 31, 2005 (With Memorandum Totals for the Year Ended August 31, 2004)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2005 Total</u>	<u>2004 Total</u>
NON-OPERATING REVENUES:					
State Appropriations:					
Education and general state support	\$ 10,842,363	\$ -	\$ -	\$ 10,842,363	\$ 10,842,542
State group insurance	-	-	-	-	1,173,915
State retirement matching	-	-	-	-	-
Remedial education	-	-	-	-	-
Nursing growth	869	-	-	869	-
Total State Appropriations	<u>10,843,232</u>	<u>-</u>	<u>-</u>	<u>10,843,232</u>	<u>12,016,457</u>
Maintenance ad valorem taxes	7,878,273	-	-	7,878,273	7,172,781
Debt service ad valorem taxes	-	1,207,712	-	1,207,712	1,293,275
Gifts	-	-	-	-	-
Investment income	-	689,732	-	689,732	401,080
Gain on sale of investment	-	-	-	-	-
Contributions in aid of construction	-	-	-	-	-
Gain on disposal of capital assets	-	-	-	-	432,842
Other non-operating revenue	84,552	-	-	84,552	178,163
Total non-operating revenues	19,264,266	1,207,712	-	20,703,501	21,494,598
NON-OPERATING EXPENSES:					
Interest on capital related debt	-	961,286	-	961,286	912,383
Loss on disposal of capital assets	-	-	-	-	-
Other non-operating expense	28,773	-	-	28,773	23,322
Total non-operating expenses	<u>990,059</u>	<u>-</u>	<u>-</u>	<u>990,059</u>	<u>935,705</u>
Net non-operating revenues	<u>\$ 18,274,207</u>	<u>\$ 1,207,712</u>	<u>\$ -</u>	<u>\$ 19,713,442</u>	<u>\$ 20,558,893</u>

(Exhibit 2) (Exhibit 2)

Available for Current Operations

<u>Yes</u>	<u>No</u>
\$ 2,639,916	\$ -
-	-
101,484	-
-	-
-	5,656
-	-
61,007	-
-	-
-	-
-	-
22,563,580	-
1,271,106	-
-	3,728,115
<u>25,473,960</u>	<u>-</u>
\$ 52,111,053	\$ 3,733,771
<u>50,407,866</u>	<u>2,661,032</u>
<u>\$ 1,703,187</u>	<u>\$ 1,072,739</u>

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended August 31, 2005

<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>22,491</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>40,841</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>760,100</u>
Leveraging Educational Assistance Partnership	84.069A	-	<u>10,611</u>
Total Department of Education			<u>770,711</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>35,039</u>
Total Federal Awards Expended			\$ <u>869,082</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, 2005

<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			\$ 869,082
Federal revenue received by University of Texas at Brownsville			<u>15,176,346</u>
Total Federal Revenue			<u>\$ 16,045,428</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	-	\$ 14,552,020
SEOG	84.007	-	238,229
Federal Work Study Program	84.033	-	<u>386,097</u>
			<u>\$ 15,176,346</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, 2005

<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	\$5,617,041

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For The Year Ended August 31, 2005

<u>Grantor Agency/Program Title</u>	<u>Number</u>	<u>Expenditures</u>
Texas Higher Education Coordinating Board Texas Grant Program	-	\$ <u>1,049,025</u>
Texas College Work Study	-	<u>45,937</u>
Texas B-On Time Program	-	<u>27,699</u>
PSIG	-	<u>17,192</u>
Total State Awards Expended	-	\$ <u><u>1,139,853</u></u>

Note 1: State Assistance Reconciliation

State revenues per Schedule of Expenditures of State Awards	
State financial assistance	\$ 1,139,853
Lease payments from University of Texas – Brownsville	<u>1,431,154</u>
Total State Revenues per Schedule A	\$ <u><u>2,571,007</u></u>

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, 2005

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, 2005

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>
84.048	Federal – 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? X 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, 2005

This schedule is not applicable.

TEXAS SOUTHMOST COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended August 31, 2005

None noted in prior year.

STATISTICAL SUPPLEMENT

TEXAS SOUTHMOST COLLEGE

REVENUE BY SOURCE

FOR THE YEAR ENDED AUGUST 31, 2005

(Excluding Auxiliaries)
(UNAUDITED)

State allocations	\$ 12,014,095	26.5%
Tuition and fees	19,722,567	43.6%
Taxes for current operations	9,085,985	20.0%
Federal and state grants	3,440,088	7.6%
Investment income	458,209	1.0%
Other income	<u>575,765</u>	<u>1.3%</u>
Total current funds revenues	<u>\$ 45,296,709</u>	<u>100.0%</u>

TEXAS SOUTHMOST COLLEGE
HEADCOUNT ENROLLMENT TREND
LAST 10 FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Total</u>
1994-95	17,379
1995-96	17,619
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
2004-05	24,285

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>
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
2004-05	0.111825	0.016957	0.128782

* 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
2004-05	0.350000	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
2004-05	7,737,975,139	700,868,645	7,037,106,494

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
2004-05	8,618,759	429,486	9,048,245

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
2004-05	2,705,265	913,582	3,618,847

TEXAS SOUTHMOST COLLEGE
STATE ALLOCATIONS PER FTSE *
LAST 10 FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Appropriations Per FTSE</u>
1994-95	710
1995-96	705
1996-97	641
1997-98	714
1998-99	761
1999-00	786
2000-01	833
2001-02	804
2002-03	670
2003-04	621
2004-05	614

* Full Time Student Equivalent