



TEXAS SOUTHMOST COLLEGE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
YEAR ENDED AUGUST 31, 1997

**TEXAS SOUTHMOST COLLEGE**

**COMPREHENSIVE  
ANNUAL FINANCIAL REPORT**

**AUGUST 31, 1997**

**TEXAS SOUTHMOST COLLEGE**

**ORGANIZATIONAL DATA**

**FOR THE FISCAL YEAR 1996 - 1997**

**BOARD OF TRUSTEES**

**Officers**

Anthony Carnesi, Jr.	Chairperson
David Oliveira	Vice-Chairperson
Chester Gonzalez	Secretary

**Members**

Mary Rose Cardenas	Brownsville, Texas	May, 2002
Anthony Carnesi, Jr.	Brownsville, Texas	May, 2000
Chester Gonzalez	Brownsville, Texas	May, 1998
David Oliveira	Brownsville, Texas	May, 2000
Praxedis Orive, Jr.	Brownsville, Texas	May, 1998
Dr. Joseph Zavaletta	Brownsville, Texas	May, 1998
Dolly Zimmerman	Brownsville, Texas	May, 2002

**Principal Administrative Officers**

Dr. Juliet V. Garcia	President, UTB/TSC
Dr. Wayne J. Moore, Jr.	Vice-President for Administration and Planning UTB/TSC
George F. Haylock, Jr.	District Office Manager
Pat Celaya	District Comptroller

**TEXAS SOUTHMOST COLLEGE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS**

**AUGUST 31, 1997**

	<u>Exhibit</u>	<u>Page Number</u>
<b>FINANCIAL SECTION</b>		
Report of Independent Certified Public Accountants .....		1
<b>Financial Statements</b>		
Balance Sheet .....	A	2 - 3
Statement of Changes in Fund Balances .....	B	4
Statement of Current Funds Revenue, Expenditures and Other Changes .....	C	5
Notes to the Financial Statements .....		6 - 22
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards .....		23 - 24
<b>Schedules</b>		
Schedule of Cash, Cash Equivalents and Investments .....	A - 1	25
Statement of Current Fund Revenue .....	C - 1	26
Schedule of Changes in Taxes Receivable .....	C - 4	27
Bonds Payable and Debt Service Requirements .....	D - 1	28
Schedule of Pledged Revenue and Fund Balances for Revenue Bonds Outstanding .....	D - 2	29

(continued)

**TEXAS SOUTHMOST COLLEGE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS**  
**(Continued)**  
**AUGUST 31, 1997**

	<u>Exhibit</u>	<u>Page Number</u>
<b>SINGLE AUDIT SECTION</b>		
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....		30 - 31
Schedule of Federal Financial Assistance .....	D - 3	32 - 34
Schedule of Findings and Questioned Costs .....		35
Schedule of Status of Prior Findings . . . . .		36
<b>SUPPLEMENTARY INFORMATION SECTION</b>		
Report of Independent Certified Public Accountants on Supplementary Information .....		37
Statement of Current Funds Revenue, Expenditures and Other Changes .....	C	38
Statement of Current Funds Expenditures by Object .....	C - 2	39
Schedule of Unrestricted Current Funds - Educational and General Expenditures - Summarized by Elements of Institutional Costs .....	C - 3	40 - 41
Schedule of Expenditures Compared With Budget - General and Auxiliary Enterprise Funds .....		42 - 46
<b>Auxiliary Enterprise Fund</b>		
Balance Sheet .....		47
Statement of Changes in Fund Balance .....		48
Statement of Revenue and Expenditures .....		49

**TEXAS SOUTHMOST COLLEGE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS**  
**(Continued)**  
**AUGUST 31, 1997**

