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SOUTHMOST UNION JUNIOR COLLEGE DISTRICT  
ANNUAL FINANCIAL REPORT  
YEAR ENDED AUGUST 31, 2003

**TEXAS SOUTHMOST COLLEGE**

**ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2003**

**TEXAS SOUTHMOST COLLEGE**

**ORGANIZATIONAL DATA**

**FOR THE FISCAL YEAR 2002-2003**

**BOARD OF TRUSTEES**

**Officers**

Chester Gonzalez	Chairperson
Rosemary Breedlove	Vice-chairperson
Eduardo Campirano	Secretary

**Members**

Mary Rose Cardenas	Brownsville, Texas	May, 2008
Rosemary Breedlove	Brownsville, Texas	May, 2004
David Oliveira	Brownsville, Texas	May, 2006
Chester Gonzalez	Brownsville, Texas	May, 2004
Dolly Zimmerman	Port Isabel, Texas	May, 2008
Dr. Roberto Robles	Brownsville, Texas	May, 2006
Eduardo Campirano	Brownsville, Texas	May, 2004

**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 Comptroller

# TEXAS SOUTHMOST COLLEGE

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**TEXAS SOUTHMOST COLLEGE**

**ANNUAL FINANCIAL REPORT**

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SOUTHMOST UNION JUNIOR COLLEGE DISTRICT

THE UNIVERSITY OF TEXAS AT BROWNSVILLE and TEXAS SOUTHMOST COLLEGE

80 Fort Brown • Brownsville, Texas 78520 • (956) 544-3879 • Fax (956) 544-8811

## TEXAS SOUTHMOST COLLEGE

### MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2003

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, 2003. This discussion and analysis is to be read in conjunction with the College's financial statements which begin on page 3.

#### 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 a result of GASB Statements No. 34 and No. 35 implementation, there are significant differences in the presentation and method of accounting used in these financial statements. In the past, financials were focused on fund accounting and were prepared using a modified accrual basis of accounting. 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 7 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 operating revenues and expenses and non-operating revenues and



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

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>2003</u>	August 31, <u>2002</u>	<u>Change</u>
Current Assets	\$ 20.6	\$ 20.3	\$ 0.3
Noncurrent Assets			
Capital Assets, Net of Accumulated Depreciation	54.1	47.3	6.8
Other Non-Current Assets	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>
Total Assets	<u>74.9</u>	<u>67.7</u>	<u>7.1</u>
Current Liabilities	8.9	6.9	1.9
Noncurrent Liabilities	<u>16.8</u>	<u>18.1</u>	<u>-1.3</u>
Total Liabilities	<u>25.7</u>	<u>25.0</u>	<u>0.7</u>
Net assets:			
Invested in capital assets, net of related debt	36.0	32.1	3.9
Restricted Expendable	10.6	7.7	2.9
Unrestricted	<u>2.5</u>	<u>2.9</u>	<u>-0.3</u>
Total Net Assets	\$ <u>49.1</u>	\$ <u>42.7</u>	\$ <u>6.4</u>

Total Assets increased by \$7.1 million. Major factors affecting this net increase include the purchase and renovation of buildings, and decreases in cash and cash equivalents offset by increases in accounts receivable.



*Statement of Net Assets (continued)*

Total liabilities increase by \$0.7 million. Included in this amount are: an increase in Deferred Revenues (for student tuition and fees) of \$1.2 million, slight increases in accounts payables and a \$0.6 million decrease in Bonds Payable.

Net assets (assets less liabilities) increased by 15% in fiscal year 2003, from \$42.7 million at August 31, 2002 to \$49.2 million at August 31, 2003. 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 \$2.5 million of total net assets at August 31, 2003.

*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)**

	<b>Fiscal Year</b>	<b>Fiscal Year</b>	<b>Change</b>
	<b>2003</b>	<b>2002</b>	
Operating Revenues	\$ 41.7	\$ 34.3	\$ 7.5
Operating Expenses	41.9	38.4	3.5
Non-Operating Revenues	8.2	7.7	0.5
Non-Operating Expenses	<u>1.7</u>	<u>1.3</u>	<u>0.4</u>
<b>INCREASE IN NET ASSETS</b>	\$ 6.4	\$ 2.3	\$ 4.2
<b>NET ASSETS - Beginning of Year</b>	\$ <u>42.7</u>	\$ <u>40.4</u>	\$ <u>2.3</u>
<b>NET ASSETS - End of Year</b>	\$ <u>49.1</u>	\$ <u>42.7</u>	\$ <u>6.4</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 2003		Fiscal Year 2002		Increase/ (Decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
State Allocations	\$ 12.7	30.5%	\$ 13.2	38.4%	\$ (0.4)
Net Tuition and Fees	6.1	14.6%	5.7	16.5%	0.4
Grants and Contracts	21.9	52.5%	14.6	42.7%	7.3
Auxiliary Enterprises	0.7	1.8%	0.6	1.7%	0.2
Other Operating Revenues	<u>0.2</u>	<u>0.6%</u>	<u>0.2</u>	<u>0.7%</u>	<u>0.0</u>
Total Operating Revenues	\$ <u>41.7</u>	<u>100.00%</u>	\$ <u>34.3</u>	<u>100.00%</u>	\$ <u>7.5</u>

Operating revenues were affected by the following key factors:

- State allocations were reduced by 7% per a directive from the Governor of Texas for all community colleges, universities and state agencies. This reduced state allocations by \$0.8 million.
- Tuition and fees (net of scholarship discounts) increased as a result of an 11% increase in enrollment. Other factors affecting the tuition and fee increase are a \$2 per semester credit hour increase in resident tuition, a \$9 increase in non-resident tuition, an increase in the Student Union Fee of 10% and the implementation of \$25 advising fee for first-time freshman, undeclared majors and transfer students.
- Grants and Contracts revenues increased as a result of local grants and increased funding for Pell and other federal programs. The largest increase in grants and contracts came in the form of non-governmental grants and contracts. The College was awarded a grant in the amount of \$5.5 million from the Greater Brownsville Investment Corporation (GBIC)



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

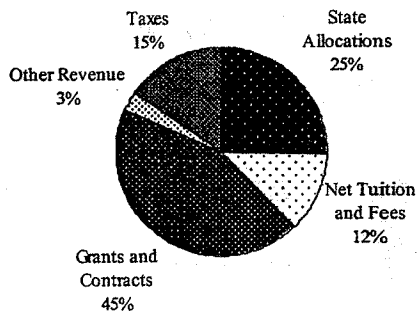
over a two year period for the renovation of the College's International Technology Education and Commerce Campus (ITECC). Increased enrollment resulted in an increase of federal grants and contracts awarded to the College.

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 \$0.4 million as a result of a 9.5% 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.

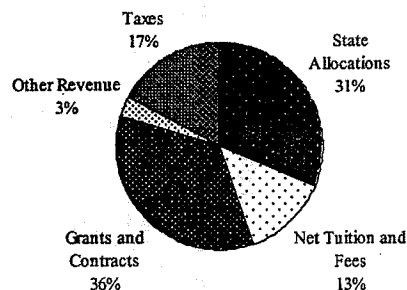
Key sources of revenue in total for the College are state allocations, grants and contracts, property taxes and tuition and fees (net of scholarship discounts). Table 4 shows a comparison of the breakdown of total revenues by source for the College in Fiscal Years 2003 and 2002.

**TABLE 4**  
**Total Revenues**  
*(Operating and Non-operating)*

**Fiscal Year 2003**



**Fiscal Year 2002**



In fiscal year 2003, grants and contracts made up the largest source of revenue (45%) for the College. State allocations are the next largest revenue source at 25%. These two sources along with property tax revenue provide the bulk of the College's total revenue. Tuition and fees account for 12% of the total revenue.

