

**TEXAS SOUTHMOST COLLEGE**

**COMPREHENSIVE  
ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2001**



**TEXAS SOUTHMOST COLLEGE**

**ORGANIZATIONAL DATA**

**FOR THE FISCAL YEAR 2000-2001**

**BOARD OF TRUSTEES**

**Officers**

Mary Rose Cardenas	Chairperson
Chester Gonzalez	Vice-chairperson
Rosemary Breedlove	Secretary

**Members**

Mary Rose Cardenas	Brownsville, Texas	May, 2002
Rosemary Breedlove	Brownsville, Texas	May, 2004
David Oliveira	Brownsville, Texas	May, 2006
Chester Gonzalez	Brownsville, Texas	May, 2004
Dolly Zimmerman	Port Isabel, Texas	May, 2002
Dr. Roberto Robles	Brownsville, Texas	May, 2006
Eddie Campirano	Brownsville, Texas	May, 2004

**Principal Administrative Officers**

Dr. Juliet V. Garcia	President, UTB/TSC
Dr. Wayne J. Moore	Vice-President for Administration and Partnership Affairs, UTB/TSC
Pat Celaya	District Comptroller

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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## **FINANCIAL SECTION**

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

**INDEPENDENT AUDITORS' REPORT ON GENERAL  
PURPOSE FINANCIAL STATEMENTS AND SUPPLEMENTARY  
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS**

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, 2001, 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 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 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 at August 31, 2001, 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 also issued our report dated November 5, 2001, 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 general purpose financial statements of Texas Southmost College, taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and the combining 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 general purpose financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, 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, LLP.*

November 5, 2001



# FINANCIAL STATEMENTS

**TEXAS SOUTHMOST COLLEGE**

**BALANCE SHEET**

**AUGUST 31, 2001**

**(with memorandum totals at August 31, 2000)**

	Current Funds				Loan Funds	Endowment & Similar Funds
	Unrestricted	Auxiliary Enterprises	Restricted	Total		
<b>ASSETS</b>						
Cash & cash equivalents	\$ 1,312,060	\$ 821,069	\$ 138,673	\$ 2,271,802	\$ 29,344	\$ 4,588
Short-term investments	2,507	2,509	-	5,016	-	97
Accounts receivable (net of allowance for doubtful accounts of \$9,000 for both years)	54,951	4	-	54,955	-	-
Taxes receivable (net of allowance for doubtful accounts of \$60,823 & \$54,674 at August 31, 2001 & 2000, respectively)	962,777	-	-	962,777	-	-
Prepaid assets	89,934	-	-	89,934	-	-
Due from other funds	197,306	4,544	600	202,450	-	-
Investments	-	-	-	-	-	39,146
Accrued interest receivable	-	-	-	-	-	-
Due from other agencies	-	9,684	100	9,784	-	155
Federal receivables	-	-	180,333	180,333	-	-
Deposits	-	-	-	-	-	-
Notes receivable (net of allowance for doubtful accounts of \$246,294 & \$123,969 at August 31, 2001 & 2000, respectively)	-	-	-	-	169,124	-
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	\$ 2,619,535	\$ 837,810	\$ 319,706	\$ 3,777,051	\$ 198,468	\$ 43,986

See accompanying notes to the financial statements.

Plant Funds					Totals (Memorandum only)	
Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant	Agency Funds	2001	2000
\$ 4,648,481	\$ 2,226,033	\$ 1,124,096	\$ -	\$ 8,586	\$ 10,312,930	\$ 1,565,016
2,507	3,057	-	-	-	10,677	2,355,300
-	-	39	-	-	54,994	1,599,909
-	-	192,862	-	-	1,155,639	1,038,803
-	-	-	-	-	89,934	-
-	34,577	-	-	-	237,027	1,232,551
6,157,219	-	-	-	-	6,196,365	14,355,823
153,616	-	-	-	-	153,616	245,749
-	-	-	-	-	9,939	1,220
50,250	-	-	-	-	230,583	250,634
-	-	-	-	-	-	50,250
-	-	-	-	-	169,124	158,652
-	-	-	3,022,039	-	3,022,039	2,995,303
-	-	-	31,745,546	-	31,745,546	27,916,639
-	-	-	5,890,705	-	5,890,705	5,870,705
-	-	-	8,269,241	-	8,269,241	8,111,753
-	-	-	8,422,239	-	8,422,239	8,422,239
-	-	-	4,723,791	-	4,723,791	1,960,058
-	-	-	351,064	-	351,064	351,064
-	-	-	623,560	-	623,560	623,560
<u>11,012,073</u>	<u>\$ 2,263,667</u>	<u>\$ 1,316,997</u>	<u>\$ 63,048,185</u>	<u>\$ 8,586</u>	<u>\$ 81,669,013</u>	<u>\$ 79,105,228</u>

