

TEXAS SOUTHMOST COLLEGE

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

AUGUST 31, 1998

TEXAS SOUTHMOST COLLEGE
ORGANIZATIONAL DATA
FOR THE FISCAL YEAR 1997-1998

BOARD OF TRUSTEES

Officers

Mary Rose Cardenas	Chairperson
Prax Orive	Vice - Chairperson
Rosemary Breedlove	Secretary

Members

Mary Rose Cardenas	Brownsville, Texas	May, 2002
Prax Orive	Brownsville, Texas	May, 2004
Rosemary Breedlove	Brownsville, Texas	May, 2004
David Oliveira	Brownsville, Texas	May, 2000
Chester Gonzalez	Brownsville, Texas	May, 2004
Dolly Zimmerman	Port Isabel, Texas	May, 2002
Dr. Roberto Robles	Brownsville, Texas	May, 2000

Principal Administrative Officers

Dr. Juliet V. Garcia	President, UTB/TSC
Dr. Antonio Zavaletta	Vice-President for Administration And Planning UTB/TSC
George F. Haylock, Jr.	District Office Manager
Pat Celaya	District Comptroller

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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FINANCIAL SECTION

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

INDEPENDENT AUDITORS' REPORT

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, 1998, 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 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Southmost College, as of August 31, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have issued a report dated November 6, 1998, on our consideration of Texas Southmost College's internal control structure and a report dated November 6, 1998, 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.

Patillo, Brown, Hill & Cascos, L.L.P.

November 6, 1998

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TEXAS SOUTHMOST COLLEGE

BALANCE SHEET

AUGUST 31, 1998

(With comparative totals at August 31, 1997)

	Current Funds				
	Unrestricted	Auxiliary Enterprises	Restricted	Total	Loan Funds
ASSETS					
Cash & cash equivalents	\$ 1,625,459	\$ 35,264	\$ 12,681	\$ 1,673,404	\$ 79,482
Accounts receivable (net of allowance for doubtful accounts of \$9,000 both years)	568,968	141,875	-	710,843	-
Taxes receivable (net of allowance for doubtful accounts of \$30,601 & \$18,350 at August 31, 1998 & 1997, respectively)	581,414	-	-	581,414	-
Due from other funds	826,465	38,820	197,210	1,062,495	-
Investments	20,024	415,712	-	435,736	-
Accrued interest receivable	-	698	-	698	-
Due from other agencies	-	1,374	6,498	7,872	76,601
Federal receivables	-	-	466,966	466,966	-
Deposits	-	-	-	-	-
Notes receivable (net of allowance for doubtful accounts of \$114,333 & \$94,148 at August 31, 1998 & 1997, respectively)	-	-	-	-	19,542
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	-	-	-	-	-
Total assets	<u>\$ 3,622,330</u>	<u>\$ 633,743</u>	<u>\$ 683,355</u>	<u>\$ 4,939,428</u>	<u>\$ 175,625</u>

See accompanying notes to the financial statements.

EXHIBIT A

Endowment & similar funds	Annuity & life income funds	Plant Funds					Agency Funds	Totals (Memorandum only)	
		Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant	1998		1997	
\$ 2,978	\$ -	\$ 581,823	\$ 1,120,848	\$ 263,300	\$ -	\$ 7,661	\$ 3,729,496	\$ 4,797,050	
-	-	-	185	-	-	-	711,028	349,518	
-	-	-	-	306,210	-	-	887,624	929,951	
-	-	2,308	94,751	15,599	-	-	1,175,153	1,015,722	
46,005	-	1,250,479	3,329,182	-	-	-	5,061,402	6,951,162	
-	-	3,488	5,532	-	-	-	9,718	194,266	
-	-	-	-	-	-	-	84,473	731,841	
-	-	-	-	-	-	-	466,966	652,473	
-	-	50,250	-	-	-	-	50,250	50,750	
-	-	-	-	-	-	-	19,542	9,771	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	2,995,303	-	2,995,303	2,924,049	
-	-	-	-	-	26,543,958	-	26,543,958	23,969,159	
-	-	-	-	-	5,870,705	-	5,870,705	5,870,705	
-	-	-	-	-	15,475,639	-	15,475,639	6,096,810	
-	-	-	-	-	1,195,505	-	1,195,505	8,220,480	
-	-	-	-	-	351,064	-	351,064	895,453	
-	-	-	-	-	-	-	-	351,064	
-	-	-	-	-	623,560	-	623,560	623,560	
<u>\$ 48,983</u>	<u>\$ -</u>	<u>\$ 1,888,348</u>	<u>\$ 4,550,498</u>	<u>\$ 585,109</u>	<u>\$ 53,055,734</u>	<u>\$ 7,661</u>	<u>\$ 65,251,386</u>	<u>\$ 64,633,784</u>	