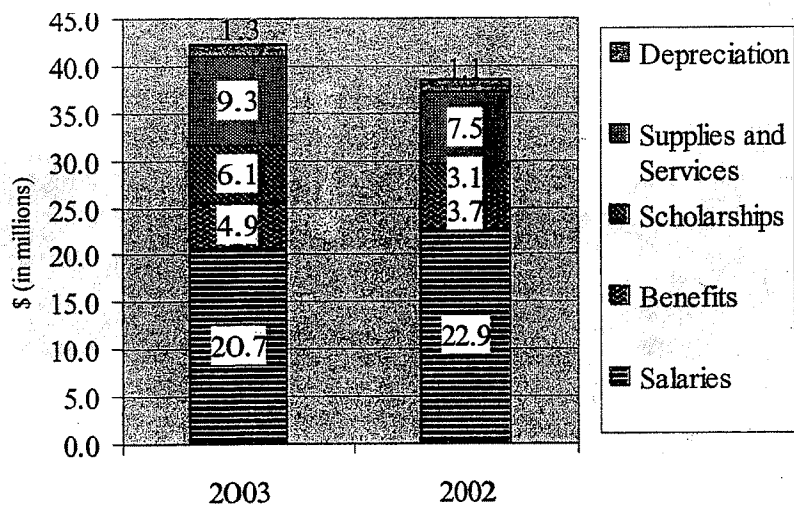


*Statement of Revenues, Expenses and Changes in Net Assets (continued)*

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

**TABLE 5**  
**OPERATING EXPENSES**  
**Natural Classification**  
 (in millions)

	Fiscal Year <u>2003</u>	Fiscal Year <u>2002</u>	<u>Change</u>
Salaries	\$ 20.7	\$ 22.9	\$ -2.3
Benefits	4.9	3.7	1.2
Scholarships	6.1	3.1	3.0
Supplies and Services	9.3	7.5	1.8
Depreciation	<u>1.3</u>	<u>1.1</u>	<u>0.1</u>
Total Operating Expenses	\$ <u>42.3</u>	\$ <u>38.4</u>	\$ <u>3.8</u>



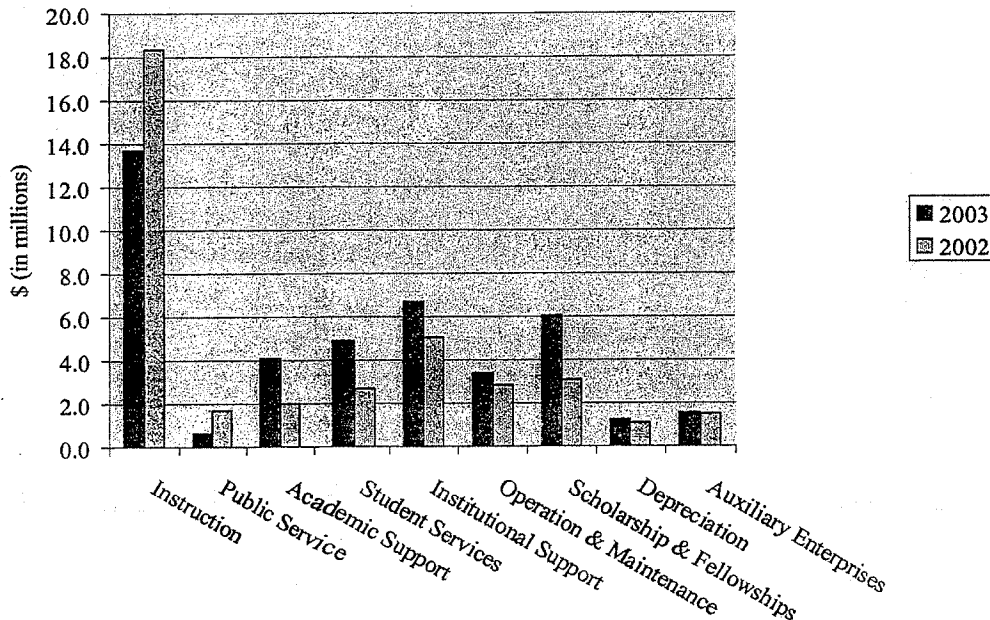


*Statement of Revenues, Expenses and Changes in Net Assets (continued)*

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

**TABLE 6**  
**OPERATING EXPENSES**  
**Functional Classification**  
(in millions)

	<u>2003</u>	<u>2002</u>	<u>Change</u>
<u>Educational and General</u>			
Instruction	\$ 13.7	\$ 18.4	\$ -4.7
Public Service	0.6	1.7	-1.1
Academic Support	4.1	2.0	2.1
Student Services	4.9	2.7	2.2
Institutional Support	6.7	5.0	1.6
Operation and Maintenance of Plant	3.4	2.9	0.5
Scholarship and Fellowships	6.1	3.1	3.0
Depreciation	<u>1.3</u>	<u>1.1</u>	<u>0.1</u>
Total Educational Activities	40.7	36.9	3.8
Auxiliary Enterprises	<u>1.6</u>	<u>1.5</u>	<u>0.1</u>
Total Operating Expenses	\$ <u>42.3</u>	\$ <u>38.4</u>	\$ <u>3.8</u>



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

Factors affecting operating expenses are:

- Following the directive from the Governor that reduced state allocations by 7%, the College implemented a hiring freeze. The College also decreased spending on equipment and furniture purchases.
- Benefit costs increased by more than 30%, however, a slight increase in state insurance allocation covered a portion of these additional costs.
- Scholarships increased due to an increase in enrollment and the availability of additional funds for scholarship awards among other factors.

The College operates under a partnership agreement with The University of Texas at Brownsville. Under this agreement, a large percentage of the College's revenues are passed on to the partnership to fund instruction and other essential services. 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 7. The complete Statement of Cash Flows appears in page 5 of this report.

**TABLE 7**  
**CONDENSED STATEMENT OF CASH FLOWS**  
(in millions)

	<b>Fiscal Year</b>	<b>Fiscal Year</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>Change</u></b>
Cash Provided/ Used By:			
Operating Activities	\$ (0.6)	\$ (3.1)	\$ 2.5
Noncapital Financing Activities	6.3	5.6	0.7
Capital and Related Financing Activities	(9.7)	(6.3)	(3.4)
Investing Activities	<u>0.4</u>	<u>6.5</u>	<u>(6.0)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(3.5)</b>	<b>2.7</b>	<b>(6.2)</b>
<b>CASH - Beginning of Year</b>	<b><u>13.1</u></b>	<b><u>10.3</u></b>	<b><u>2.7</u></b>
<b>CASH - End of Year</b>	<b>\$ <u>9.6</u></b>	<b>\$ <u>13.1</u></b>	<b>\$ <u>(3.5)</u></b>



*Statement of Cash Flows (continued)*

Total Cash and Cash Equivalents decreased by \$3.5 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 \$0.6 million. Major sources of cash were receipts from tuition and fees, net of scholarship allowances and discounts (\$6.2 million), state allocations (\$12.7 million) and federal grants and contracts (\$14.1 million). The College's major cash outlays were for payments to employees and suppliers and for the awarding of scholarships and fellowships. The largest increase over prior year came through non-governmental grants and contracts specifically a receipt from the Greater Brownsville Investment Corporation (GBIC).

*Non-capital Financing Activities:* The College had a positive cash flow of \$6.3 million from the collection of property taxes. Property taxes were collected at a rate of 93% of the current year's tax levy. (See table 7.1 below for more information on property taxes.)

*Capital and Related Financing Activities:* Capital and related financing activities resulted in a cash outflow of \$9.7 million. Cash outlays of approximately \$8.7 million were used for the purchase of The Village at Fort Brown, renovations of ITECC and the termination of the agreement with the bookstore vendor. Cash inflows of \$1.3 million resulted from the collection of property taxes for the funding of the College's 1987 debt service obligation. Principal and interest payments on total debt increased by approximately \$0.4 million as a result of the General Revenue Bond addition in 2002.

*Investing Activities* Cash flows from investing activities decreased dramatically as compared to prior year due to the recognition of Student Union bond proceeds. Activity for the current year is investment earnings generated from the College's various checking accounts.





*Statement of Cash Flows (continued)*

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.

**Table 7.1**  
**Property Tax Information**

	<b>Fiscal Year</b> <b><u>2003</u></b>	<b>Fiscal Year</b> <b><u>2002</u></b>	<b>Percent</b> <b><u>Change</u></b>
Total Tax Rate per \$100	\$ 0.1314	\$ 0.1314	-
Total Tax Collections	\$ 7,581,926	\$ 6,809,489	11.3%
Tax Collection Rate	93.1%	93.1%	-
Assessed Valuation	\$5,810,141,434	\$5,302,080,852	9.5%

The District's total tax rate did not change from the previous year; however, total tax assessments increased by about 9.5% due to increased valuation. The District's tax collection rate has remained steady over the past two years.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of Fiscal Year 2003 the College had approximately \$54.1 million (net of accumulated depreciation) invested in a broad range of capital assets, including instructional and athletic facilities, maintenance of buildings and equipment.

Major capital outlay in the Fiscal Year 2003 included:

- The Village (Student Housing) \$4.3M
- Bookstore Acquisition \$1.3M
- Renovations at ITECC \$3.2M
- Completion of 500 Parking Spaces \$0.4M



### *Capital Assets (continued)*

These additions 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, bond proceeds from Fiscal Year 2002 Revenue Bond and accumulated fund balance.

#### *The Village*

In the Fall of 2002, the College realized the opportunity to acquire two hotel sites located adjacent to the College campus. One of the two hotels was renovated for use as student housing and was named "The Village at Fort Brown". In the Spring of 2003, the first cohort of residents moved into the facility and occupied it at 59% capacity. One semester later, the housing facility was occupied at 98% capacity.

#### *ITECC*

In the prior fiscal year, the College purchased a former shopping mall property in an effort to meet needed space for its students. The College is in the process of renovating this property, 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 renovation phase includes approximately \$10.3 million in renovations.