	<u>Exhibit</u>	<u>Page</u> <u>Number</u>
<b>SUPPLEMENTARY INFORMATION SECTION (Continued)</b>		
<b>Student Assistance Funds</b>		
Combining Balance Sheet .....		50
Combining Statement of Changes in Fund Balance .....		51
Combining Statement of Revenue and Expenditures .....		52
<b>Loan Funds</b>		
Combining Balance Sheet .....		53
Combining Statement of Changes in Fund Balance .....		54
<b>Endowment Funds</b>		
Combining Balance Sheet. ....		55
Combining Statement of Changes in Fund Balances .....		56
<b>Plant Funds</b>		
Balance Sheet - Unexpended Funds .....		57
Statement of Changes in Fund Balance - Unexpended Funds .....		58
Balance Sheet - Renewals and Replacements .....		59
Statement of Changes in Fund Balance - Renewals and Replacements .....		60
Combining Balance Sheets - Retirement of Indebtedness .....		61

(continued)

**TEXAS SOUTHMOST COLLEGE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS**  
**(Continued)**  
**AUGUST 31, 1997**

	<u>Page</u>	<u>Number</u>
<b>SUPPLEMENTARY INFORMATION SECTION (Continued)</b>		
Combining Statement of Changes in Fund Balances - Retirement of Indebtedness .....	62	
Balance Sheet - Investment in Plant .....	63	
Statement of Changes in Fund Balance - Investment in Plant .....	64	
Schedule of General Fixed Assets .....	65 - 66	
<b>Agency Funds</b>		
Combining Balance Sheet. ....	67	
Combining Statement of Changes in Fund Balances .....	68	
<b>Bond Schedules</b>		
Southmost Union Junior College District - School Building Tax Bonds - Series 1987 and 1988 .....	69	
Southmost Union Junior College District - Refunding Tax Bonds - Series 1994 .....	70	

# **FINANCIAL SECTION**



**PATTILLO, BROWN, HILL & CASCOS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying general purpose financial statements of Texas Southmost College, as of and for the year ended August 31, 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of Texas Southmost College's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Texas Southmost College, as of August 31, 1997, and the results of operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 14, 1997, on our consideration of Texas Southmost College's internal control structure and a report dated November 14, 1997, on its compliance with laws and regulations.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Texas Southmost College, taken as a whole. 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 Nonprofit Organizations", and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

*Pattillo, Brown, Hill & Cascos, L.L.P.*

November 14, 1997

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**TEXAS SOUTHMOST COLLEGE**

**BALANCE SHEET**

**AUGUST 31, 1997**

**(With Comparative Totals at August 31, 1996)**

	<u>Current Funds</u>				
	<u>Unrestricted</u>	<u>Auxiliary Enterprises</u>	<u>Restricted</u>	<u>Total</u>	<u>Loan Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$3,252,502	\$ 36,534	\$ 83,237	\$3,372,273	\$ 67,969
Accounts receivable (net of allowance for doubtful accounts of \$9,000 both years)	190,654	152,182	6,497	349,333	-
Taxes receivable (net of allowance for doubtful accounts of \$18,350 & \$27,933 at August 31, 1997, and 1996 respectively)	608,881	-	-	608,881	-
Due from other funds	654,012	15,350	177,153	846,515	-
Investments	-	384,154	-	384,154	-
Accrued interest receivable	-	-	-	-	-
Due from other agencies	655,240	-	-	655,240	76,601
Federal receivables	-	-	652,473	652,473	-
Deposits	-	-	-	-	-
Notes receivable (net of allowance for doubtful accounts of \$94,148 & \$92,373 at August 31, 1997 and 1996, respectively)	-	-	-	-	9,771
Consumable inventories	-	-	-	-	-
Land	-	-	-	-	-
Buildings	-	-	-	-	-
Improvements other than buildings	-	-	-	-	-
Equipment	-	-	-	-	-
Library books	-	-	-	-	-
Construction in progress	-	-	-	-	-
Assets held in trust	-	-	-	-	-
Amounts to be provided interest payable on capital appreciation bonds	-	-	-	-	-
<b>Total Assets</b>	<b>\$5,361,289</b> =====	<b>\$ 588,220</b> =====	<b>\$ 919,360</b> =====	<b>\$6,868,869</b> =====	<b>\$ 154,341</b> =====

See accompanying notes to the financial statements.