TEXAS SOUTHMOST COLLEGE
BALANCE SHEET
(Continued)
AUGUST 31, 1998
(With comparative totals at August 31, 1997)

	Current Funds				Loan Funds
	Unrestricted	Auxiliary Enterprises	Restricted	Total	
LIABILITIES & FUND BALANCES					
Liabilities:					
Accounts payable	\$ 36,515	\$ 62,698	\$ -	\$ 99,213	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	251,569	57,076	472,612	781,257	-
Due to other agencies	2,470,823	6,689	116,309	2,593,821	-
Deferred revenue	581,414	66,330	-	647,744	-
Accrued compensable absences payable	11,322	2,743	-	14,065	-
Bonds payable (net of unamortized premium discount of \$0 as of 8/31/98 & 8/31/97)	-	-	-	-	-
Funds held in custody for others	-	-	-	-	-
Total liabilities	<u>3,351,643</u>	<u>195,536</u>	<u>588,921</u>	<u>4,136,100</u>	<u>-</u>
Fund balance:					
Unrestricted					
Reserved					
Accounts receivable	-	-	-	-	-
Consumable inventory	-	-	-	-	-
Unreserved					
Designated					
Capital projects	-	-	-	-	-
College loan funds	-	-	-	-	175,625
Undesignated	270,687	438,207	-	708,894	-
Restricted					
Other	-	-	94,434	94,434	-
Institutional matching funds	-	-	-	-	-
Net investment in plant	-	-	-	-	-
Total fund balance	<u>270,687</u>	<u>438,207</u>	<u>94,434</u>	<u>803,328</u>	<u>175,625</u>
Total liabilities and fund balance	<u>\$ 3,622,330</u>	<u>\$ 633,743</u>	<u>\$ 683,355</u>	<u>\$ 4,939,428</u>	<u>\$ 175,625</u>

See accompanying notes to the financial statements.

EXHIBIT A

Endowment & similar funds	Annuity & life income funds	Plant Funds					Totals (Memorandum only)	
		Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant	Agency Funds	1998	1997
\$ -	\$ -	\$ 327	\$ 2,068	\$ -	\$ -	\$ -	\$ 101,608	\$ 1,417,202
-	-	-	-	-	623,560	-	623,560	623,561
-	-	391,899	1,997	-	-	-	1,175,153	1,993,457
-	-	692	190	-	-	-	2,594,703	2,029,630
-	-	-	-	306,210	-	-	953,954	2,157,079
-	-	-	-	-	-	-	14,065	38,659
-	-	-	-	-	8,119,999	-	8,119,999	8,954,999
-	-	-	-	-	-	7,661	7,661	7,374
-	-	<u>392,918</u>	<u>4,255</u>	<u>306,210</u>	<u>8,743,559</u>	<u>7,661</u>	<u>13,590,703</u>	<u>17,221,961</u>
-	-	-	-	-	-	-	-	190,654
-	-	-	-	-	-	-	-	-
-	-	1,495,430	4,546,243	-	-	-	6,041,673	6,666,546
-	-	-	-	-	-	-	175,625	90,437
-	-	-	-	-	-	-	708,894	639,175
21,851	-	-	-	278,899	-	-	395,184	412,357
27,132	-	-	-	-	-	-	27,132	39,933
-	-	-	-	-	44,312,175	-	44,312,175	39,372,721
<u>48,983</u>	<u>-</u>	<u>1,495,430</u>	<u>4,546,243</u>	<u>278,899</u>	<u>44,312,175</u>	<u>-</u>	<u>51,660,683</u>	<u>47,411,823</u>
<u>\$ 48,983</u>	<u>\$ -</u>	<u>\$ 1,888,348</u>	<u>\$ 4,550,498</u>	<u>\$ 585,109</u>	<u>\$ 53,055,734</u>	<u>\$ 7,661</u>	<u>\$ 65,251,386</u>	<u>\$ 64,633,784</u>