#### *Bookstore*

In July 2003, the College completed an agreement with the campus bookstore vendor and as a result fulfilled a \$1.3 million obligation. Upon completion of this agreement, the College retained complete ownership of the bookstore building and its contents.

#### *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 \$18.1 million in outstanding debt. Table 8 summarizes these amounts by type of debt instrument.



*Debt (continued)*

**Table 8**

**Bonds Payable at Fiscal Year End 2003**

(in millions)

	Beginning of the Year	End of the Year
Refunding Tax Bonds	\$ 4.97	\$ 4.59
Student Union Building Bonds	8.73	8.56
Revenue Bonds	<u>5.00</u>	<u>4.95</u>
<b>Total Bonds Payable</b>	<b><u>\$18.70</u></b>	<b><u>\$18.10</u></b>

Tax bonds were issued in 1994 to refund 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.

In May 2002, the College issued a \$5 million Revenue Bond to fund various capital projects on campus. These projects included the 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.



SOUTHMOST UNION JUNIOR COLLEGE DISTRICT

THE UNIVERSITY OF TEXAS AT BROWNSVILLE and TEXAS SOUTHMOST COLLEGE

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## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Board of Trustees considered many factors when establishing the fiscal year 2004 budget and tax rates. The College expects tax revenue to increase modestly during fiscal year 2004. Continued growth in the tax base, due to population growth and increased valuation, are expected to be driving forces in increased collections. While the College is hopeful that state allocations for higher education will at least hold steady if not rebound in the coming year, it is deemed prudent to budget for a no growth scenario in state funding. 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 workforce training and continuing education programs, the College's technical training programs (auto mechanics, air conditioning, building trades and drafting programs) and other academic programs. It 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 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 Office at (956) 544-3879.

## **FINANCIAL SECTION**



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION  
AND OTHER SUPPLEMENTARY INFORMATION INCLUDING THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Trustees  
Southmost Union Junior College District  
Brownsville, Texas

Members of the Board:

We have audited the accompanying financial statements of Texas Southmost College, as of and for the year ended August 31, 2003, which collectively comprise the College's financial statements as listed in the table of contents. These financial statements are the responsibility of Texas Southmost 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 respective financial position of Texas Southmost College at August 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 in the notes to the financial statements, the College implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis- for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements-and Management's discussion and Analysis-for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement No. 34 and No. 35, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which changes note disclosure requirements for institutions, for the year ended August 31, 2003.

The accompanying required supplementary information, such as Management's Discussion and Analysis are not a required part of the financial statements but are supplementary information required by the GASB. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2003, on our consideration of Texas Southmost College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Texas Southmost College's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. The individual fund financial statements and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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.

*Pattillo, Brun & Hill, C.P.A.*

October 29, 2003

# **FINANCIAL STATEMENTS**



**TEXAS SOUTHWEST COLLEGE**  
**STATEMENT OF NET ASSETS**  
**AUGUST 31, 2003**  
**(with comparative totals at August 31, 2002)**

	Primary Institution	
	2003	2002
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash & cash equivalents	\$ 9,581,653	\$ 13,053,475
Endowment investments	45,298	47,826
Property taxes receivable (net of allowance for doubtful accounts of \$228,386 and \$65,567, at August 31, 2003 and 2002, respectively)	1,193,180	1,245,787
Accounts receivable (net of allowance for doubtful accounts of \$9,000 for both years)	6,701,260	5,525,241
Notes receivable (net of allowance for doubtful accounts of \$262,282 and \$246,294, at August 31, 2003 and 2002, respectively)	429,021	169,124
Due from other governments	2,247,654	144,124
Other assets	438,746	119,176
Total Current Assets	<u>20,636,812</u>	<u>20,304,753</u>
<b>Noncurrent Assets</b>		
Unamortized bond issuance cost	104,083	129,033
Capital assets, net	54,114,942	47,309,046
Total Noncurrent Assets	<u>54,219,025</u>	<u>47,438,079</u>
Total Assets	<u>\$ 74,855,837</u>	<u>\$ 67,742,832</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 435,052	\$ 146,088
Accrued liabilities	19,462	11,249
Accrued interest payable	-	623,560
Due to other governments	595,666	196,295
Funds held for others	8,303	8,303
Deferred revenues	6,556,144	5,354,651
Bonds payable - current portion	1,275,000	604,140
Total Current Liabilities	<u>8,889,627</u>	<u>6,944,286</u>
<b>Noncurrent Liabilities</b>		
Compensated absences	8,646	4,296
Bonds payable	16,820,000	18,095,000
Total Noncurrent Liabilities	<u>16,828,646</u>	<u>18,099,296</u>
Total Liabilities	<u>25,718,273</u>	<u>25,043,582</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	36,019,942	32,101,693
Restricted for		
Expendable		
Instructional programs	49,852	52,620
Loans	460,117	199,227
Capital projects	7,668,951	5,938,249
Debt Service	2,312,514	1,369,053
Other	117,399	180,404
Unrestricted	2,508,789	2,858,004
Total Net Assets	<u>\$ 49,137,564</u>	<u>\$ 42,699,250</u>

The Notes to the Financial Statements are an integral part of this statement.

**TEXAS SOUTHMOST COLLEGE**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED AUGUST 31, 2003**  
**(with comparative totals for the year ended August 31, 2002)**

	Primary Institution	
	2003	2002
<b>REVENUES</b>		
<b>Operating Revenues</b>		
State Allocations	\$ 12,743,850	\$ 13,165,590
Tuition and Fees (Net of Discounts of \$9,097,629 & \$8,396,782 for August 31, 2003 and 2002, respectively)	6,112,863	5,663,423
Federal Grants and Contracts	14,057,456	11,624,791
State Grants and Contracts	3,081,108	2,629,805
Non-Governmental Grants and Contracts	4,759,617	370,397
Auxiliary Enterprises	742,322	579,237
Other Operating Revenues	236,688	233,491
Total Operating Revenues	<u>41,733,904</u>	<u>34,266,734</u>
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
Instruction	13,700,777	18,360,073
Public Service	649,697	1,721,211
Academic Support	4,076,422	2,016,359
Student Services	4,896,742	2,339,851
Institutional Support	6,705,946	5,044,218
Operation and Maintenance of Plant	3,375,284	2,863,841
Scholarships and Fellowships	5,668,667	3,479,593
Auxiliary Enterprises	1,556,738	/ 1,500,353
Depreciation	1,257,306	1,109,660
Total Operating Expenses	<u>41,887,579</u>	<u>38,435,159</u>
Operating Income (Loss)	<u>(153,675)</u>	<u>(4,168,425)</u>
<b>Non-Operating Revenues (Expenses)</b>		
Maintenance Ad-Valorem Taxes		
Taxes for Maintenance & Operations	6,434,932	5,983,156
Taxes for General Obligation Bonds	1,257,206	1,273,004
Investment Income (Net of Investment Expenses)	446,359	483,235
Interest on Capital Related Debt	(1,652,778)	(1,285,962)
Other Non-Operating Revenue (Expenses)	106,270	(9,932)
Total Non-Operating Revenues (Expenses)	<u>6,591,989</u>	<u>6,443,501</u>
Income Before Other Revenues, Expenses, Gains & Losses	<u>6,438,314</u>	<u>2,275,076</u>
Other Revenues, (Expenses), Gains, (Losses)	<u>-</u>	<u>-</u>
Increase in Net Assets	<u>6,438,314</u>	<u>2,275,076</u>
<b>NET ASSETS</b>		
Net Assets - Beginning of Year	<u>42,699,250</u>	<u>40,424,174</u>
Net Assets - End of Year	<u>\$ 49,137,564</u>	<u>\$ 42,699,250</u>

The Notes to the Financial Statements are an integral part of this statement.

