

TEXAS SOUTHMOST COLLEGE

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

AUGUST 31, 2002

TEXAS SOUTHMOST COLLEGE

ORGANIZATIONAL DATA

FOR THE FISCAL YEAR 2001-2002

BOARD OF TRUSTEES

Officers

Chester Gonzalez	Chairperson
Rosemary Breedlove	Vice-chairperson
Eduardo Campirano	Secretary

Members

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

Principal Administrative Officers

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

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TEXAS SOUTHMOST COLLEGE

ANNUAL FINANCIAL REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)



TEXAS SOUTHMOST COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2002

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, 2002. This discussion and analysis is to be read in conjunction with the College's financial statements which begin on page 3.

USING THIS ANNUAL REPORT

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

Since this is the first year of implementation of these standards and since restatement of prior year financials have not been made, our analysis of comparative balances and changes therein is limited to the current year's operations. In future years, a year to year comparative analysis will be available for the financial statements.

As a result of GASB Statements No. 34 and No. 35 implementation, there are also significant differences in the presentation and method of accounting used in these financial statements. Prior year financials were focused on fund accounting and were prepared using a modified accrual basis of accounting. The current year financials are prepared using the accrual basis of accounting, which is the same method used by most private sector companies, and focus on the financial condition of the College, results of operations and cash flows of the College as a whole.

The notes to the financial statements starting on page 7 provide narrative explanations and additional data needed for full disclosure in the financial statements.



USING THIS ANNUAL REPORT (Continued)

The supplemental section contains additional information about the College's individual funds. These sections are not required by The Texas Higher Education Coordinating Board and are provided for historical information purposes only. They are not presented in compliance with GASB No. 34 and No. 35; therefore, they are not representative of the balances of the College as accounted for in Exhibits 1, 2 and 3.

The Statement of Net Assets

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

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

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



The Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets represents the College's overall results of operations. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred regardless of when the cash is received or paid. The statement is divided into operating revenues and expenses and non-operating revenues and 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 College's enrollment, property tax base, and the condition of the College's facilities.

The Statement of Cash Flows

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

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



FINANCIAL ANALYSIS

Statement of Net Assets

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

TABLE 1

CONDENSED STATEMENT OF NET ASSETS
(in millions)

	<u>2002</u>
Current Assets	20.3
Capital Assets, Net of Accumulated Depreciation	<u>47.3</u>
Other Non-Current Assets	<u>0.1</u>
Total Assets	<u>67.7</u>
Current Liabilities	6.9
Noncurrent Liabilities	<u>18.1</u>
Total Liabilities	<u>25.0</u>
Net assets:	
Invested in capital assets, net of related debt	32.1
Restricted Expendable	7.7
Unrestricted	<u>2.9</u>
Total Net Assets	<u>42.7</u>

The College's total net assets were \$42.7 million as of August 31, 2002. The increase in total net assets as a result of this year's operations is \$2.3 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 \$2.9 million of total net assets at August 31, 2002.



SOUTHMOST UNION JUNIOR COLLEGE DISTRICT

THE UNIVERSITY OF TEXAS AT BROWNSVILLE and TEXAS SOUTHMOST COLLEGE

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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>2002</u>
Operating Revenues	34.3
Operating Expenses	38.4
Non-Operating Revenues	7.7
Non-Operating Expenses	<u>1.3</u>
INCREASE IN NET ASSETS	2.3
NET ASSETS - Beginning of Year (Restated)	<u>40.4</u>
NET ASSETS - End of Year	<u>42.7</u>

Three key sources of operating revenues for the College are: State Appropriations, Tuition and Fees (net of scholarship discounts) and Grants and Contracts.

State Appropriations remained virtually unchanged from the amounts allocated for the fiscal year ended August 31, 2001.

Tuition and Fees revenue is presented net of scholarship discounts. Tuition and Fees revenue increased due to an increase in enrollment and a \$2 increase in designated tuition.

The largest increase in Grants and Contracts came in the form of State Funds. State Grants and Contracts increased by about 40% while Federal Grants and Contracts increased by 5%. Increased enrollment for the year was a key factor in the increase of grants and contracts awarded to the College.