TEXAS SOUTHMOST COLLEGE

STATEMENT OF CHANGES IN FUND BALANCES

FOR THE YEAR ENDED AUGUST 31, 1998
(With comparative totals at August 31, 1997)

	Current Funds				Loan Funds
	Unrestricted	Auxiliary Enterprises	Restricted	Total	
REVENUE AND OTHER ADDITIONS					
Unrestricted current funds revenue	\$ 26,164,078	\$ 2,055,131	\$ -	\$ 28,219,209	\$ -
State appropriations - restricted	-	-	-	-	-
Federal grants & contracts	-	-	1,106,544	1,106,544	-
State grants & contracts	-	-	196,576	196,576	-
Local gifts, grants & contracts	-	-	64,433	64,433	-
Investment/endowment income	-	-	4,051	4,051	2,656
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	-	-	-	-	31,731
Total revenue & other additions	<u>26,164,078</u>	<u>2,055,131</u>	<u>1,371,604</u>	<u>29,590,813</u>	<u>34,387</u>
EXPENDITURES & OTHER DEDUCTIONS					
Expenditures	23,791,221	1,910,077	9,043,244	34,744,542	-
Expended for plant facilities	-	-	-	-	-
Loan cancellations & write-offs	-	-	-	-	-
Retirement of indebtedness - bonds	-	-	-	-	-
Interest on indebtedness	-	-	-	-	-
Other deductions	-	-	-	-	21,960
Total expenditures & other deductions	<u>23,791,221</u>	<u>1,910,077</u>	<u>9,043,244</u>	<u>34,744,542</u>	<u>21,960</u>
TRANSFERS-ADDITIONS (DEDUCTIONS)					
Nonmandatory transfers	(2,372,857)	(265,989)	(225,000)	(2,863,846)	-
Other	-	-	7,903,618	7,903,618	-
Total transfers - additions (deductions)	<u>(2,372,857)</u>	<u>(265,989)</u>	<u>7,678,618</u>	<u>5,039,772</u>	<u>-</u>
NET INCREASE (DECREASE) FOR THE FISCAL YEAR					
	<u>-</u>	<u>(120,935)</u>	<u>6,978</u>	<u>(113,957)</u>	<u>12,427</u>
FUND BALANCES, SEPTEMBER 1, 1997					
-RESTATED	<u>270,687</u>	<u>559,142</u>	<u>87,456</u>	<u>917,285</u>	<u>163,198</u>
FUND BALANCES, END OF YEAR					
	<u>\$ 270,687</u>	<u>\$ 438,207</u>	<u>\$ 94,434</u>	<u>\$ 803,328</u>	<u>\$ 175,625</u>

See accompanying notes to the financial statements.

EXHIBIT B

Endowment & similar funds	Annuity & life income funds	Plant Funds					Totals (Memorandum only)	
		Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant	Agency Funds	1998	1997
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,826,822	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	1,106,544	1,174,324	
-	-	-	-	-	-	196,576	247,446	
-	-	-	-	-	-	64,433	35,801	
912	-	151,576	206,843	14,785	-	380,823	449,460	
-	-	-	-	-	-	-	-	
-	-	-	-	-	835,000	835,000	850,000	
-	-	-	-	-	-	-	-	
-	-	-	-	-	3,804,402	3,804,402	1,463,805	
-	-	-	-	1,258,904	300,053	1,590,688	1,246,427	
912	-	151,576	206,843	1,273,689	4,939,455	36,197,675	31,294,085	
11,518	-	-	-	-	-	34,756,060	30,892,459	
-	-	3,034,044	552,085	-	-	3,586,129	3,882,456	
-	-	-	-	-	-	-	-	
-	-	-	-	835,000	-	835,000	850,000	
-	-	-	-	400,631	-	400,631	456,165	
-	-	-	-	500	-	22,460	1,809,039	
11,518	-	3,034,044	552,085	1,236,131	-	39,600,280	37,890,119	
-	-	1,636,848	965,989	-	-	(261,009)	(253,104)	
-	-	-	-	-	-	7,903,618	6,513,171	
-	-	1,636,848	965,989	-	-	7,642,609	6,260,067	
(10,606)	-	(1,245,620)	620,747	37,558	4,939,455	4,240,004	(335,967)	
59,589	-	2,741,050	3,925,496	241,341	39,372,720	47,420,679	47,747,789	
\$ 48,983	\$ -	\$ 1,495,430	\$ 4,546,243	\$ 278,899	\$ 44,312,175	\$ 51,660,683	\$ 47,411,822	