**TEXAS SOUTHMOST COLLEGE**

**STATEMENT OF CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED AUGUST 31, 2001  
(with memorandum totals at August 31, 2000)**

	Current Funds				Loan Funds
	Unrestricted	Auxiliary Enterprises	Restricted	Total	
<b>REVENUES &amp; OTHER ADDITIONS</b>					
Unrestricted current funds revenue	\$ 28,634,611	\$ 2,183,309	\$ 957,897	\$ 31,775,817	\$ -
State appropriations - restricted	-	-	-	-	-
Federal grants & contracts	-	-	712,689	712,689	-
State grants & contracts	-	-	223,419	223,419	-
Local gifts, grants & contracts	-	-	83,394	83,394	-
Net increase (decrease) in fair value of investmen	-	-	-	-	-
Taxes for debt retirement	-	-	-	-	-
Investment/endowment income	-	-	2,528	2,528	1,059
Net decrease in bonds payable	-	-	-	-	-
Bond proceeds on sale of bonds	-	-	-	-	-
Expended for plant facilities (includes \$360,485 charged to current funds expenditures)	-	-	-	-	-
Other additions	-	-	-	-	132,797
Total revenues & other additions	<u>28,634,611</u>	<u>2,183,309</u>	<u>1,979,927</u>	<u>32,797,847</u>	<u>133,856</u>
<b>EXPENDITURES &amp; OTHER DEDUCTIONS</b>					
Expenditures	26,882,445	1,022,007	12,468,589	40,373,041	-
Expended for plant facilities	-	-	-	-	-
Loan cancellations & write-offs	-	-	-	-	122,325
Net increase in bonds payable	-	-	-	-	-
Retirement of indebtedness - bonds	-	-	-	-	-
Interest on indebtedness	-	-	-	-	-
Other deductions	-	-	-	-	-
Other expenditures	-	-	-	-	-
Total expenditures & other deductions	<u>26,882,445</u>	<u>1,022,007</u>	<u>12,468,589</u>	<u>40,373,041</u>	<u>122,325</u>
<b>TRANSFERS-ADDITIONS (DEDUCTIONS)</b>					
Mandatory transfers	(275,062)	-	275,062	-	-
Nonmandatory transfers	(472,972)	(1,100,302)	-	(1,573,274)	-
Other	-	-	10,287,247	10,287,247	-
Total transfers - additions (deductions)	<u>(748,034)</u>	<u>(1,100,302)</u>	<u>10,562,309</u>	<u>8,713,973</u>	<u>-</u>
<b>NET INCREASE (DECREASE) FOR THE FISCAL YEAR</b>					
	<u>1,004,132</u>	<u>61,000</u>	<u>73,647</u>	<u>1,138,779</u>	<u>11,531</u>
<b>FUND BALANCES, SEPTEMBER 1, 2000</b>					
	<u>399,310</u>	<u>537,735</u>	<u>61,272</u>	<u>998,317</u>	<u>186,937</u>
<b>FUND BALANCES, AUGUST 31, 2001</b>					
	<u>\$ 1,403,442</u>	<u>\$ 598,735</u>	<u>\$ 134,919</u>	<u>\$ 2,137,096</u>	<u>\$ 198,468</u>

See accompanying notes to the financial statements.