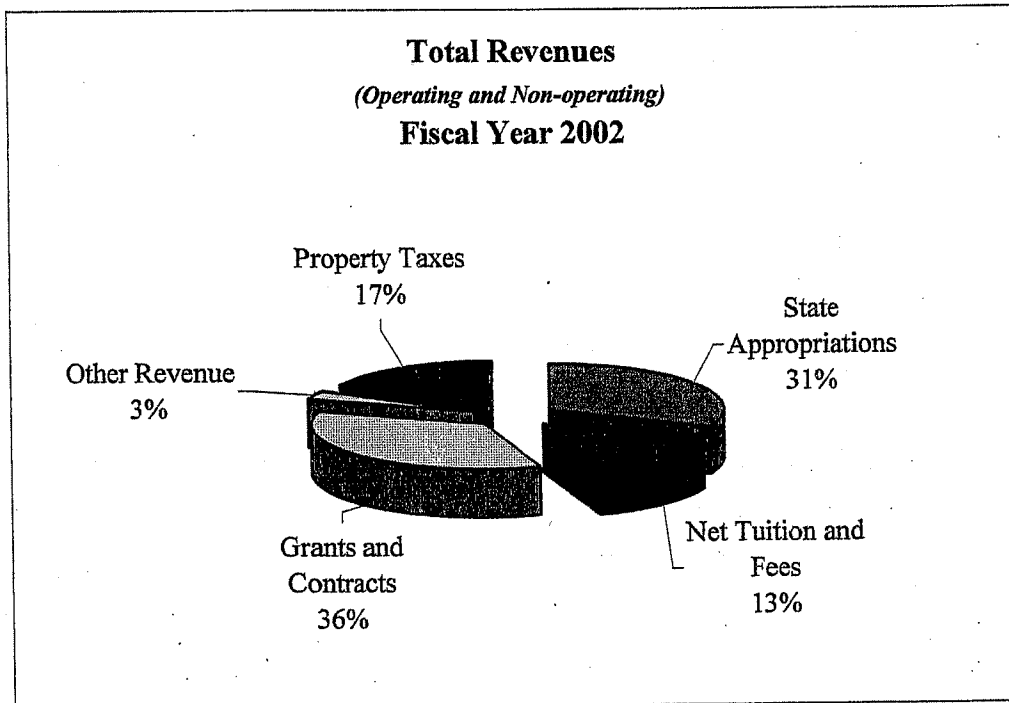


Statement of Revenues, Expenses and Changes in Net Assets (Continued)

Property taxes, which are now listed under the non-operating revenue section as per GASB 34/35, are also a key revenue source for the College. Property tax revenue increased this year as a result of a 10% 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 appropriations, grants and contracts, property taxes and tuition and fees (net of scholarship discounts). Table 3 shows the breakdown of total revenue for the College.