EXHIBIT A

Endowment and Similar Funds	Annuity and Life Income Funds	Plant Funds				Agency Funds	Totals (Memorandum Only)	
		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant		August 31, 1997	August 31, 1996
\$ 2,684	\$ -	\$ 84,849	\$1,028,652	\$ 233,249	\$ -	\$ 7,374	\$ 4,797,050	\$ 3,908,625
-	-	-	185	-	-	-	349,518	403,393
-	-	-	-	321,070	-	-	929,951	903,155
-	-	-	161,115	8,092	-	-	1,015,722	806,686
56,905	-	3,359,754	3,150,349	-	-	-	6,951,162	5,844,453
-	-	116,899	77,367	-	-	-	194,266	217,980
-	-	-	-	-	-	-	731,841	-
-	-	-	-	-	-	-	652,473	534,318
-	-	50,750	-	-	-	-	50,750	50,000
-	-	-	-	-	-	-	9,771	9,771
-	-	-	-	-	-	-	-	5,869
-	-	-	-	-	2,924,049	-	2,924,049	2,690,139
-	-	-	-	-	23,969,159	-	23,969,159	22,770,000
-	-	-	-	-	5,870,705	-	5,870,705	5,843,856
-	-	-	-	-	6,096,810	-	6,096,810	8,084,469
-	-	-	-	-	8,220,480	-	8,220,480	7,780,253
-	-	-	-	-	895,453	-	895,453	1,152,302
-	-	-	-	-	351,064	-	351,064	351,064
-	-	-	-	-	623,560	-	623,560	623,560
\$ 59,589	\$ -	\$3,612,252	\$4,417,668	\$ 562,411	\$48,951,280	\$ 7,374	\$64,633,784	\$61,979,893

(continued)

**TEXAS SOUTHMOST COLLEGE**

**BALANCE SHEET**

(Continued)

AUGUST 31, 1997

(With Comparative Totals at August 31, 1996)

	Current Funds				
	<u>Unrestricted</u>	<u>Auxiliary Enterprises</u>	<u>Restricted</u>	<u>Total</u>	<u>Loan Funds</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 20,373	\$ 632	\$ 167,810	\$ 188,815	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	844,861	28,446	664,094	1,537,401	-
Due to other agencies	2,029,630	-	-	2,029,630	-
Deferred revenue	2,157,079	-	-	2,157,079	-
Accrued compensable absences payable	38,659	-	-	38,659	-
Bonds payable (net of unamortized premium discount of \$0 as of 08/31/97)	-	-	-	-	-
Funds held in custody for others	-	-	-	-	-
Total Liabilities	<u>5,090,602</u>	<u>29,078</u>	<u>831,904</u>	<u>5,951,584</u>	<u>-</u>
<b>Fund Balance:</b>					
<b>Unrestricted</b>					
<b>Reserved</b>					
Accounts receivable	190,654	-	-	190,654	-
Consumable inventory	-	-	-	-	-
<b>Unreserved</b>					
<b>Designated</b>					
Capital projects	-	-	-	-	-
College loan funds	-	-	-	-	90,437
Undesignated	80,033	559,142	-	639,175	-
<b>Restricted</b>					
<b>Other</b>					
Institutional matching funds	-	-	87,456	87,456	63,904
Net investment in plant	-	-	-	-	-
Total Fund Balance	<u>270,687</u>	<u>559,142</u>	<u>87,456</u>	<u>917,285</u>	<u>154,341</u>
Total Liabilities and Fund Balance	<u>\$5,361,289</u>	<u>\$ 588,220</u>	<u>\$ 919,360</u>	<u>\$6,868,869</u>	<u>\$ 154,341</u>