## TEXAS SOUTHMOST COLLEGE

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2003  
(with comparative totals at August 31, 2002)

	Primary Institution	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from students and other customers	\$ 6,158,677	\$ 5,663,423
Receipts of allocations, grants, and contracts	32,538,501	27,790,583
Sales and services of educational activities	742,322	579,237
Other receipts	236,688	233,491
Payments to or on behalf of employees	(26,070,272)	(28,044,975)
Payments to suppliers for goods or services	(6,957,618)	(4,667,341)
Payments of scholarships and fellowships	(5,668,667)	(3,112,830)
Auxiliary enterprise payments	(1,556,738)	(1,500,353)
Net cash provided (used) by operating activities	(577,107)	(3,058,765)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Ad valorem tax revenues	6,328,924	5,613,191
Net cash provided by non-capital financing activities	6,328,924	5,613,191
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Net proceeds from issuance of capital debt	18,153	4,861,750
Ad valorem tax revenues	1,253,002	1,196,298
Purchases of capital assets	(8,686,763)	(10,510,884)
Payments on capital debt and leases	(604,140)	(560,859)
Interest on capital related debt	(1,652,778)	(1,285,962)
Net cash provided (used) by capital and related financing activities	(9,672,526)	(6,299,657)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale and maturity of investments	-	6,002,541
Investment earnings, net	448,887	483,235
Net cash provided (used) by investing activities	448,887	6,485,776
Increase (decrease) in cash and cash equivalents	(3,471,822)	2,740,545
Cash and cash equivalents - September 1, 2002	13,053,475	10,312,930
Cash and cash equivalents - August 31, 2003	\$ 9,581,653	\$ 13,053,475

**TEXAS SOUTHMOST COLLEGE**  
**STATEMENT OF CASH FLOWS**  
 (continued)  
**FOR THE YEAR ENDED AUGUST 31, 2003**  
 (with comparative totals at August 31, 2002)

	Primary Institution	
	2003	2002
<b>Reconciliation of operating income (loss) to net cash used by operating activities</b>		
Operating income (loss)	\$ (153,675)	\$ (4,168,425)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	1,257,306	1,109,660
Changes in assets and liabilities		
Receivables, net	(1,160,029)	(5,560,395)
Due from other governments	(2,103,530)	96,398
Other assets	(319,570)	124,374
Accounts payable	288,964	93,576
Accrued liabilities	8,213	-
Due to other governments	399,371	97,210
Deferred revenue	1,201,493	5,140,689
Compensated absences	4,350	8,148
Net cash provided (used) by operating activities	<u>\$ (577,107)</u>	<u>\$ (3,058,765)</u>

The Notes to the Financial Statements are an integral part of this statement.

# TEXAS SOUTHMOST COLLEGE

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2003

### 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

#### Report Guidelines

The significant accounting policies followed by Texas Southmost 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 Governmental Accounting Standards Board (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. In June 1999, GASB approved Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis - for State and Local Governments*. This was followed by GASB Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis for Public Colleges and Universities*, which extends the guidance of GASB 34 to public colleges and universities. The College implemented these changes for the year ended August 31, 2002, resulting in an entirely new financial statement presentation format. 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). When the student uses the award for tuition, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount.

***Title IV, HEA Program Funds*** – Certain Title IV HEA Program funds are received by the College to pass through to the student. These funds are initially received by the College and recorded as restricted revenue. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount.

***Other Tuition Discounts*** – The College awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount is recorded as a tuition discount.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Accounting**

The College's financial statements 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.

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

**Budgetary Data**

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

**Cash and Cash Equivalents**

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

**Investments**

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

**Capital Assets**

Capital assets are stated at cost. Donated capital assets are valued at their estimated fair market value on the date received. The College reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets applying the half-year convention. The following lives are used:

Buildings	50 years
Buildings and Improvements	20 years
Furniture, Machinery and Equipment	10 years
Library Books	As long as in collection

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Accounts Receivable

Receivables consisted of tuition & fees from students and grants & contracts at year-end.

### Deferred Revenues

Tuition, fees and other revenues received and related to the period after August 31, 2003 have been deferred.

### Net Assets

The College's net assets are classified as follows:

*Invested in Capital Assets, Net of Related Debt* – This category represents the College's total investment in capital assets, net of related outstanding debt and accumulated depreciation.

*Restricted Net Assets, Nonexpendable* – Net assets, such as endowment and similar type trust funds, which are subject to externally imposed stipulations that the College maintain them permanently.

*Restricted Net Assets, Expendable* – Net assets for which the College is legally or contractually obligated to spend in accordance with external restrictions.

*Unrestricted Net Assets* – Unrestricted net assets are resources that are not subject to any external restrictions and may be used at the discretion of the governing board for any lawful purpose of the District.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

### Classification of Revenues

The College has classified its revenues as either operating or non-operating according to the following criteria:

*Operating Revenues* – Operating revenues are generated by activities that have the characteristics of exchange transactions, including student tuition and fees net of scholarship discounts and allowances; state appropriations; federal, state and local and private grants and contracts; and other revenues of a similar nature.

*Non-Operating Revenues* – Non-operating revenues include activities that do not have the characteristics of exchange transactions, such as property tax revenues, gifts and investment income.

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. **DEPOSITS AND INVESTMENTS**

At August 31, 2003, the carrying amount of Texas Southmost College cash and demand deposits was \$9,581,653, and total bank balances equaled \$10,253,404. Bank balances of \$100,000 are covered by federal depository insurance and \$21,518,263 of securities pledged as collateral in Texas Southmost College's name. 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).

As reported on Exhibit 1, cash and demand deposits include the following:

Bank Deposits	
Demand Deposits	\$ 9,581,193
Cash and Cash Equivalents	
Petty Cash on Hand	<u>460</u>
Total Cash and Deposits	<u>\$ 9,581,653</u>

To comply with the reporting requirements of GASB Statement No. 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 would 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.

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.

Type of Security	Categories			Carrying Amount	Market Value
	1	2	3		
Corporate Stocks	<u>\$ 45,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,298</u>	<u>\$ 45,298</u>
Totals	<u>\$ 45,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,298</u>	<u>\$ 45,298</u>



#### 4. CAPITAL ASSETS

Capital asset activity for the College for the year ended August 31, 2003, was as follows:

	Primary Institution				
	Balance	Changes During Year			Balance
	<u>9/1/2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>8/31/2003</u>
<b>Not Depreciated:</b>					
Land	\$ 3,867,763	\$ 29,105	\$ -	\$ -	\$ 3,896,868
Library Books	8,422,239	-	-	-	8,422,239
Construction in Progress	4,962,679	3,228,301	-	(727,920)	7,463,060
Subtotal	<u>17,252,681</u>	<u>3,257,406</u>	<u>-</u>	<u>(727,920)</u>	<u>19,782,167</u>
<b>Other Capital Assets:</b>					
Buildings	41,136,003	5,384,501	(623,561)	324,690	46,221,633
Site Improvements	6,055,697	-	-	403,230	6,458,927
Machinery, Equipment, Furniture & Fixtures	7,593,724	44,856	-	-	7,638,580
Subtotal	<u>54,785,424</u>	<u>5,429,357</u>	<u>(623,561)</u>	<u>727,920</u>	<u>60,319,140</u>
<b>Accumulated Depreciation:</b>					
Buildings	(14,444,866)	(731,986)	-	-	(15,176,852)
Site Improvements	(3,265,337)	(281,579)	-	-	(3,546,916)
Machinery, Equipment, Furniture & Fixtures	(7,018,856)	(243,741)	-	-	(7,262,597)
Subtotal	<u>(24,729,059)</u>	<u>(1,257,306)</u>	<u>-</u>	<u>-</u>	<u>(25,986,365)</u>
Net Other Capital Assets	<u>30,056,365</u>	<u>4,172,051</u>	<u>(623,561)</u>	<u>727,920</u>	<u>34,332,775</u>
Net Capital Assets	<u>\$ 47,309,046</u>	<u>\$ 7,429,457</u>	<u>\$ (623,561)</u>	<u>\$ -</u>	<u>\$ 54,114,942</u>

#### 5. LONG-TERM LIABILITIES

Long-term liabilities for the year ended August 31, 2003 was as follows:

	Balance	Additions	Retired	Balance	Current
	<u>9/01/02</u>			<u>8/31/03</u>	<u>Portion</u>
<b>Bonds Payable</b>					
Series 1994	\$ 4,969,140	\$ -	\$ (379,140)	\$ 4,590,000	\$ 990,000
Series 2000	8,730,000	-	(175,000)	8,555,000	200,000
Series 2002	5,000,000	-	(50,000)	4,950,000	85,000
Total Bonds Payable	<u>18,699,140</u>	<u>-</u>	<u>(604,140)</u>	<u>18,095,000</u>	<u>1,275,000</u>
<b>Other Liabilities</b>					
Compensated absences	<u>8,646</u>	<u>-</u>	<u>-</u>	<u>8,646</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 18,707,786</u>	<u>\$ -</u>	<u>\$ (604,140)</u>	<u>\$ 18,103,646</u>	<u>\$ 1,275,000</u>

6. **BONDS PAYABLE**

General information related to bonds payable is summarized below:

**Refunding Tax Bonds, Series 1994**

- To refund certain outstanding School Building Tax Bonds, Series 1987 and Series 1988
- Issued refunding bonds on March 31, 1994
- \$8,509,999, 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 \$379,140 to \$1,185,000 with interest rates ranging from 5.20% to 5.60% with the final installment due in 2008. Future principal and interest expense requirements are summarized below for bonds and variable rate notes issued.

Year Ending	Principal	Interest	Total
<u>August 31,</u>			
2004	\$ 990,000	\$ 220,700	\$ 1,210,700
2005	1,075,000	166,473	1,241,473
2006	1,115,000	107,880	1,222,880
2007	1,185,000	45,188	1,230,188
2008	225,000	6,300	231,300
Total	<u>\$ 4,590,000</u>	<u>\$ 546,541</u>	<u>\$ 5,136,541</u>

**Student Union Building Fees Revenue Bonds, Series 2000**

- To finance, 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

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 for bonds and variable rate notes issued.