TABLE 3



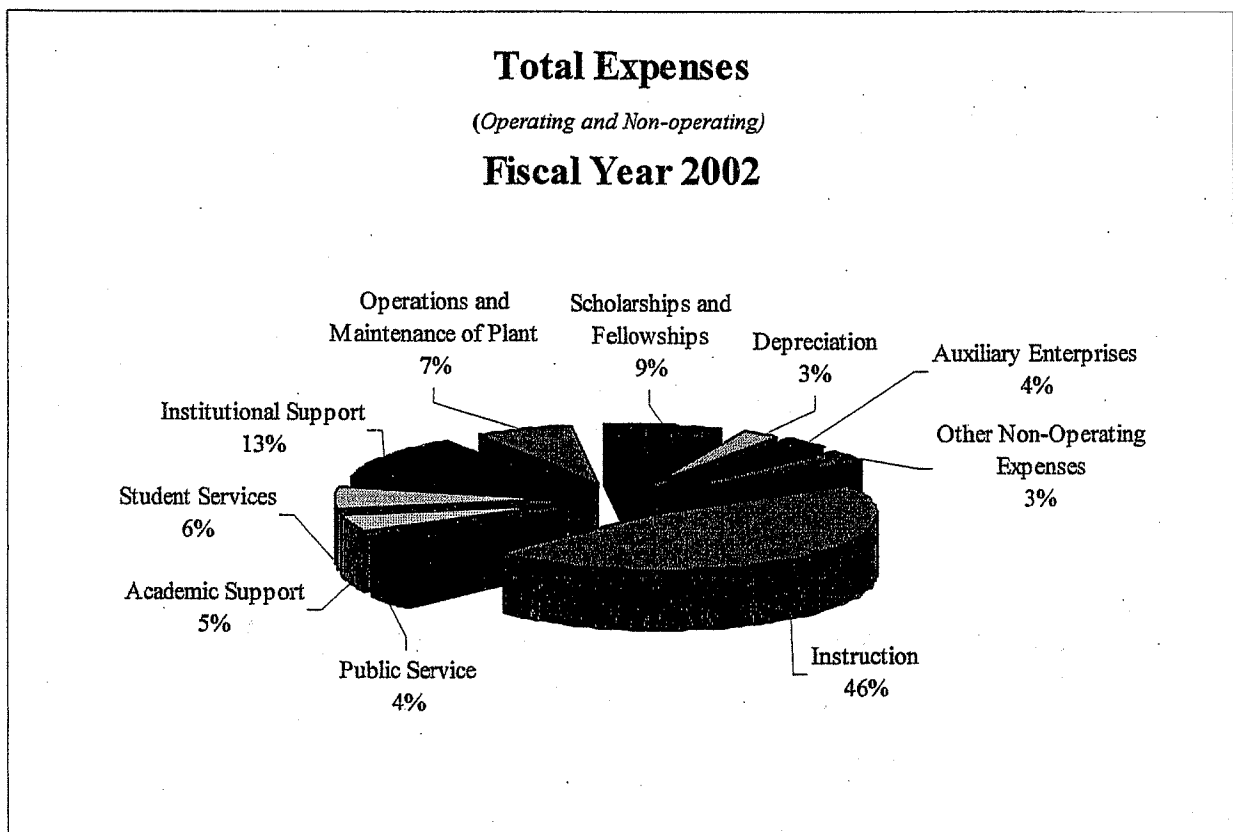
Grants and contracts made up the largest source of revenue (36%) for the College. State appropriations is the next largest at 31%. These two sources along with property tax revenue provide the bulk of the College's total revenue. Tuition and fees account for 13% of the total revenue.



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

Table 4 shows the breakdown of total expenditures for the College.

TABLE 4



Almost half (46%) of the College's total expenses were geared toward providing instruction to our students. The next largest area of expense was in the way of support of the institution at 13% of total expenditures. The implementation of GASB No. 34 and 35, required the College to depreciate capital assets and record an expense for the current year depreciation of these items. This year's depreciation expense calculation accounts for 3% of the total expenses.

*Statement of Cash Flows*

The Condensed Statement of Cash Flows appears in Table 5. The complete Statement of Cash Flows appears in page 5 of this report.

TABLE 5
CONDENSED STATEMENT OF CASH FLOWS
(in millions)

	<u>2002</u>
Cash Provided/ Used By:	
Operating Activities	(3.1)
Noncapital Financing Activities	5.6
Capital and Related Financing Activities	(6.3)
Investing Activities	<u>6.5</u>
NET INCREASE (DECREASE) IN CASH	2.7
CASH - Beginning of Year	<u>10.3</u>
CASH - End of Year	<u>13.1</u>

Total Cash and Cash Equivalents increased by \$2.7 million during the year. Major factors impacting cash and cash equivalents are described below by source.

Operating Activities: Cash used for operating activities (state appropriations, tuition and fees, grants and contracts and auxiliary charges less payments to employees and suppliers and payments of scholarships and fellowships) totaled \$3.1 million. Major sources of cash provided were receipts from tuition and fees, net of scholarship allowances and discounts (\$5.7 million), state appropriations (\$13.2 million) and Federal grants and contracts (\$14.6 million). The College's major cash outlays were for payments to employees and to suppliers and for the awarding of scholarships and fellowships.

Non-capital Financing Activities: The College had a positive non-capital financing cash flow of \$5.6 million from the collection of property taxes. Property taxes were collected at a rate of 93% of the current year's tax levy. (See table 5.1 for more information on property taxes)

Capital and Related Financing Activities: The College issued a \$5 million bond and incurred \$138,250 in issuance costs. A portion of the proceeds of this bond was used to acquire the



Statement of Cash Flows (Continued)

International Technology, Education and Commerce Campus (formerly known as the Amigoland Mall) for campus expansion. Cash outlays of approximately \$6 million (from bond proceeds) were also used in the completion of the Student Union Building.