TEXAS SOUTHMOST COLLEGE
STATEMENT OF CURRENT FUNDS REVENUE, EXPENDITURES
AND OTHER CHANGES
FOR THE YEAR ENDED AUGUST 31, 1998
(With comparative totals for the year ended August 31, 1997)

	Unrestricted	Auxiliary Enterprises	Restricted	Totals (Memorandum only)	
				1998	1997
REVENUE					
State appropriations - general revenue	\$ 11,505,760	\$ -	\$ -	\$ 11,505,760	\$ 10,320,956
Tuition & fees	8,426,273	1,489,534		9,915,807	9,361,993
Taxes for current operation	2,107,988			2,107,988	1,964,638
Federal grants & contracts	115,995		1,106,543	1,222,538	1,315,113
State grants & contracts	3,191,730		196,576	3,388,306	3,247,446
Local grants & contracts	428,480		64,434	492,914	411,503
Investment/endowment income	145,790			145,790	213,615
Sales & service of auxiliary enterprises		505,196		505,196	233,304
Other sources				-	-
Interest income		47,016	4,051	51,067	21,632
Gains/losses on investments				-	-
Miscellaneous income	242,062	13,385	-	255,447	197,481
Total current funds revenue	<u>26,164,078</u>	<u>2,055,131</u>	<u>1,371,604</u>	<u>29,590,813</u>	<u>27,287,681</u>
EXPENDITURES & MANDATORY TRANSFERS					
Educational & general:					
Instruction	-	-	-	-	-
Institutional support	730,214		534,544	1,264,758	971,384
Scholarships & fellowships	-	-	-	-	-
Transfers to UTB	23,061,007	-	8,508,700	31,569,707	28,506,392
Total educational & general expenditures	<u>23,791,221</u>	<u>-</u>	<u>9,043,244</u>	<u>32,834,465</u>	<u>29,477,776</u>
Auxiliary enterprise expenditures:					
Expenditures	-	673,147	-	673,147	202,902
Transfers to UTB	-	1,236,930	-	1,236,930	1,210,181
Total auxiliary enterprise expenditures	<u>-</u>	<u>1,910,077</u>	<u>-</u>	<u>1,910,077</u>	<u>1,413,083</u>
Total expenditures & mandatory transfers	<u>23,791,221</u>	<u>1,910,077</u>	<u>9,043,244</u>	<u>34,744,542</u>	<u>30,890,859</u>
OTHER TRANSFERS & ADDITIONS (DEDUCTIONS)					
Nonmandatory transfers	(2,372,857)	(265,989)	(225,000)	(2,863,846)	(3,346,339)
Excess of TPEG transfer over grant awarded	-	-	-	-	-
Federal scholarships/grants by UTB	-	-	7,903,618	7,903,618	6,513,171
Total other transfers & additions (deductions)	<u>(2,372,857)</u>	<u>(265,989)</u>	<u>7,678,618</u>	<u>5,039,772</u>	<u>3,166,832</u>
NET INCREASE (DECREASE) IN FUND BALANCES	<u>\$ -</u>	<u>\$ (120,935)</u>	<u>\$ 6,978</u>	<u>\$ (113,957)</u>	<u>\$ (436,346)</u>

See accompanying notes to the financial statements.