See accompanying notes to the financial statements

EXHIBIT A

Endowment and Similar Funds	Annuity and Life Income Funds	Plant Funds				Totals (Memorandum Only)		
		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Agency Funds	August 31, 1997	August 31, 1996
\$ -	\$ -	\$ 871,202	\$ 357,186	\$ -	\$ -	\$ -	\$ 1,417,203	\$ 66,838
-	-	-	-	-	623,561	-	623,561	623,560
-	-	-	134,986	321,070	-	-	1,993,457	806,686
-	-	-	-	-	-	-	2,029,630	498,493
-	-	-	-	-	-	-	2,157,079	2,366,465
-	-	-	-	-	-	-	38,659	52,096
-	-	-	-	-	8,954,999	-	8,954,999	9,804,999
-	-	-	-	-	-	7,374	7,374	7,098
-	-	871,202	492,172	321,070	9,578,560	7,374	17,221,962	14,226,235
-	-	-	-	-	-	-	190,654	322,049
-	-	-	-	-	-	-	-	5,869
-	-	2,741,050	3,925,496	-	-	-	6,666,546	7,007,544
-	-	-	-	-	-	-	90,437	88,971
-	-	-	-	-	-	-	639,175	951,969
19,656	-	-	-	241,341	-	-	412,357	447,078
39,933	-	-	-	-	-	-	39,933	63,094
-	-	-	-	-	39,372,721	-	39,372,721	38,867,084
59,589	-	2,741,050	3,925,496	241,341	39,372,721	-	47,411,822	47,753,658
\$ 59,589	\$ -	\$3,612,252	\$4,417,668	\$ 562,411	\$48,951,280	\$ 7,374	\$64,633,784	\$61,979,893

**TEXAS SOUTHMOST COLLEGE**

**STATEMENT OF CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED AUGUST 31, 1997  
(With Comparative Totals at August 31, 1996)**

	Current Funds				
	Unrestricted	Auxiliary Enterprises	Restricted	Total	Loan Funds
<b>REVENUE AND OTHER ADDITIONS</b>					
Unrestricted current funds revenue	\$24,082,100	\$1,744,722	\$ -	\$25,826,822	\$ -
State appropriations - restricted	-	-	-	-	-
Federal grants and contracts	-	-	1,174,324	1,174,324	-
State grants and contracts	-	-	247,446	247,446	-
Local gifts, grants and contracts	-	-	35,801	35,801	-
Investment/endowment income	-	-	3,288	3,288	2,276
Realized gains on investments	-	-	-	-	-
Net change in bonds payable	-	-	-	-	-
Net change in notes payable	-	-	-	-	-
Expended for plant facilities (includes \$0 charged to current funds expenditures)	-	-	-	-	-
Other additions	-	-	-	-	-
Total Revenue and Other Additions	<u>24,082,100</u>	<u>1,744,722</u>	<u>1,460,859</u>	<u>27,287,681</u>	<u>2,276</u>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>					
Expenditures	21,520,446	1,413,083	7,957,330	30,890,859	-
Expended for plant facilities	-	-	-	-	-
Loan cancellations and write-offs	-	-	-	-	-
Retirement of indebtedness - bonds	-	-	-	-	-
Interest on indebtedness	-	-	-	-	-
Other deductions	-	-	-	-	-
Total Expenditures and Other Deductions	<u>21,520,446</u>	<u>1,413,083</u>	<u>7,957,330</u>	<u>30,890,859</u>	<u>-</u>
<b>TRANSFERS-ADDITIONS (DEDUCTIONS)</b>					
Mandatory transfers					
TPEG	-	-	-	-	-
SEOG	-	-	-	-	-
Nonmandatory transfers					
Other	(3,062,279)	( 275,203)	( 8,857)	(3,346,339)	-
Total Transfers - Additions (Deductions)	<u>(3,062,279)</u>	<u>( 275,203)</u>	<u>6,513,171</u>	<u>6,513,171</u>	<u>-</u>
Total Transfers - Additions (Deductions)	<u>(3,062,279)</u>	<u>( 275,203)</u>	<u>6,504,314</u>	<u>3,166,832</u>	<u>-</u>
<b>NET INCREASE (DECREASE) FOR THE FISCAL YEAR</b>	<u>( 500,625)</u>	<u>56,436</u>	<u>7,843</u>	<u>( 436,346)</u>	<u>2,276</u>
<b>FUND BALANCES, SEPTEMBER 1, 1996 - RESTATED</b>	<u>771,312</u>	<u>502,706</u>	<u>79,613</u>	<u>1,353,631</u>	<u>152,065</u>
<b>FUND BALANCES, AUGUST 31, 1997</b>	\$ 270,687	\$ 559,142	\$ 87,456	\$ 917,285	\$ 154,341
	=====	=====	=====	=====	=====