Investing Activities In the Year 2000, the College issued \$9.025 million in bonds for the construction of the Student Union building. As a result, investments were made with the funds while the project was under construction. The \$6M represents the sale of the investments which in turn was used to fund the completion of the Student Union building.

Property taxes are an essential source of revenue for the College. The following table provides information regarding tax collection and assessed valuation for the Southmost Union Junior College District.

Table 5.1

Property Tax Information

	Fiscal Year 2002	Fiscal Year 2001	% Change
Total Tax Rate per \$100	0.1314	0.1314	-
Total Tax Collections	\$ 6,809,489	\$ 6,173,265	10%
Tax Collection Rate	93.1%	93.4%	-0.3%
Assessed Valuation	\$ 5,842,242,809	\$ 5,302,263,192	10%

The District's total tax rate did not change from the previous year; however, total tax assessments increased by about 10% due to increased valuation. The District's tax collection rate decreased only slightly from the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of Fiscal Year 2002, the College had approximately \$47.3 million (net of accumulated depreciation) invested in a broad range of capital assets, including instructional and athletic facilities, maintenance of buildings and equipment.



SOUTHMOST UNION JUNIOR COLLEGE DISTRICT

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Major capital additions included:

Buildings	\$ 9,245,356
Land	494,660
Site Improvements	297,907
Furniture & Equipment	<u>234,074</u>
Total cost of additions	\$ <u>10,271,997</u>

These additions were made to meet the needs of the steadily expanding enrollment at the College.

Debt

The College's general obligation bond ratings, as assigned by *Moody's* and *Standard and Poor's* are AAA and A- respectively.

At year-end, the College had approximately \$18.7 million in outstanding bonds versus approximately \$14.5 million the previous year. Table 6 summarizes these amounts by type of debt instrument.

Table 6

Bonds Payable at Year End
(in millions)

	Beginning of the Year	End of the Year
Refunding Tax Bonds	5.37	4.97
Student Union Building Bonds	8.89	8.73
Revenue Bonds		5.00
Total Bonds Payable	<u>14.26</u>	<u>18.70</u>

Tax bonds were issued in 1994 to refund the original 1987 tax bonds. The source of revenue for this debt service is ad valorem tax levy.



Debt (Continued)

The Student Union Building Bonds were issued in March of 2000. They were sold for the construction, operation and maintenance of the Student Union Building. This obligation is paid by student union fees assessed to the students.

During the year, the College issued a \$5 million Revenue Bond to fund various capital projects on campus, to facilitate the acquisition of the International Technology, Education, and Commerce Campus (ITECC) and the development of the student housing project, The Village at Fort Brown, among other improvements. Pledged revenues derived from tuition and fees, student and employee parking fees and interest on investment earnings are the sources for debt service.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board of Trustees considered many factors when establishing the fiscal year 2003 budget and tax rates. The College expects tax revenue to increase modestly during fiscal year 2003. Continued growth in the tax base, due to population growth and increased valuation, are expected to be driving forces in increased collections. The College also expects expenditures to increase as it strives to meet the needs of an expanding enrollment.

Major capital projects are underway, including The International Technology, Education and Commerce Campus (ITECC), the former Amigoland Mall, which will be renovated to house the Technical Training Center, Workforce Training and Continuing Education and other programs. The College will also expend resources to develop student housing on the former Fort Brown Hotel property, which was renamed The Village at Fort Brown.

Enrollment growth at the College continues to increase at an average rate of approximately 4%. A similar increase is expected for the coming year. In order for the College to meet the needs of its growing enrollment, it is essential that the state allocation remain at least equal to that of the previous year. Any cuts will effect direct services to students and seriously effect the College's effort to help meet the state's goal of "closing the gaps."

CONTACTING THE COLLEGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the College's finances and to show the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Vice President for Administration and Partnership Affairs Office at (956) 544-3879.