EXHIBIT B

Endowment & Similar Funds	Plant Funds					Agency Funds	Totals (Memorandum only)	
	Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant	2001		2000	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,775,817	\$ 31,257,765	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	712,689	1,169,804	
-	-	-	-	-	-	223,419	200,206	
-	-	-	-	-	-	83,394	20,000	
-	-	-	-	-	-	-	(11,175)	
-	-	-	1,242,432	-	-	1,242,432	1,157,455	
7,642	858,280	97,796	33,454	-	283	1,001,042	631,975	
-	-	-	-	960,000	-	960,000	940,000	
-	-	-	-	-	-	-	9,025,000	
-	-	-	-	6,796,864	-	6,796,864	1,552,190	
-	-	-	-	-	-	132,797	79,736	
<u>7,642</u>	<u>858,280</u>	<u>97,796</u>	<u>1,275,886</u>	<u>7,756,864</u>	<u>283</u>	<u>42,928,454</u>	<u>46,022,956</u>	
-	-	-	-	-	-	40,373,041	40,070,882	
-	4,648,946	787,772	-	-	-	5,436,718	2,481,630	
-	-	-	-	-	-	122,325	9,321	
-	-	-	-	-	-	-	9,025,000	
-	-	-	1,100,000	-	-	1,100,000	940,000	
-	-	-	772,101	-	-	772,101	314,150	
-	-	-	716	-	-	716	199,411	
2,000	-	-	-	-	-	2,000	1,600	
<u>2,000</u>	<u>4,648,946</u>	<u>787,772</u>	<u>1,872,817</u>	<u>-</u>	<u>-</u>	<u>47,806,901</u>	<u>53,041,994</u>	
-	-	-	-	-	-	-	-	
-	1,288,103	285,171	796,863	-	-	796,863	-	
-	-	-	-	-	-	10,287,247	10,106,788	
-	<u>1,288,103</u>	<u>285,171</u>	<u>796,863</u>	<u>-</u>	<u>-</u>	<u>11,084,110</u>	<u>10,106,788</u>	
<u>5,642</u>	<u>(2,502,563)</u>	<u>(404,805)</u>	<u>199,932</u>	<u>7,756,864</u>	<u>283</u>	<u>6,205,663</u>	<u>3,087,750</u>	
<u>38,344</u>	<u>4,629,496</u>	<u>2,668,456</u>	<u>745,447</u>	<u>49,292,762</u>	<u>-</u>	<u>58,559,759</u>	<u>55,472,009</u>	
<u>\$ 43,986</u>	<u>\$ 2,126,933</u>	<u>\$ 2,263,651</u>	<u>\$ 945,379</u>	<u>\$ 57,049,626</u>	<u>\$ 283</u>	<u>\$ 64,765,422</u>	<u>\$ 58,559,759</u>	

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## TEXAS SOUTHMOST COLLEGE

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES  
AND OTHER CHANGESFOR THE YEAR ENDED AUGUST 31, 2001  
(with memorandum totals for the year ended August 31, 2000)

	Unrestricted	Auxiliary Enterprises	Restricted	Totals (Memorandum only)	
				2001	2000
<b>REVENUES</b>					
State appropriations - general revenue	\$ 12,039,038	\$ -	\$ 957,897	\$ 12,996,935	\$ 12,625,876
Tuition & fees	9,281,149	1,650,302	-	10,931,451	11,629,348
Taxes for current operations	4,930,833	-	-	4,930,833	4,188,325
Federal grants & contracts	-	-	712,689	712,689	1,169,804
State grants & contracts	1,635,604	-	223,419	1,859,023	1,672,203
Local grants & contracts	383,671	-	83,394	467,065	493,701
Investment/endowment income	106,622	-	-	106,622	99,330
Sales & service of auxiliary enterprises	-	495,776	-	495,776	454,623
Other sources:					
Interest income	-	28,145	2,528	30,673	42,307
Gains/losses on investments	-	-	-	-	-
Miscellaneous income	257,694	9,086	-	266,780	280,700
Total current funds revenues	<u>28,634,611</u>	<u>2,183,309</u>	<u>1,979,927</u>	<u>32,797,847</u>	<u>32,656,217</u>
<b>EXPENDITURES &amp; MANDATORY TRANSFERS</b>					
Educational & general:					
Instruction	-	-	287,337	287,337	844,447
Institutional support	531,909	-	-	531,909	335,793
Scholarships & fellowships	-	-	-	-	-
Transfers to UTB	26,350,536	-	12,181,252	38,531,788	37,884,601
Total educational & general expenditures	<u>26,882,445</u>	<u>-</u>	<u>12,468,589</u>	<u>39,351,034</u>	<u>39,064,841</u>
Auxiliary enterprise expenditures:					
Expenditures	-	770,129	-	770,129	837,089
Transfers to UTB	-	251,878	-	251,878	168,952
Total auxiliary enterprise expenditures	<u>-</u>	<u>1,022,007</u>	<u>-</u>	<u>1,022,007</u>	<u>1,006,041</u>
Mandatory transfers to:					
TPEG to restricted & loan funds	(275,062)	-	275,062	-	-
Total expenditures & mandatory transfers	<u>27,157,507</u>	<u>1,022,007</u>	<u>12,193,527</u>	<u>40,373,041</u>	<u>40,070,882</u>
<b>OTHER TRANSFERS &amp; ADDITIONS (DEDUCTIONS)</b>					
Nonmandatory transfers	(472,972)	(1,100,302)	-	(1,573,274)	(2,380,552)
Excess of TPEG transfer over grant awarded	-	-	-	-	-
Federal scholarships/grants by UTB	-	-	10,287,247	10,287,247	10,106,788
Total other transfers & additions (deductions)	<u>(472,972)</u>	<u>(1,100,302)</u>	<u>10,287,247</u>	<u>8,713,973</u>	<u>7,726,236</u>
<b>NET INCREASE (DECREASE) IN</b>					
<b>FUND BALANCES</b>	<u>\$ 1,004,132</u>	<u>\$ 61,000</u>	<u>\$ 73,647</u>	<u>\$ 1,138,779</u>	<u>\$ 311,571</u>

See accompanying notes to the financial statements.