See accompanying notes to the financial statements.

EXHIBIT B

Endowment and Similar Funds	Annuity and Life Income Funds	Plant Funds				Agency Funds	Totals (Memorandum Only)	
		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant		August 31, 1997	August 31, 1996
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$25,826,822	\$24,188,375
-	-	-	-	-	-	-	-	30,248
-	-	-	-	-	-	-	1,174,324	1,363,263
-	-	-	-	-	-	-	247,446	-
-	-	-	-	-	-	-	35,801	9,171
13,640	-	160,413	250,739	19,104	-	-	449,460	223,527
-	-	-	-	-	-	-	-	1,056
-	-	-	-	-	850,000	-	850,000	800,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	1,463,805	-	1,463,805	2,205,434
-	-	-	37,071	1,209,356	-	-	1,246,427	1,556,667
<u>13,640</u>	<u>-</u>	<u>160,413</u>	<u>287,810</u>	<u>1,228,460</u>	<u>2,313,805</u>	<u>-</u>	<u>31,294,085</u>	<u>30,377,741</u>
1,600	-	-	-	-	-	-	30,892,459	28,302,525
-	-	2,288,726	1,593,730	-	-	-	3,882,456	2,381,801
-	-	-	-	850,000	-	-	850,000	17,133
-	-	-	-	456,165	-	-	456,165	800,000
-	-	-	-	870	1,808,169	-	1,809,039	516,848
<u>1,600</u>	<u>-</u>	<u>2,288,726</u>	<u>1,593,730</u>	<u>1,307,035</u>	<u>1,808,169</u>	<u>-</u>	<u>37,890,119</u>	<u>32,623,900</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	1,218,030	1,875,205	-	-	-	(253,104)	-
-	-	-	-	-	-	-	6,513,171	5,890,719
<u>-</u>	<u>-</u>	<u>1,218,030</u>	<u>1,875,205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,260,067</u>	<u>5,890,719</u>
12,040	-	( 910,283)	569,285	( 78,575)	505,636	-	(335,967)	3,644,560
<u>47,549</u>	<u>-</u>	<u>3,651,333</u>	<u>3,356,211</u>	<u>319,916</u>	<u>38,867,084</u>	<u>-</u>	<u>47,747,789</u>	<u>44,109,098</u>
\$ 59,589	\$ -	\$2,741,050	\$3,925,496	\$ 241,341	\$39,372,720	\$ -	\$47,411,822	\$47,753,658
=====	=====	=====	=====	=====	=====	=====	=====	=====



TEXAS SOUTHMOST COLLEGE

EXHIBIT C

STATEMENT OF CURRENT FUNDS REVENUE, EXPENDITURES  
AND OTHER CHANGES

FOR THE YEAR ENDED AUGUST 31, 1997  
(With Memorandum Totals for the Year Ended August 31, 1996)

