



SOUTHMOST UNION JUNIOR COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED AUGUST 31, 2004

TEXAS SOUTHMOST COLLEGE

ANNUAL FINANCIAL REPORT

AUGUST 31, 2004

TEXAS SOUTHMOST COLLEGE
ANNUAL FINANCIAL REPORT

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TEXAS SOUTHMOST COLLEGE

ORGANIZATIONAL DATA

FOR THE FISCAL YEAR 2004

Board of Trustees

Officers

Chester Gonzalez	Chairperson
Rosemary Breedlove	Vice-chairperson
Eduardo Campirano	Secretary

Members

Term Expires
August 31

Mary Rose Cardenas	Brownsville, Texas	May, 2008
Rosemary Breedlove	Brownsville, Texas	May, 2010
David Oliveira	Brownsville, Texas	May, 2006
Chester Gonzalez	Brownsville, Texas	May, 2010
Dolly Zimmerman	Port Isabel, Texas	May, 2008
Dr. Roberto Robles	Brownsville, Texas	May, 2006
Eduardo Campirano	Brownsville, Texas	May, 2010

Principal Administrative Officers

Dr. Juliet V. Garcia	President, UTB/TSC
Dr. John P. Ronnau	Vice President for Administration and Partnership Affairs, UTB/TSC
Veronica Mendez	Assistant Vice President for Administration and Partnership Affairs
Melba M. Sanchez, CPA	District Controller

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southmost Union Junior College District
Brownsville, Texas

We have audited the accompanying basic financial statements of Texas Southmost College as of and for the year ended August 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas Southmost College as of August 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2004 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 7 through 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Texas Southmost College taken as a whole. The accompanying supplementary information, as described in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards and schedule of expenditures of state awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular, and are also not a required part of the financial statements. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Long Chilton" followed by a stylized flourish.

Brownsville, Texas
November 24, 2004



SOUTHMOST UNION JUNIOR COLLEGE DISTRICT

THE UNIVERSITY OF TEXAS AT BROWNSVILLE and TEXAS SOUTHMOST COLLEGE

80 Fort Brown • Brownsville, Texas 78520 • (956) 983-7728 • Fax (956) 982-0247

TEXAS SOUTHMOST COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2004

Management's discussion and analysis of Texas Southmost College's (the College) financial performance provides an overview of the College's financial activities for the fiscal year ended August 31, 2004. This discussion and analysis is to be read in conjunction with the College's financial statements which begin on page 20.

USING THIS ANNUAL REPORT

The financial statements presented in Exhibits 1, 2 and 3 are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public College's and Universities*. The required statements are: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The presentation of financial statements in this report are for current year operations. As a result of our Partnership with The University of Texas at Brownsville (UTB), it was determined that expense reporting by functional classifications should be done by the UTB/TSC partnership financial statements. Therefore, the financial statements as presented in this report are limited to the current year's operations and are not comparative to the prior fiscal year. In future years, a year to year comparative analysis will be included in for the financial statements.

As required by GASB Statements No. 34 and No. 35, the current year financials are prepared using the accrual basis of accounting, is the same method used by most private sector companies. They focus on the financial condition of the College, results of operations and cash flows of the College as a whole.



USING THIS ANNUAL REPORT (Continued)

The notes to the financial statements starting on page 24 provide narrative explanations and additional data needed for full disclosure.

The Statement of Net Assets

The Statement of Net Assets includes all the College's assets and liabilities and change in net assets as of the end of the fiscal year. The difference between total assets and total liabilities is the net assets. Increases and decreases to net assets is one indicator of whether the overall financial condition has improved or deteriorated during the year when considered with other factors such as enrollment, contact hours of instruction, student retention and other non-financial information. Finally, the statement of net assets is useful when determining the assets available for continuing the College's operations as well as how much the College owes to vendors, bondholders, and other entities at the end of the year.