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# TEXAS SOUTHMOST COLLEGE

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2001

### 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*. 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 general purpose financial statements of Texas Southmost College have been prepared on the accrual basis of accounting except for depreciation expense related to plant fund assets which is not recorded. The Statement of Current Funds Revenues, 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.

Encumbrance 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 appropriately provided for in the subsequent year's budget. Encumbrances outstanding at year end that were provided for in the subsequent year's budget are 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.

(continued)

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

### Basis of Accounting (Continued)

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 non-mandatory 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 general purpose 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.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that 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 is 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.

(continued)

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

### Fund Accounting (Continued)

#### **Current Funds:** (Continued)

*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 bookstores.

*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.

#### **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.

(continued)

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

**Fund Accounting** (Continued)

**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 Revenues, Expenditures and Other Changes are shown with memorandum totals for the current and prior year. Inter-fund borrowings have not been eliminated, but have been offset 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.

3. **AUTHORIZED INVESTMENTS**

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

4. **DEPOSITS AND INVESTMENTS**

At August 31, 2001, the carrying amount of Texas Southmost College cash and demand deposits was \$10,312,931, and total bank balances equaled \$13,389,138. Bank balances of \$100,000 are covered by federal depository insurance and \$18,176,648 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 A, cash and demand deposits include the following:

**Cash and Demand Deposits**

Bank Deposits	
Demand Deposits	\$ 10,310,420
Cash and Cash Equivalents	
Petty Cash on Hand	<u>2,510</u>
Total Cash and Deposits	<u>\$ 10,312,930</u>

(continued)



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

**Cash and Demand Deposits (Continued)**

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.

<u>Type of Security</u>	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Money Markets	\$ 10,677	\$ -	\$ -	\$ 10,677	\$ 10,677
Certificates of Deposit	-	-	-	-	-
Corporate Stocks	39,145	-	-	39,145	39,145
Repurchase Agreements	<u>6,157,220</u>	<u>-</u>	<u>-</u>	<u>6,157,220</u>	<u>6,157,220</u>
Totals	<u>\$ 6,207,042</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,207,042</u>	<u>\$ 6,207,042</u>

**Reconciliation of Deposits and Investments Between Note 4 and Exhibit A**

Per Note 4:	
Cash and Demand Deposits	\$ 10,312,930
Investments	<u>6,207,042</u>
Total	<u>\$ 16,519,972</u>
Per Exhibit A:	
Cash and cash equivalents	\$ 10,312,930
Short-term investments	10,677
Investments	<u>6,196,365</u>
Total	<u>\$ 16,519,972</u>

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

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.

**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 Government Code 609.001. As of August 31, 2001, the College had two employees participating in the program. A total of \$6,600 in payroll deductions had been invested in approved plans during the fiscal year.

**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 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, 2001, compensated absences payable consisted of \$12,444.

**11. LITIGATION**

The College is a party in one litigation matter under which it may be required to pay certain monies upon a decision of the court. The College's attorney reports a contingent liability based on the amount of damages alleged in the case. However, it is the opinion of the College's attorney that this case is covered by liability insurance. In the opinion of the College's management, the outcome of this lawsuit will not have a material adverse effect on the accompanying financial statements and, accordingly, no provision or loss has been recorded.

**12. CAPITAL LEASE OBLIGATIONS**

There were no capital lease obligations at August 31, 2001.

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

There were no operating lease commitments at August 31, 2001.

(continued)

**13. OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS (Continued)**

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 December 31, 2001.

The College has been operating month to month without a bookstore lease to Texas Book Company since July 5, 2000. The College has been operating under the terms of the lease that expired July 5, 2000, which calls for a lease payment of \$75,000 per annum plus an additional 10% of gross revenue above \$1,000,000. The College is currently negotiating a new lease agreement.

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

At August 31, 2001, there were no such funds for the benefit of the College.

**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. Revenues are 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. Non-federal 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 \$225.58 for single employees, \$311.55 for the employee and children, \$353.98 for employee and spouse, and \$439.95 for family coverage for the year ended August 31, 2001. The cost of providing those benefits for twelve active employees was \$33,436. At August 31, 2001, Texas Southmost College did not have any active retirees. The state group insurance amount of \$957,897 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.

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.

During the year ended August 31, 2001 total rental income recognized by TSC was \$1,635,604.

- 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.

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.