	Unrestricted	Auxiliary Enterprises	Restricted	Totals (Memorandum Only)	
				1997	1996
<b>REVENUE</b>					
State appropriations - general revenue	\$10,320,956	\$ -	\$ -	\$10,320,956	\$10,009,120
Tuition and fees	7,876,607	1,485,386	-	9,361,993	7,935,130
Taxes for current operation	1,964,638	-	-	1,964,638	1,879,329
Federal grants and contracts	140,789	-	1,174,324	1,315,113	1,343,309
State grants and contracts	3,000,000	-	247,446	3,247,446	3,000,000
Local grants and contracts	375,702	-	35,801	411,503	897,855
Investment/endowment income	210,327	-	3,288	213,615	275,302
Sales and service of auxiliary enterprises	-	233,304	-	233,304	201,536
Other sources	-	-	-	-	-
Interest income	-	21,632	-	21,632	22,892
Gains/losses on investments	-	-	-	-	-
Miscellaneous income	193,081	4,400	-	197,481	9,127
Total Current Funds Revenue	<u>24,082,100</u>	<u>1,744,722</u>	<u>1,460,859</u>	<u>27,287,681</u>	<u>25,573,600</u>
<b>EXPENDITURES AND MANDATORY TRANSFERS</b>					
Educational and General:					
Instruction	-	-	-	-	119,362
Institutional support	971,384	-	-	971,384	882,049
Scholarships and fellowships	-	-	-	-	126,151
Transfers to UTB	20,549,062	-	7,957,330	28,506,392	25,986,778
Total Educational and General Expenditures	<u>21,520,446</u>	<u>-</u>	<u>7,957,330</u>	<u>29,477,776</u>	<u>27,114,340</u>
Auxiliary Enterprise Expenditures:					
Expenditures	-	202,902	-	202,902	208,905
Transfers to UTB	-	1,210,181	-	1,210,181	977,683
Total Auxiliary Enterprise Expenditures	<u>-</u>	<u>1,413,083</u>	<u>-</u>	<u>1,413,083</u>	<u>1,186,588</u>
Mandatory Transfers for:					
TPEG to restricted	-	-	-	-	-
SEOG matching	-	-	-	-	-
Total Mandatory Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures and Mandatory Transfers	<u>21,520,446</u>	<u>1,413,083</u>	<u>7,957,330</u>	<u>30,890,859</u>	<u>28,300,928</u>
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)</b>					
Nonmandatory transfers	(3,062,279)	( 275,203)	( 8,857)	(3,346,339)	(5,804,005)
Excess of TPEC transfer over grant awarded	-	-	-	-	78,939
Federal scholarships/grants by UTB	-	-	6,513,171	6,513,171	5,890,719
Total Other Transfers and Additions (Deductions)	<u>(3,062,279)</u>	<u>( 275,203)</u>	<u>6,504,314</u>	<u>3,166,832</u>	<u>165,653</u>
<b>NET INCREASE (DECREASE) IN FUND BALANCES</b>	<u>\$( 500,625)</u>	<u>\$ 56,436</u>	<u>\$ 7,843</u>	<u>\$( 436,346)</u>	<u>\$(2,561,675)</u>

See accompanying notes to the financial statements.

# **TEXAS SOUTHMOST COLLEGE**

## **NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 1997**

### **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 recordkeeping 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. These requirements are in substantial conformity with, the AICPA Industry Audit Guide, Audits of Colleges and Universities, as amended by AICPA Statement of Position (SOP) 74-8, Financial Accounting and Reporting by Colleges and Universities, and as modified by applicable FASB pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements cited in Codification Section Co5, "Colleges and Universities."