The Statement of Net Assets includes assets and liabilities, current and non-current and net assets. Current assets are those which are available to satisfy current liabilities or liabilities that are due within one year. Non-current assets include capital assets, long-term investments and other assets, not classified as current. Non-current liabilities include bonds payable and other long-term commitments.

The Net Assets are divided into three major categories. The first category, Invested in Capital Assets Net of Related Debt, represents the College's net investment in property, plant and equipment owned by the institution. The next category is restricted net assets, which is further divided into two categories: nonexpendable and expendable. Expendable restricted net assets are available for expenditures but must be spent in accordance with the restrictions of donors and other external entities. The College only has Expendable Restricted Net Assets. The final category is Unrestricted Net Assets which are assets available to the institution for any lawful purpose of the College. Further detail regarding assets, liabilities and net assets is presented in the statement of net assets and notes to the financial statements.



The Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets represents the College's overall results of operations. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred regardless of when the cash is received or paid. The statement is divided into operating revenues and expenses and non-operating revenues and expenses. The College is primarily dependent upon four sources of revenues: state appropriations, tuition and fees, grants and contracts and property taxes. Since property taxes are classified as non-operating revenues (per GASB requirements), the College will generally display an operating deficit before taking into account its non-operating revenues. Therefore, total revenues and total expenses should be considered in assessing the change in the College's financial position. When total revenues exceed total expenses, the result is an increase in net assets. When the contrary occurs, the result is a decrease in Net Assets. Further detail is presented in the Statement of Revenues, Expenses and Changes in Net Assets and in the Notes to the Financial Statements.

The College's net assets (the difference between assets and liabilities) provide one measure of the College's financial health or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the College, however, non-financial factors should be considered as well, such as changes in the enrollment, property tax base, and the condition of the College's facilities.

The Statement of Cash Flows

The Statement of Cash Flows provides the College's cash receipts and payments for the year. This statement is not intended to replicate, on a cash basis, the operating statement. Instead, it is intended to compliment the accrual-basis financial statements by providing functional information about financing, capital and investing activities. The cash flow approach concentrates on the underlying nature of a transaction.

The information contained in the Statement of Cash Flows assesses the College's ability to generate future net cash flows, meet obligations as they come due and needs for external financing. In addition, differences between operating income and associated cash receipts and payments and the effects on the financial position of both its cash and its non-cash investing, capital and financing transactions can be identified.



FINANCIAL ANALYSIS

Statement of Net Assets

The following analysis focuses on the Statement of Net assets, which is condensed in Table 1.

TABLE 1
CONDENSED STATEMENT OF NET ASSETS
(in millions)

	<u>2004</u>
Current Assets	18.6
Capital Assets, Net of Accumulated Depreciation	59.5
Other Non-Current Assets	<u>1.6</u>
Total Assets	<u>79.7</u>
Current Liabilities	11.2
Noncurrent Liabilities	<u>15.4</u>
Total Liabilities	<u>26.7</u>
Net assets:	
Invested in capital assets, net of related debt	42.7
Restricted Expendable	7.7
Unrestricted	<u>2.7</u>
Total Net Assets	<u>53.1</u>

The College's total net assets were \$53.1 million as of August 31, 2004. The increase in total net assets as a result of this year's operations is \$3.4 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – represents \$2.7 million of total net assets at August 31, 2004.



Statement of Revenues, Expenses and Changes in Net Assets

The following analysis focuses on the Statement of Revenues, Expenses and Changes in Net Assets presented in condensed form in Table 2.