Year Ending	Principal	Interest	Total
<u>August 31,</u>			
2004	\$ 200,000	\$ 478,881	\$ 678,881
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
Beyond 5 years	7,385,000	4,406,483	11,791,483
Total	<u>\$ 8,555,000</u>	<u>\$ 6,690,888</u>	<u>\$ 15,245,888</u>

6. **BONDS PAYABLE (Continued)**

**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 for bonds and variable rate notes issued. Bond issuance costs totaled \$138,250, which is being amortized over the life of the bonds. Amortization expense for the year totaled \$9,217.

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>August 31,</u>			
2004	\$ 85,000	\$ 272,250	\$ 357,250
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
Beyond 5 years	4,355,000	1,678,325	6,033,325
Total	<u>\$ 4,950,000</u>	<u>\$ 2,988,425</u>	<u>\$ 7,938,425</u>

7. **ADVANCE REFUNDING BONDS**

***Refunded \$8,510,000 of School Building Tax Bonds, Series 1987 and 1988***

- Issued refunding bonds on March 31, 1994 for \$8,509,999 with an average interest rate of bonds refunded - 7.5%
- Net proceeds from refunding series - \$8,745,865 after payment of \$170,324 in underwriting fees, insurance and other issuance costs
- Additional \$164,260 of 1987 and 1988 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 1994 Series bonds.
- The refunded portion of the 1987 and 1988 Series bonds are considered fully defeased and the liability for those bonds have been removed from the Investment in Plant Fund Group.
- Advance refunding of the 1987 and 1988 Series bonds reduced the College debt service payments over the next 15 years by approximately \$494,635.
- Economic gain - \$215,994 difference between the net present value of the old and new debt service payments.
- Accounting gain - \$383,882 resulted from the advanced refunding.

**8. DEFEASED BONDS OUTSTANDING**

<u>Bond Issue</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
School Building Tax Bonds, Series 1987	1994	\$ 6,100,000
School Building Tax Bonds, Series 1988	1994	2,410,000
Total		<u>\$ 8,510,000</u>

**9. EMPLOYEES' RETIREMENT PLAN**

The State of Texas has joint contributory retirement plans for almost all of its employees. One of the primary plans in which Texas Southmost College participated is administered by the Texas 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 of Texas 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 Texas Retirement System. The optional retirement program provides for the purchase of annuity contracts. The percentages of participant salaries currently contributed by the state and each participant are 6.0% and 6.65%, respectively. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program.

**10. 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. As of August 31, 2003, the College had two employees participating in the program. A total of \$900 in payroll deductions had been invested in approved plans during the fiscal year.

**11. COMPENSATED ABSENCES**

Full-time employees earn annual leave at a rate of eight hours per month. The College's policy is that an employee may carry their accrued leave forward from one fiscal year to another fiscal year without limit. Employees with at least six months of service who terminate their employment are entitled to payment for all accumulated annual leave. The College recognized the accrued liability for the unpaid annual leave in the Unrestricted Current Fund. Sick leave, which can be accumulated to a maximum of 60 days, is earned at the rate of eight hours per month. It is paid to an employee who misses work because of illness or to the estate of an employee in the event of his/her death. The College's policy is that employees who terminate employment are not entitled to payment of the accumulated sick leave. As a result, the College does not accrue the accumulated sick leave at year-end. The cost of sick leave is recognized when paid. As of August 31, 2003, compensated absences payable consisted of \$8,646.

**12. CAPITAL LEASE OBLIGATIONS**

There were no capital lease obligations at August 31, 2003.

**13. LITIGATION**

The College's attorney reports no pending or threatened lawsuits, claims or assessments, including civil rights complaints.

**14. OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS**

There were no operating lease commitments at August 31, 2003.

**15. FUNDS HELD IN TRUST BY OTHERS**

At August 31, 2003, there were no such funds for the benefit of the College.

**16. SELF-INSURED PLANS**

The College has no self-insured arrangements.

**17. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

In addition to providing pension benefits, the College provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the College. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The College recognizes the cost of providing these benefits by expending the annual insurance premiums. The College contributes \$2.28 per month on \$5,000 of life insurance per employee. The College's monthly contribution per full-time employee was \$274 for eight employees, \$378.63 for the employee and children, \$430.27 for employee and spouse, and \$534.90 for family coverage for the year ended August 31, 2003. The cost of providing those benefits for eight active employees was \$48,373.99. At August 31, 2003, Texas Southmost College did not have any active retirees. The state group insurance amount of \$1,635,604 was transferred to UTB.

**18. RELATED PARTIES**

The TSC Foundation, Inc. is a non-profit organization with the sole purpose of supporting educational and other activities of the College. The Foundation solicits donations and acts as coordinator of a challenged grant funded by the Department of Education. During the fiscal year the College furnished certain services such as office space, utilities and staff assistance to the foundation at no cost for these services.

*Partnership Agreement with the University of Texas at Brownsville*

On September 1, 1992, an agreement was entered into between Southmost Union Junior College District Board of Trustees and the Board of Regents of the University of Texas System on behalf of The University of Texas at Brownsville. The purpose of this agreement was to enter into an educational partnership as authorized by state law, Texas Education Code Section 51.661 et seq., to improve the continuity, quality and efficiency of educational programs and services.

18. RELATED PARTIES (Continued)

This agreement is implemented by specific interagency contracts and/or leases between the parties. The interagency contracts consist of the following:

- A. Lease of TSC facilities by UTB as necessary to provide both UTB programs and TSC programs. Provisions for facility maintenance is included in the lease.

Under this agreement TSC agrees to provide UTB, until termination of the UTB/TSC partnership or until mutually agreed by both parties, or until either party terminates the lease in accordance with the provisions set forth in the lease, the right to use all real property and the tangible personal property belonging to TSC for the purpose of providing educational and student services to students. UTB agrees to pay TSC per year in equal monthly payments during the term of this lease a gross square foot amount equal to the gross square foot rate paid by the UT Board of Regents to Southmost District in the 1999-2000 biennium adjusted for inflation each biennium by the previous two year average of the annual Consumer Price Index for all items less food and energy as reported by the US Bureau of Labor Statistics.

- B. During the year ended August 31, 2003 total rental income recognized by TSC was \$1,635,604.
- C. Agreement for the coordination of personnel with provisions for conditions of employment by UTB.
- D. Agreement for the coordination and financing of programs and support services.

Payments for agreements A and B above will be in accordance with the Educational Partnership Cooperation Contract Regarding Finance and Funding. Under this contract UTB agrees to deliver all programs and provide all services for both entities. TSC will pay UTB for instruction and services for TSC students as follows:

Tuition for lower division academic and vocational courses, and all appropriations and contracts.

19. INTERFUND BORROWING

All interfund borrowing has been made from unrestricted funds and is payable within one year without interest.

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Unrestricted Fund	\$ 521,363	\$ 8,824
Auxiliary Enterprises	2,609	65,396
Endowment Fund	137	-
Restricted:		
Federal restricted funds	21,617	163,600
Retirement of Indebtedness	6,078	89,894
Unexpended	-	224,090
Total	<u>\$ 551,804</u>	<u>\$ 551,804</u>

**20. PROPERTY TAX**

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

As of August 31, 2003 the assessed valuation of the College was as follows:

Assessed Valuation of the District:	\$ 6,370,265,887
Less: Exemptions	<u>560,124,453</u>
Net Assessed Valuation of the District	<u>\$ 5,810,141,434</u>

	Current <u>Operations</u>	Debt <u>Service</u>	<u>Total</u>
Tax Rate per \$100 valuation authorized	\$ 0.500000	\$ 0.500000	\$ 1.000000
Tax Rate per \$100 valuation assessed	\$ 0.110120	\$ 0.021280	\$ 0.131400

Taxes levied for the year ended August 31, 2003 are \$7,634,474. Taxes are due on receipt of the tax bill and become delinquent if not paid before February 1<sup>st</sup> of the year following the year in which imposed.

<u>Taxes Collected</u>	Current <u>Operations</u>	Debt <u>Service</u>	<u>Total</u>
Current Taxes Collected	\$ 5,940,076	\$ 1,147,882	\$ 7,087,958
Delinquent Taxes Collected	344,501	81,865	426,366
Penalties and Interest Collected	211,503	56,960	268,463
Less Discounts & Commissions	<u>(167,156)</u>	<u>(33,705)</u>	<u>(200,861)</u>
Total Collections	<u>\$ 6,328,924</u>	<u>\$ 1,253,002</u>	<u>\$ 7,581,926</u>

Tax collections for the year ended August 31, 2003 were 93.10% of the current tax levy. Allowances for uncollectable taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

**21. DEFERRED REVENUES**

Revenues, primarily consisting of tuition and fees, related to academic terms in the next fiscal year are recorded on the balance sheet as deferred revenue in the current fiscal year. Deferred revenue at year-end consisted of the following:

<u>Description</u>	<u>Amount</u>
Tuition and Fees	\$ 6,498,694
Prepaid Rentals	<u>57,450</u>
Total	<u>\$ 6,556,144</u>

**22. 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, 2003.

**23. RISK MANAGEMENT**

The College is exposed to various risks of loss related to torts, theft, damage or destruction of purchased 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.