#### **Basis of Accounting**

The financial statements of Texas Southmost College have been prepared on the accrual basis of accounting except that depreciation expense related to plant fund assets is not recorded. The Statement of Current Funds Revenue, Expenditures and Other Changes is a statement of financial activities of current funds related to the reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

(continued)

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

### Basis of Accounting (Continued)

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

Inventories, consisting of consumable office supplies, are valued at cost under the "first-in, first-out" method.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of equipment, library holdings, and livestock; (2) mandatory transfers in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

### Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available to the college, accounts are maintained in accordance with the principles of "fund accounting." Resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded by fund group.

Within each fund group, fund balances restricted by outside sources are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

Endowment and Similar Funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. Term endowment funds are similar to other endowment funds, except that all or part of the principal may be utilized after a stated period of time or upon the occurrence of a certain event. Funds functioning as endowments are funds that the governing board has approved to be used as endowments.

(continued)

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

### Fund Accounting (Continued)

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned the assets. Ordinary income derived from investments, receivables, and other sources is accounted for in the fund owning such assets, except for income derived from investment of Endowment and Similar Funds. That income is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds.

All other unrestricted revenue is accounted for in the appropriate unrestricted fund. Restricted gifts, grants, appropriation, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenue and expenditures when expended for current operating purposes. Contract and grant awards for the current reporting period are shown as additions to fund balances in Restricted Current Funds.

The different fund groups used at Texas Southmost College are as follows:

### Current Funds

Funds available for current operating and maintenance purposes, as well as those restricted by donors and other outside agencies for specific operating purposes. Current funds are segregated into separate balanced funds groups.

*Unrestricted Current Funds* - Funds received by an institution that have no limitations or stipulations placed on them by external agencies or donors. The funds are used for carrying out the primary purpose of an institution, i.e. educational, research, extension and administration.

*Auxiliary Enterprises* - Funds for activities that serve students, faculty, or staff for charges that are directly related to, although not necessarily equal to, the cost of the service. Examples are residence halls, food services and book stores.

*Restricted Current Funds* - Funds available for current purposes, but with restrictions from outside agencies or persons. Revenue is reported only to the extent of expenditures for the current year.

### Loan Funds

Funds available for loans to students, faculty and staff.

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

### **Endowment and Similar Funds**

Funds subject to restrictions of endowment and trust instruments requiring that principal be maintained and that only the income be spent.

### **Annuity and Life Income Funds**

The Annuity Funds group consists of funds donated to an institution on the condition that the institution pay a stipulated amount of the funds to the donor or designated individual for a specified time or until the time of death of the annuitant. The Life Income Funds Group consists of funds contributed to an institution subject to the requirement that the institution periodically pay the income earned on the assets (less management expenses) to designated beneficiaries.

### **Plant Funds**

Plant funds are divided into these separate balanced fund groups:

***Unexpended*** - Funds for the construction, rehabilitation, and acquisition of physical properties for institutional purposes.

***Renewals and Replacements*** - Funds accumulated for the renewal and replacement of physical plant properties.

***Retirement of Indebtedness*** - Funds accumulated to meet debt service charges and the retirement of indebtedness.

***Investment in Plant*** - Funds already expended for plant properties. Physical properties are stated at cost at date of acquisition or fair market value at date of donation for gifts. Depreciation on physical plant and equipment is not recorded.

### **Agency Funds**

Funds held by the College as custodial or fiscal agent for students, faculty members, and/or others.

### **Memorandum Totals**

The Balance Sheet in columnar form, the Statement of Changes in Fund Balances, and the Statement of Current Funds Revenue, Expenditures and Other Changes are shown with memorandum totals for the current and prior years. Interfund borrowing has not been eliminated, but has been off-set in the assets and liability sections. The memorandum totals are presented only to facilitate financial analysis and do not purport to present financial position, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

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**3. AUTHORIZED INVESTMENTS**

While the Board of Trustees of Texas Southmost College has adopted a written investment policy regarding the investment of its funds, it had not been in compliance with the Public Funds Investment Act as amended in 1995 (Chapter 2256, Texas Government Code). The investments of the College are in compliance with the Trustees' investment policies. The Board implemented a policy at the beginning of FY 1998 that complies with the law.