~~TEXAS SOUTHMOST COLLEGE~~

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 1998

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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4. DEPOSITS AND INVESTMENTS(Continued)

Cash and Deposits (Continued)

Category 3: Uninsured and unregistered investments for which 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	Category			Carrying Amount	Market Value
	1	2	3		
Money Market	\$ 209,203	\$ -	\$ -	\$ 209,203	\$ 209,203
Corporate Stocks	45,910	-	-	45,910	45,910
Totals	\$ <u>255,113</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>255,113</u>	\$ <u>255,113</u>

At August 31, 1998, Texas Southmost College has \$209,203 in money market accounts with a brokerage firm. The Securities Investment Protection Corp (SIPC) protects these accounts up to \$500,000. In addition the brokerage firm has commercial insurance which provides an additional \$49.5 million of account protection.

5. BONDS AND VARIABLE RATE NOTES PAYABLE

General information related to bonds payable is summarized below:

- a. School Building Tax Bonds, Series 1987 - 1988

To construct, improve various buildings within the District

Issued March 12, 1997 and March 10, 1998

\$13,500,000; all authorized bonds have been issued

Source of revenue for debt service - ad valorem tax levy

Outstanding balance at August 31, 1998, was \$190,000

- a. Refunding Tax Bonds, Series 1994

To refund certain outstanding School Building 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, 1998, was \$7,929,999

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.

<u>Year Ending August 31,</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance of Principal Outstanding</u>
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>\$11,254,134</u>	<u>\$ 3,134,135</u>	<u>\$ 8,119,999</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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6. **ADVANCE REFUNDING BONDS (Continued)**

- Economic gain - \$215,994 difference between the net present value of the old and new debt service payments.
- Accounting gain - \$383,882 accounting gain resulted from the advanced refunding.

7. **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	<u>2,410,000</u>
Total		<u><u>\$ 8,510,000</u></u>

8. **EMPLOYEES' RETIREMENT PLAN**

Plan Description

The Teacher Retirement System of Texas is a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: All risks and costs are not shared by the employer, but are the liability of the State of Texas. By statute, the State of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the retirement system during that fiscal year.

For members of the retirement system entitled to the minimum salary for certain school personnel established under §16.056, Texas Education Code, the employing District shall pay the State's contribution on the portion of the member's salary that exceeds the statutory minimum.

Types of Employees Covered

All employees of public, state-supported educational institutions in Texas who are employed for up to ½ times or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Subtitle C §822.002 are covered by TRS membership.

Benefit Provisions

The Teacher Retirement System of Texas administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. It operates primarily under the provisions of Texas Constitution, art. XVI, §67 and Texas Government Code, Title 8, Subtitle C. The system also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and Chapter 805, respectively.

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8. EMPLOYEES' RETIREMENT PLAN (Continued)

Service Retirement

1. Normal
 - Age 65 with five years of service
 - Age 60 with 20 years of service
 - Age 50 with 30 years of service

2. Reduced
 - Age 55 with at least five years of service
 - Any age below 50 with 30 years of service

A member is fully vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met.

FUNDING STATUS AND PROGRESS

State law provided for a state contribution rate for fiscal years 1998 and 1997 of 6.00% and a member contribution rate of 6.4% for fiscal years 1998 and 1997. These rates are set by state statutes. In certain instances, Texas Southmost College is required to make all or a portion of the State's 6% contribution.

Contribution requirements are not actuarially determined, but are legally established each biennium pursuant to the following state funding policy: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during that fiscal year. (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years or if the amortization period already exceeds 31 years the period would be increased by such action.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers.

Pension benefit obligation, net assets available, unfunded pension benefit obligation, and annual covered payroll for the Teacher Retirement System of Texas as of August 31, 1988 to 1997, were as follows (in billions):

(continued)

8. **EMPLOYEES' RETIREMENT PLAN (Continued)**

Service Retirement (Continued)

FUNDING STATUS AND PROGRESS (Continued)

<u>Fiscal Year</u>	<u>Pension Benefit Obligation</u>	<u>Net Assets Available for Benefits (Book Value) until FY 1995 FMV in FY 1996</u>	<u>Unfunded Pension Benefit Obligation</u>	<u>Annual Covered Payroll</u>
1988	\$21.8	\$17.5	\$4.3	\$ 9.2
1989	24.6	19.7	4.9	9.8
1990	27.1	21.8	5.3	10.4
1991	29.8	24.0	5.8	11.2
1992	32.0	26.1	5.9	12.0
1993	35.7	29.0	6.7	13.4
1994	36.1	33.3	2.8	14.2
1995	41.9	37.1	4.8	14.9
1996	45.4	50.1	(4.7)	16.0
1997	50.0	62.2	(12.2)	17.0