**24. CONSTRUCTION COMMITMENTS**

At August 31, 2003, Texas Southmost College had the following construction commitments:

<u>Project</u>	<u>Remaining Balance</u>
ITECC: Orive Tech Training Center	\$ 3,483,555
ITECC: Workforce Training & Cont. Education	1,475,410
ITECC: Incubator & Business Dev.	702,965
ITECC: TTC Architectural Services	26,352
ITECC: Incubator Architectural Services	9,600
Jacob Brown 60 Ton Chiller	24,800
Cueto 1st bldg a/c unit	15,200
Gorgas Conf a/c system	11,500
Cueto Kitchen a/c unit	4,500
Cueto electrician & helper	3,450
Campus Wd Directional Signage system	653
Total	<u>\$ 5,757,985</u>

**25. TRANSFERS**

As disclosed in footnote #18, Texas Southmost College entered into an agreement with the University of Texas at Brownsville. Under this agreement, UTB receives federal/financial grants that it awards to lower division students. (See note 3 on Schedule C, Schedule of Expenditures of Federal Awards for a breakdown of these awards). These expenditures are reflected in the Texas Southmost College's financial statements as Scholarships and Fellowships. Since Texas Southmost College as a separate entity does not receive these federal grants, they are not reflected as revenue and are reflected as other transfers, which results in a difference in the transfers in and out.

**26. COMMITMENTS AND CONTINGENCIES**

The College participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the 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.



**27. RECONCILIATION FROM SCHEDULE E TO EXHIBIT 2**

Reconciliation of Schedule E to Exhibit 2 is as follows:

	<u>Reconciliation from Sch. E to Exh. 2</u>	<u>Current Fund Activity Per Schedule E</u>
<b>REVENUES</b>		
Total Current Fund Revenues	\$ 38,102,185	\$ 38,102,185
Federal Scholarship/grants by UTB	<u>12,517,681</u>	<u>12,517,681</u>
Total Revenues per Schedule E	<u>50,619,866</u>	<u>50,619,866</u>
Revenues from other funds	6,674,837	
Scholarship allowances and discounts	(9,097,629)	
Taxes within current fund revenues	(6,328,924)	
Interest within current fund revenues	<u>(134,246)</u>	
Total Operating Revenues per Exhibit 2	<u>41,733,904</u>	
<b>EXPENDITURES</b>	<u>48,288,641</u>	<u>48,288,641</u>
Total Expenditures per Schedule E	<u>48,288,641</u>	<u>48,288,641</u>
Scholarship allowances and discounts	(9,097,629)	
Capital outlay	(44,855)	
Expenses from other funds	1,484,116	
Depreciation expense	<u>1,257,306</u>	
Total Operating Expenses per Exhibit 2	<u>41,887,579</u>	
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Taxes within current fund revenues	6,328,924	
Taxes within retirement of indebtedness	1,253,002	
GASB adjustments	110,212	
Interest within current fund revenues	134,246	
Interest within other funds	312,113	
Interest on capital related debt	(1,652,778)	
Other non-operating revenue (expenses)	106,270	
Nonmandatory transfers to other funds	<u>-</u>	<u>(2,689,193)</u>
Total Non-Operating Revenues, Expenses	<u>6,591,989</u>	<u>(2,689,193)</u>
Net (decrease) in fund balances per Schedule E		<u>\$ (357,968)</u>
<b>INCREASE IN NET ASSETS PER EXHIBIT 2</b>	<u>\$ 6,438,314</u>	

**28. FUND BALANCE**

The ending fund balances at August 31, 2003, were as follows:

<b>Current funds:</b>	
Fund Balance, Unrestricted	\$ 1,967,251
Fund Balance, Auxiliary Enterprises	541,538
Fund Balance, Restricted	<u>117,399</u>
Total Current Fund Balance	<u>2,626,188</u>
Fund Balance, Loan Funds	460,117
Fund Balance, Endowment and Similar Funds	49,852
Fund Balance, Capital Projects	7,668,951
Fund Balance, Debt Service	2,312,514
Invested in Capital Assets, Net of Related Debt	<u>36,019,942</u>
Total Fund Balance, Primary Government	<u>\$ 49,137,564</u>

**OVERALL COMPLIANCE AND  
INTERNAL CONTROLS SECTION**

## **FINANCIAL ASSISTANCE SECTION**

## TEXAS SOUTHMOST COLLEGE

## SCHEDULE OF DETAILED OPERATING REVENUES

FOR THE YEAR ENDED AUGUST 31, 2003  
(with memorandum totals for the year ended August 31, 2002)

	Educational Activities	Auxiliary Enterprises	Totals (Memorandum only)	
			2003	2002
<b>State Allocations:</b>				
Education and general support	\$ 10,839,864	\$ -	\$ 10,839,864	\$ 11,655,769
State group insurance	1,617,054	-	1,617,054	1,438,404
Nursing Program	210,246	-	210,246	-
Noncourse-based remedial education	76,686	-	76,686	71,417
Total State Allocations	<u>12,743,850</u>	<u>-</u>	<u>12,743,850</u>	<u>13,165,590</u>
<b>Tuition:</b>				
State Funded Courses				
In-district resident tuition	3,496,824	-	3,496,824	2,965,982
Out-of-district resident tuition	852,557	-	852,557	732,006
TPEG set aside	282,836	-	282,836	238,054
Non-resident tuition	624,725	-	624,725	169,537
Non-state funded continuing education	775,711	-	775,711	1,641,855
Total Tuition	<u>6,032,653</u>	<u>-</u>	<u>6,032,653</u>	<u>5,747,434</u>
<b>Fees:</b>				
Computer access fee	835,506	-	835,506	752,777
General fees	4,177,541	-	4,177,541	3,763,839
Student service fee	-	1,657,599	1,657,599	1,495,153
Automation fee	600,878	-	600,878	554,000
Laboratory fee	280,864	-	280,864	285,292
Student union fees	989,874	-	989,874	871,700
Other fees	311,443	324,134	635,577	590,010
Total Fees	<u>7,196,106</u>	<u>1,981,733</u>	<u>9,177,839</u>	<u>8,312,771</u>
<b>Scholarship Allowances and Discounts:</b>				
Scholarship allowances	(8,006,495)	-	(8,006,495)	(8,075,695)
Remissions and exemptions	(665,697)	(28,938)	(694,635)	(140,704)
TPEG allowances	(396,499)	-	(396,499)	(180,383)
Total Scholarship Allowances	<u>(9,068,691)</u>	<u>(28,938)</u>	<u>(9,097,629)</u>	<u>(8,396,782)</u>
Total Net Tuition and Fees	<u>4,160,068</u>	<u>1,952,795</u>	<u>6,112,863</u>	<u>5,663,423</u>
<b>Other Operating Revenues:</b>				
Federal Grants and Contracts				
Federal funds received by the College	1,539,775	-	1,539,775	606,815
Federal funds received by the University	12,517,681	-	12,517,681	11,017,976
Total Federal Grants and Contracts	<u>14,057,456</u>	<u>-</u>	<u>14,057,456</u>	<u>11,624,791</u>
State grants and contracts	3,081,108	-	3,081,108	2,629,805
Nongovernmental grants and contracts	4,759,617	-	4,759,617	370,397
Sales and services of auxiliary	-	742,322	742,322	579,237
Other operating revenues	236,688	-	236,688	233,491
Total Other Operating Revenues	<u>22,134,869</u>	<u>742,322</u>	<u>22,877,191</u>	<u>15,437,721</u>
<b>Auxiliary Enterprises:</b>				
Residential life	-	-	-	-
Bookstore	-	-	-	-
Net Resident Life and Bookstore	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Auxiliary Enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenues	<u>\$ 39,038,787</u>	<u>\$ 2,695,117</u>	<u>\$ 41,733,904</u>	<u>\$ 34,266,734</u>

## TEXAS SOUTHMOST COLLEGE

STATEMENT OF OPERATING EXPENSES  
BY FUNCTIONAL AND NATURAL CLASSIFICATIONSFOR THE YEAR ENDED AUGUST 31, 2003  
(with memorandum totals for the year ended August 31, 2002)