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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 FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION
AND OTHER SUPPLEMENTARY INFORMATION INCLUDING THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees
Southmost Union Junior College District
Brownsville, Texas

Members of the Board:

We have audited the accompanying financial statements of Texas Southmost College, as of and for the year ended August 31, 2002, which collectively comprise the College's financial statements as listed in the table of contents. These financial statements are the responsibility of Texas Southmost College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Texas Southmost College at August 31, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 in the notes to the financial statements, the College implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis- for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements-and Management's discussion and Analysis-for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement No. 34 and No. 35, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which changes note disclosure requirements for institutions, for the year ended August 31, 2002.

The accompanying required supplementary information, such as Management's Discussion and Analysis are not a required part of the financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

-1-

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2002, on our consideration of Texas Southmost College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Patullo, Brun & Hall, C.P.A.

December 16, 2002

FINANCIAL STATEMENTS

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TEXAS SOUTHMOST COLLEGE

STATEMENT OF NET ASSETS

AUGUST 31, 2002

	Primary Institution
ASSETS	
Current Assets	
Cash & cash equivalents	\$ 13,053,475
Endowment investments	47,826
Property taxes receivable (net of allowance for doubtful accounts of \$65,567)	1,245,787
Accounts receivable (net of allowance for doubtful accounts of \$9,000)	5,525,241
Notes receivable (net of allowance for doubtful accounts of \$246,294)	169,124
Due from other governments	144,124
Other assets	119,176
Total Current Assets	<u>20,304,753</u>
Noncurrent Assets	
Unamortized bond issuance cost	129,033
Capital assets, net	47,309,046
Total Noncurrent Assets	<u>47,438,079</u>
Total Assets	<u>\$ 67,742,832</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 146,088
Accrued liabilities	11,249
Accrued interest payable	623,560
Due to other governments	196,295
Funds held for others	8,303
Deferred revenues	5,354,651
Bonds payable - current portion	604,140
Total Current Liabilities	<u>6,944,286</u>
Noncurrent Liabilities	
Compensated absences	4,296
Bonds payable	18,095,000
Total Noncurrent Liabilities	<u>18,099,296</u>
Total Liabilities	<u>25,043,582</u>
NET ASSETS	
Invested in capital assets, net of related debt	32,101,693
Restricted for	-
Expendable	-
Student aid	-
Instructional programs	52,620
Loans	199,227
Capital projects	5,938,249
Debt Service	1,369,053
Other	180,404
Unrestricted	2,858,004
Total Net Assets	<u>\$ 42,699,250</u>

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

TEXAS SOUTHMOST COLLEGE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2002

	Primary Institution
REVENUES	
Operating Revenues	
State Appropriations	\$ 13,165,590
Tuition and Fees (Net of Discounts of \$8,396,782)	5,663,423
Federal Grants and Contracts	11,624,791
State Grants and Contracts	2,629,805
Non-Governmental Grants and Contracts	370,397
Auxiliary Enterprises	579,237
Other Operating Revenues	233,491
Total Operating Revenues	34,266,734
EXPENSES	
Operating Expenses	
Instruction	18,360,073
Public Service	1,721,211
Academic Support	2,016,359
Student Services	2,339,851
Institutional Support	5,044,218
Operation and Maintenance of Plant	2,863,841
Scholarships and Fellowships	3,479,593
Auxiliary Enterprises	1,500,353
Depreciation	1,109,660
Total Operating Expenses	38,435,159
Operating Income (Loss)	(4,168,425)
Non-Operating Revenues (Expenses)	
Maintenance Ad-Valorem Taxes	
Taxes for Maintenance & Operations	5,983,156
Taxes for General Obligation Bonds	1,273,004
Investment Income (Net of Investment Expenses)	483,235
Interest on Capital Related Debt	(1,285,962)
Other Non-Operating Expenses	(9,932)
Total Non-Operating Revenues (Expenses)	6,443,501
Income Before Other Revenues, Expenses, Gains & Losses	2,275,076
Other Revenues, (Expenses), Gains, (Losses)	
Capital Contributions	-
Additions to Permanent and Term Endowments	-
Special Items	-
Extraordinary Items	-
Total Other Revenues, (Expenses), Gains, (Losses)	-
Increase (Decrease) in Net Assets	2,275,076
NET ASSETS	
Net Assets - Beginning of Year (Restated)	40,424,174
Net Assets - End of Year	\$ 42,699,250

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

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