TABLE 2
CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
(in millions)

	<u>2004</u>
Operating Revenues	33.0
Operating Expenses	38.2
Non-Operating Revenues	9.5
Non-Operating Expenses	<u>0.9</u>
INCREASE IN NET ASSETS	3.4
NET ASSETS - Beginning of Year	<u>49.1</u>
Prior Period Adjustments	0.6
NET ASSETS - End of Year	<u>53.1</u>



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

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

TABLE 3
OPERATING REVENUE
(in millions)

	Fiscal Year	
	2004	
	<u>Amount</u>	<u>Percentage of Total</u>
State Allocations	\$ 12.0	36.4%
Net Tuition and Fees	15.3	46.4%
Grants and Contracts	4.9	14.9%
Auxiliary Enterprises	0.5	1.7%
Other Operating Revenues	<u>0.2</u>	<u>0.6%</u>
Total Operating Revenues	\$ <u>33.0</u>	<u>100.00%</u>

Operating revenues were affected by the following key factors:

- State allocations were reduced by 6%. This reduced state allocations by \$0.75 million.
- Tuition and fees (net of scholarship discounts) increased as a result of a 10% increase in enrollment. Other factors affecting the tuition and fee increase are a \$2 per semester credit hour increase in resident tuition, a \$20 increase in non-resident tuition and a \$7 increase in the building use fee.
- Grants and Contracts revenues decreased as a result of one time awards of local grants in prior years. The College was awarded a grant in the amount of \$5.5 million from the Greater Brownsville Investment Corporation (GBIC) over a two year period for the renovation of the College's International Technology Education and Commerce Campus (ITECC). The Department of Education also awarded the college a \$1 million grant for the renovation of space at the ITECC for the International Innovation Center. The remaining balance of these awards was received in the current fiscal year. Increased enrollment resulted in an increase of federal grants and contracts awarded to the College.



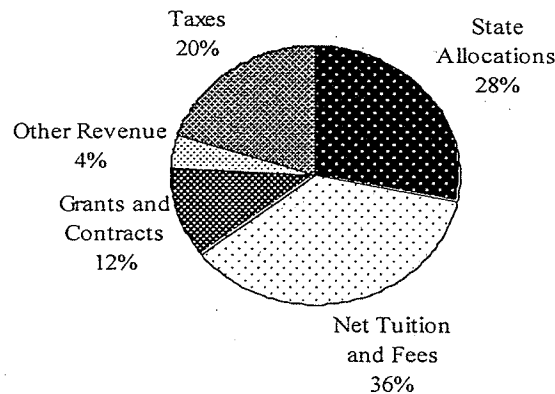
Statement of Revenues, Expenses and Changes in Net Assets (continued)

Property taxes, which are listed under the non-operating revenue section as per GASB 34/35, are a key revenue source for the College. Property tax revenue increased by more than \$0.7 million as a result of an 8% increase in assessed property valuations. The tax rate for the Southmost Union Junior College District remained the same as the previous year at \$0.1314 per \$100 valuation.

Key sources of revenue in total for the College are state allocations, grants and contracts, property taxes and tuition and fees (net of scholarship discounts). Table 4 shows a breakdown of total revenues by source for the College in Fiscal Year 2004.

TABLE 4
Total Revenues
(Operating and Non-operating)

Fiscal Year 2004



In fiscal year 2004, tuition and fees made up the largest source of revenue (36%) for the College. State allocations are the next largest revenue source at 28%. These two sources along with property tax revenue provide the bulk of the College's total revenue. Grants and contracts account for 12% of the total revenue.



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

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

TABLE 5
OPERATING EXPENSES
Natural Classification
(in millions)

	<u>2004</u>
Salaries	\$ 0.4
Benefits	0.1
Supplies and Services	3.8
Contract Services - UTB	32.6
Depreciation	<u>1.3</u>
Total Operating Expenses	\$ <u>38.2</u>

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

TABLE 6
OPERATING EXPENSES
Functional Classification
(in millions)

	<u>2004</u>
<u>Educational and General</u>	
Institutional Support	1.8
Operation and Maintenance of Plant	1.3
Contract Services - UTB	32.6
Depreciation	<u>1.3</u>
Total Educational Activities	37.0
Auxiliary Enterprises	<u>1.2</u>
Total Operating Expenses	\$ <u>38.2</u>