**4. DEPOSITS AND INVESTMENTS**

At August 31, 1997, the carrying amount of Texas Southmost College deposits was \$6,074,306, and total bank balances equalled \$11,688,975. Bank balances of \$100,000 are covered by federal depository insurance and \$19,265,876 was covered by collateral pledged in Texas Southmost College's name. The collateral was held by Texas Southmost College or by its agent (Category 1). Bank balances totaling \$-0- were collateralized with securities held by the pledging financial institution's trust department or agent in Texas Southmost College's name (Category 2). There were no bank balances uncollateralized at fiscal year-end (Category 3).

**Cash and Deposits**

Bank Deposits		
Demand deposits		\$6,074,306
Cash and Cash Equivalents		
Petty cash on hand	\$ 2,410	
Local funds in state treasury	<u>100</u>	<u>2,510</u>
Total Cash and Deposits		<u>\$6,076,816</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 institution in the institution's name.

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4. **DEPOSITS AND INVESTMENTS (Continued)**

**Cash and Deposits (Continued)**

**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.

<u>Type of Security</u>	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Corporate stocks	\$ -	\$ 56,827	\$ -	\$ 56,827	\$ 56,827
Totals	\$ -	\$ 56,827	\$ -	\$ 56,827	\$ 56,827

5. **BONDS AND VARIABLE RATE NOTES PAYABLE**

General information related to bonds payable is summarized below:

- a. Library Revenue Bonds, Series 1975-A
  - To construct, improve and equip the library building
  - Issued May 31, 1975
  - \$800,000; all authorized bonds have been issued
  - Source of revenue for debt service - building use fees, library lease revenue
  - Outstanding balance at August 31, 1997, was \$-0-
- b. School Building Tax Bonds, Series 1987 - 1988
  - To construct, improve various buildings within the District
  - Issued March 12, 1987 and March 10, 1988
  - \$13,500,000; all authorized bonds have been issued
  - Source of revenue for debt service - ad valorem tax levy
  - Outstanding balance at August 31, 1997, was \$870,000
- c. Refunding Tax Bonds, Series 1994
  - To refund certain outstanding School Building Tax Bonds, Series 1987 and Series 1988

(continued)

**5. BONDS AND VARIABLE RATE NOTES PAYABLE (Continued)**

- Issued March 31, 1994
- Source of revenue for debt service - ad valorem tax levy
- Outstanding balance at August 31, 1997, was \$8,084,999

Bonds and variable rate notes payable are due in annual installments varying from \$155,000 to \$1,185,000 with interest rates from 3.2% to 7.7% 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 <u>August 31,</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>	Balance of Principal <u>Outstanding</u>
1998	\$ 1,235,631	\$ 400,631	\$ 835,000	\$ 8,119,999
1999	1,200,843	355,843	845,000	7,274,999
2000	1,254,150	314,150	940,000	6,334,999
2001	1,229,720	269,720	960,000	5,374,999
2002	1,196,440	790,581	405,859	4,969,140
2003	1,236,440	857,300	379,140	4,590,000
2004	1,210,700	220,700	990,000	3,600,000
2005	1,241,473	166,473	1,075,000	2,525,000
2006	1,222,880	107,880	1,115,000	1,410,000
2007	1,230,188	45,188	1,185,000	225,000
2008	<u>231,300</u>	<u>6,300</u>	<u>225,000</u>	<u>-</u>
	<u>\$12,489,765</u>	<u>\$ 3,534,766</u>	<u>\$ 8,954,999</u>	<u>\$ -</u>

**6. ADVANCE REFUNDING BONDS**

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

- Issued refunding bonds on March 31, 1994
- \$8,509,999, all authorized bonds have been issued
- Average interest rate of bonds refunded - 7.8%
- 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 has 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

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