	Staff Salaries and Wages	State Benefits	Other Expenses	Totals (Memorandum only)	
				2003	2002
<b>Educational Activities</b>					
Instruction	\$ 10,275,447	\$ 2,631,351	\$ 793,979	\$ 13,700,777	\$ 18,360,073
Public Service	318,470	71,209	260,018	649,697	1,721,211
Academic Support	1,722,265	409,461	1,944,696	4,076,422	2,016,359
Student Services	3,134,904	622,976	1,138,862	4,896,742	2,706,614
Institutional Support	3,776,818	885,360	2,043,768	6,705,946	5,044,218
Operation and Maintenance of Plant	1,154,411	273,621	1,947,252	3,375,284	2,863,841
Scholarships and Fellowships	-	-	5,668,667	5,668,667	3,112,830
Total Educational Activities	<u>20,382,315</u>	<u>4,893,978</u>	<u>13,797,242</u>	<u>39,073,535</u>	<u>35,825,146</u>
<b>Auxiliary Enterprises</b>	<u>269,280</u>	<u>54,941</u>	<u>1,232,517</u>	<u>1,556,738</u>	<u>1,500,353</u>
<b>Depreciation Expense</b>	<u>-</u>	<u>-</u>	<u>1,257,306</u>	<u>1,257,306</u>	<u>1,109,660</u>
Total Operating Expenses	<u>\$ 20,651,595</u>	<u>\$ 4,948,919</u>	<u>\$ 16,287,065</u>	<u>\$ 41,887,579</u>	<u>\$ 38,435,159</u>

## TEXAS SOUTHMOST COLLEGE

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2003

<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>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed Through Texas Department of Human Services:</i>			
Child Care Food Program	10.558	TX-031-0006	\$ 18,042
<b><u>U.S. Department of Labor</u></b>			
<i>Passed Through Texas Workforce Commission:</i>			
Texas Workforce Commission	17.250	-	300,144
<b><u>U.S. Department of Education</u></b>			
<i>Passed Through Texas Higher Education Coordinating Board:</i>			
Carl D. Perkins - Vocational Education	84.048	04246	533,031
<b><u>U.S. Department of Human Services</u></b>			
<i>Passed Through Texas Migrant Authority, Inc.:</i>			
Child Day Care Center	93.667	80030	2,110
<b><u>National Aeronautics &amp; Space Administration</u></b>			
<i>Direct Program:</i>			
NASA Research Grant	43.000	NAG 9-1391	5,990
<b><u>U.S. Department of Commerce</u></b>			
<i>Direct Program:</i>			
Economic Development Administration	-	80-01-03392	680,458
Total Federal Financial Assistance			\$ 1,539,775

Notes to the Schedule on the following page.

## TEXAS SOUTHMOST COLLEGE

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(Continued)

FOR THE YEAR ENDED AUGUST 31, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
-------------------------------------------------------	---------------------------	-------------------------------------	---------------------------------------------------

**Note 1: Federal Assistance Reconciliation**

Federal revenue received by Texas Southmost College			
Federal grants and contracts - per schedule			\$ 1,539,775
Federal revenue received by University of Texas at Brownsville			<u>12,517,681</u>
 Total Federal Revenue			 <u>\$ 14,057,456</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 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 general purpose financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The 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 at Texas Southmost College:

<i>Program Name</i>			
Federal Pell Grant Program	84.063	-	\$ 11,860,073
SEOG	84.007	-	266,809
Federal Workstudy Program	84.033	-	<u>390,799</u>
 Total			 <u>\$ 12,517,681</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.

**SCHEDULE D**

**TEXAS SOUTHMOST COLLEGE**

**SCHEDULE OF EXPENDITURES OF STATE AWARDS**

**FOR THE YEAR ENDED AUGUST 31, 2003**

<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Texas Higher Education Coordinating Board Texas Grant Program	-	\$ 1,424,043
Texas College Work Study	-	21,461
Total State Financial Assistance		\$ 1,445,504

**Note 1: State Assistance Reconciliation**

State revenues per Schedule of Expenditures of State Awards		
State financial assistance		\$ 1,445,504
Total State Revenues per Schedule A		\$ 1,445,504

**Note 2: Significant Accounting Policies used in Preparing the Schedule**

The accompanying 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.



TEXAS SOUTHMOST COLLEGE

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES  
AND OTHER CHANGES

FOR THE YEAR ENDED AUGUST 31, 2003  
(with memorandum totals for the year ended August 31, 2002)

	Unrestricted	Auxiliary Enterprises	Restricted
<b>REVENUES</b>			
State allocations - general revenue	\$ 10,916,550	\$ -	\$ 1,827,300
Tuition & fees	11,602,736	1,952,795	-
Taxes for current operations	6,328,924	-	-
Federal grants & contracts	-	-	859,317
State grants & contracts	1,635,604	-	1,445,504
Local grants & contracts	305,556	-	114,643
Investment/endowment income	-	-	-
Sales & service of auxiliary enterprises	-	742,322	-
Other sources:			
Interest income	111,146	16,714	6,386
Miscellaneous income	236,688	-	-
Total current funds revenues	<u>31,137,204</u>	<u>2,711,831</u>	<u>4,253,150</u>
<b>EXPENDITURES &amp; MANDATORY TRANSFERS</b>			
Educational & general:			
Instruction	-	-	80,992
Institutional support	1,043,401	-	-
Transfers to UTB	28,530,079	-	17,077,431
Total educational & general	<u>29,573,480</u>	<u>-</u>	<u>17,158,423</u>
Auxiliary enterprise expenditures:			
Expenditures	-	1,275,702	-
Transfers to UTB	-	281,036	-
Total auxiliary enterprise	<u>-</u>	<u>1,556,738</u>	<u>-</u>
Mandatory transfers to:			
TPEG to restricted & loan funds	<u>(324,296)</u>	<u>-</u>	<u>324,296</u>
Total expenditures & mandatory transfers	<u>29,897,776</u>	<u>1,556,738</u>	<u>16,834,127</u>
<b>OTHER TRANSFERS &amp; ADDITIONS (DEDUCTIONS)</b>			
Nonmandatory transfers	(1,717,184)	(972,009)	-
Federal scholarships/grants by UTB	-	-	12,517,681
Total other transfers & additions (deductions)	<u>(1,717,184)</u>	<u>(972,009)</u>	<u>12,517,681</u>
<b>NET INCREASE (DECREASE) IN FUND BALANCES</b>	<u>\$ (477,756)</u>	<u>\$ 183,084</u>	<u>\$ (63,296)</u>

Totals (Memorandum only)	
2003	2002
\$ 12,743,850	\$ 13,165,590
13,555,531	13,061,479
6,328,924	5,613,191
859,317	606,815
3,081,108	2,629,805
420,199	370,397
-	98,954
742,322	579,237
134,246	20,457
236,688	233,491
<u>38,102,185</u>	<u>36,379,416</u>
80,992	214,631
1,043,401	761,469
<u>45,607,510</u>	<u>42,710,954</u>
<u>46,731,903</u>	<u>43,687,054</u>
1,275,702	1,170,023
281,036	330,330
<u>1,556,738</u>	<u>1,500,353</u>
-	-
<u>48,288,641</u>	<u>45,187,407</u>
(2,689,193)	(2,344,686)
<u>12,517,681</u>	<u>11,017,976</u>
<u>9,828,488</u>	<u>8,673,290</u>
<u>\$ (357,968)</u>	<u>\$ (134,701)</u>

**TEXAS SOUTHMOST COLLEGE**

**DETAIL OF STATE ALLOCATIONS AND TUITION AND FEES**

**FOR THE YEAR ENDED AUGUST 31, 2003**  
 (with memorandum totals for the year ended August 31, 2002)

	<u>Unrestricted</u>	<u>Auxiliary Enterprises</u>	<u>Restricted</u>	<u>Other Funds</u>
<b>State Allocations:</b>				
Education and general support	\$ 10,839,864	\$ -	\$ -	\$ -
State group insurance	-	-	1,617,054	-
Nursing program	-	-	210,246	-
Noncourse-based remedial education	76,686	-	-	-
Total State Allocations	<u>10,916,550</u>	<u>-</u>	<u>1,827,300</u>	<u>-</u>
<b>Tuition and Fees:</b>				
<b>Tuition:</b>				
State Funded Courses				
In-district resident tuition	3,496,824	-	-	-
Out-of-district resident tuition	852,557	-	-	-
TPEG set aside	282,836	-	-	-
Non-resident tuition	624,725	-	-	-
Non-state funded continuing education	775,711	-	-	-
Total Tuition	<u>6,032,653</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fees:</b>				
Computer access fee	835,506	-	-	-
General fees	4,177,541	-	-	-
Student service fee	-	1,657,599	-	-
Automation fee	600,878	-	-	-
Laboratory fee	280,864	-	-	-
Student union fees	-	-	-	989,874
Other fees	311,443	324,134	-	-
Total Fees	<u>6,206,232</u>	<u>1,981,733</u>	<u>-</u>	<u>989,874</u>
<b>Scholarship Allowances and Discounts:</b>				
Scholarship allowances	-	-	(8,006,495)	-
Remissions and exemptions	(636,149)	(28,938)	-	(29,548)
TPEG allowances	-	-	(396,499)	-
Total Scholarship Allowances	<u>(636,149)</u>	<u>(28,938)</u>	<u>(8,402,994)</u>	<u>(29,548)</u>
<b>Total Net Tuition and Fees</b>	<u>\$ 11,602,736</u>	<u>\$ 1,952,795</u>	<u>\$ (8,402,994)</u>	<u>\$ 960,326</u>