OPTIONAL RETIREMENT PLAN

Administrative employees and faculty members have an option to participate in an Optional Retirement Plan. The State's contribution rate for fiscal years 1998 and 1997 is 8.5%, and a member's contribution rate is 6.65% for fiscal years 1998 and 1997. Texas Southmost College is required to make 2.5% of the State's 8.5% contribution.

9. **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 Senate Bill No. 872 of the 63rd Legislature. As of August 31, 1998, the College had two employees participating in the program. A total of \$4,500 in payroll deductions had been invested in approved plans during the fiscal year.

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10. 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. 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.

11. PENDING LAWSUITS AND CLAIMS

On August 31, 1998, there were no lawsuits involving Texas Southmost College. One Equal Opportunity Commission complaint filed against the College in the current fiscal year has not been pursued further.

12. CAPITAL LEASE OBLIGATIONS

There were no capital lease obligations at August 31, 1998.

13. OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENT

There were no operating lease commitments at August 31, 1998.

Rental agreements consist of the following:

A lease agreement was signed with Subway Real Estate Corp. to provide meals and beverages for the students, faculty, staff and guests. Under the terms of the agreement, Subway will pay the College a base rent at the rate of 4% of gross sales per month. This lease expires in August 1999.

The College has been operating month to month without a bookstore lease to Texas Book Company since July 5, 1998. The College has been operating under the terms of the lease which expired July 5, 1998 which calls for a lease payment of \$95,000 per annum plus an additional 10% of gross revenue above \$1,250,000. The College is currently negotiating a new lease agreement.

14. FUNDS HELD IN TRUST BY OTHERS

The balances, or transactions, of funds held in trust by others on behalf of Texas Southmost College are not reflected in the financial statements. At August 31, 1998, there were no such funds for the benefit of the College.

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15. CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, Audits of Colleges and Universities. Funds received, but not expended during the reporting period, are shown as additions to fund balance on Exhibit B. Revenue is recognized on Exhibit C as funds are actually expended. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit A. Nonfederal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit A. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements.

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 \$190.73 for single employees, \$263.29 for the employee and children, \$299.09 for employee and spouse, and \$371.65 for family coverage for the year ended August 31, 1998. The cost of providing those benefits for fourteen active employees was \$33,900. At August 31, 1998 Texas Southmost College did not have any active retirees.

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. It remitted restricted gifts of \$-0- to the College during the year ended August 31, 1998. 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.

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18. **RELATED PARTIES (Continued)**

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.

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.

Property

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 1998-1999 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.

During the year ended August 31, 1998 total rental income recognized by TSC was \$3,191,730.

- B. Agreement for the coordination of personnel with provisions for conditions of employment by UTB.
- C. Agreement for the coordination and financing of programs and support services.

Payment 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.

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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>
General Fund	\$ 826,465	\$ 251,569
Auxiliary enterprises	38,820	57,076
Restricted		
Institutional scholarships	196,899	-
Federal restricted funds	311	472,612
Loan Funds	-	-
Unexpended Funds	2,308	391,899
Renewals and Replacements		
Restricted major restoration	52,546	-
Restricted parking fund	42,205	-
Capital expansion	-	1,997
Retirement of Indebtedness		
Systems fund	<u>15,599</u>	<u>-</u>
	<u>\$1,175,153</u>	<u>\$1,175,153</u>

20. PROPERTY TAX

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures. Tax collections for the year ended August 31, 1998, were 94% of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes.

21. PROPERTY, PLANT AND EQUIPMENT

Land is valued at its original cost. \$817,500 was added to the value of the land based on a nonformal appraisal made in 1971 on the 54.5 acres occupied by the College, most of which was acquired by gift from the U.S. Government (Old Fort Brown). During the prior year, an additional 18.76 acres of land for \$422,100 have been added based on a nonformal appraisal made in 1995. This land was acquired by gift from the U.S. Government.

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