Totals (Memorandum only)	
2003	2002
\$ 10,839,864	\$ 11,655,769
1,617,054	1,438,404
210,246	-
76,686	71,417
<u>12,743,850</u>	<u>13,165,590</u>
3,496,824	2,965,982
852,557	732,006
282,836	238,054
624,725	169,537
775,711	1,641,855
<u>6,032,653</u>	<u>5,747,434</u>
835,506	752,777
4,177,541	3,763,839
1,657,599	1,495,153
600,878	554,000
280,864	285,292
989,874	871,700
635,577	590,010
<u>9,177,839</u>	<u>8,312,771</u>
(8,006,495)	(8,075,695)
(694,635)	(140,704)
(396,499)	(180,383)
<u>(9,097,629)</u>	<u>(8,396,782)</u>
<u>\$ 6,112,863</u>	<u>\$ 5,663,423</u>

**TEXAS SOUTHMOST COLLEGE**

**STATEMENT OF CURRENT FUNDS EXPENDITURES BY OBJECT**

**FOR THE YEAR ENDED AUGUST 31, 2003**  
 (with memorandum totals for the year ended August 31, 2002)

	Staff Salaries and Wages	State Benefits	Other Expenses	Capital Outlay
<b>UNRESTRICTED</b>				
Education and General:				
Instruction	\$ 10,003,646	\$ 1,704,922	\$ 742,602	\$ -
Public Service	318,470	56,800	130,450	-
Academic Support	1,706,494	259,832	1,868,285	-
Student Services	2,510,701	398,172	1,022,287	-
Institutional Support	3,776,818	569,074	1,844,448	-
Operation and Maintenance of Plant	1,154,411	245,193	1,175,758	-
Scholarships and Fellowships	-	-	85,117	-
Total Unrestricted	19,470,540	3,233,993	6,868,947	-
<b>RESTRICTED</b>				
Education and General:				
Instruction	271,801	926,429	51,377	-
Public Service	-	14,409	129,568	-
Academic Support	15,771	149,629	76,411	44,855
Student Services	624,203	224,804	116,575	-
Institutional Support	-	316,286	183,333	-
Operation and Maintenance of Plant	-	28,428	-	-
Scholarships and Fellowships	-	-	5,581,550	-
Total Restricted	911,775	1,659,985	6,138,814	44,855
Total Educational and General	20,382,315	4,893,978	13,007,761	44,855
<b>AUXILIARY ENTERPRISES</b>	269,280	54,941	1,232,517	-
Total Expenditures	\$ 20,651,595	\$ 4,948,919	\$ 14,240,278	\$ 44,855

Totals (Memorandum only)	
2003	2002
\$ 12,451,170	\$ 13,289,383
505,720	1,721,211
3,834,611	1,939,237
3,931,160	1,987,969
6,190,340	4,958,308
2,575,362	2,124,358
85,117	3,144,582
<u>29,573,480</u>	<u>29,165,048</u>
1,249,607	5,070,690
143,977	-
286,666	77,122
965,582	351,882
499,619	85,910
28,428	347,313
<u>5,581,550</u>	<u>333,011</u>
<u>8,755,429</u>	<u>6,265,928</u>
<u>38,328,909</u>	<u>35,430,976</u>
<u>1,556,738</u>	<u>1,500,353</u>
<u>\$ 39,885,647</u>	<u>\$ 36,931,329</u>



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

To the Board of Trustees  
Southmost Union Junior College District  
Brownsville, Texas

Members of the Board:

We have audited the financial statements of Texas Southmost College, as of and for the year ended August 31, 2003, and have issued our report thereon dated October 29, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Texas Southmost College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including the Public Funds Investment Act (Chapter 2256, Texas Government Code), 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 that are required to be reported under *Government Auditing Standards*.

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 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 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.

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

*Pattillo, Brown & Hill, C.P.A.*

October 29, 2003

## **SINGLE AUDIT SECTION**





PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees  
Southmost Union Junior College District  
Brownsville, Texas

Members of the Board:

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 for the year ended August 31, 2003. Texas Southmost College's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Texas Southmost College's management. Our responsibility is to express an opinion on Texas Southmost College's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Texas Southmost 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 Texas Southmost 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 programs for the year ended August 31, 2003.

Internal Control Over Compliance

The management of Texas Southmost College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Texas Southmost College's internal control over compliance with requirements that could have a direct and material effect on a major federal 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.

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 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 that would be material in relation to a major federal 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 operations that we consider to be material weaknesses.

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

*Patullo, Zamm & Hall, LLP.*

October 29, 2003

TEXAS SOUTHMOST COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2003

**A. Summary of Auditors' Results**

- |                                                                                                                |                                           |
|----------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| 1. Type of auditors' report on financial statements:                                                           | <i>Unqualified.</i>                       |
| 2. Regarding internal control over financial reporting:<br>Material weakness(es) identified:                   | <i>No.</i>                                |
| Reportable condition(s) identified that are not considered<br>to be material weaknesses:                       | <i>None reported.</i>                     |
| 3. Noncompliance which is material to the financial statements:                                                | <i>No.</i>                                |
| 4. Regarding internal control over major programs:<br>Material weakness(es) identified:                        | <i>No.</i>                                |
| Reportable condition(s) identified that are not considered<br>to be material weaknesses:                       | <i>None reported.</i>                     |
| 5. Type of auditors' report on compliance for major programs:                                                  | <i>Unqualified.</i>                       |
| 6. Any audit findings which are required to be reported in<br>accordance with OMB Circular A-133, Sec. 510(a): | <i>No.</i>                                |
| 7. Major federal programs include:                                                                             | <i>CFDA 84.048 Carl D. Perkins Grant.</i> |
| 8. Dollar threshold used to distinguish between Type A and<br>Type B programs:                                 | <i>\$300,000.</i>                         |
| 9. Low risk auditee:                                                                                           | <i>Yes.</i>                               |

**B. Findings Relating to the Financial Statements which are Required to be Reported  
in Accordance with Generally Accepted Government Auditing Standards**

*None reported.*

**C. Findings and Questioned Costs for Federal Awards**

Program	<i>None.</i>
Findings/noncompliance	<i>None.</i>
Questioned costs	<i>Not applicable.</i>

**TEXAS SOUTHMOST COLLEGE**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED AUGUST 31, 2003**

**Findings and Questioned Costs for Federal Awards**

Program	<i>None.</i>
Findings/noncompliance	<i>None.</i>
Questioned costs	<i>Not applicable.</i>

# **STATISTICAL SUPPLEMENT**

TEXAS SOUTHMOST COLLEGE

HEADCOUNT ENROLLMENT

LAST 10 FISCAL YEARS

(UNAUDITED)

<u>Fiscal Year</u>	<u>Total</u>
1993-94	16,202
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

**TEXAS SOUTHMOST COLLEGE**  
**PROPERTY TAX RATES ASSESSED \***  
**LAST 10 FISCAL YEARS**  
**(UNAUDITED)**

<u>Fiscal Year</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
1993-94	\$ 0.063000	\$ 0.044550	\$ 0.107550
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

\* Per \$100 Valuation

**TEXAS SOUTHMOST COLLEGE**  
**PROPERTY TAX RATES AUTHORIZED \***  
**LAST 10 FISCAL YEARS**  
**(UNAUDITED)**

<u>Fiscal Year</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
1993-94	\$ 0.500000	\$ 0.500000	\$ 1.000000
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

\* Per \$100 Valuation



TEXAS SOUTHMOST COLLEGE

CONTACT HOUR INFORMATION

LAST 10 FISCAL YEARS

(UNAUDITED)

Fiscal Year	Contact Hours		Total
	Academic	Voc Tech	
1993-94	1,946,864	855,698	2,802,562
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

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>
1993-94	\$ 3,079,170,904	\$ -	\$ 3,079,170,904
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

**TEXAS SOUTHMOST COLLEGE**

**PROPERTY TAX COLLECTED**

**LAST 10 FISCAL YEARS**

**(UNAUDITED)**

<u>Fiscal Year</u>	<u>Current Tax Collections</u>	<u>Delinquent Collections</u>	<u>Total Tax Collections</u>
1993-94	\$ 3,053,124	\$ 134,766	\$ 3,187,890
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

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

<u>Fiscal Year</u>	<u>Appropriations Per FTSE</u>
1993-94	\$ 759
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

\* Full Time Student Equivalent