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SOUTHMOST UNION JUNIOR COLLEGE DISTRICT  
ANNUAL FINANCIAL REPORT  
YEAR ENDED AUGUST 31, 2003

**TEXAS SOUTHMOST COLLEGE**

**ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2003**

**TEXAS SOUTHMOST COLLEGE**

**ORGANIZATIONAL DATA**

**FOR THE FISCAL YEAR 2002-2003**

**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
Veronica Mendez	Assistant Vice-President for Administration and Partnership Affairs
Melba M. Sanchez, CPA	District Comptroller

# TEXAS SOUTHMOST COLLEGE

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**ANNUAL FINANCIAL REPORT**

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SOUTHMOST UNION JUNIOR COLLEGE DISTRICT

THE UNIVERSITY OF TEXAS AT BROWNSVILLE and TEXAS SOUTHMOST COLLEGE

80 Fort Brown • Brownsville, Texas 78520 • (956) 544-3879 • Fax (956) 544-8811

## TEXAS SOUTHMOST COLLEGE

### MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2003

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, 2003. 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.

As a result of GASB Statements No. 34 and No. 35 implementation, there are significant differences in the presentation and method of accounting used in these financial statements. In the past, financials were focused on fund accounting and were prepared using a modified accrual basis of accounting. The current and prior 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. For purposes of discussion and analysis, we have provided a year to year comparative analysis of the financial statements.

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 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



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

expenses. The College is primarily dependent upon four sources of revenues: state allocations, 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)

	August 31, <u>2003</u>	August 31, <u>2002</u>	<u>Change</u>
Current Assets	\$ 20.6	\$ 20.3	\$ 0.3
Noncurrent Assets			
Capital Assets, Net of Accumulated Depreciation	54.1	47.3	6.8
Other Non-Current Assets	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>
Total Assets	<u>74.9</u>	<u>67.7</u>	<u>7.1</u>
Current Liabilities	8.9	6.9	1.9
Noncurrent Liabilities	<u>16.8</u>	<u>18.1</u>	<u>-1.3</u>
Total Liabilities	<u>25.7</u>	<u>25.0</u>	<u>0.7</u>
Net assets:			
Invested in capital assets, net of related debt	36.0	32.1	3.9
Restricted Expendable	10.6	7.7	2.9
Unrestricted	<u>2.5</u>	<u>2.9</u>	<u>-0.3</u>
Total Net Assets	\$ <u>49.1</u>	\$ <u>42.7</u>	\$ <u>6.4</u>

Total Assets increased by \$7.1 million. Major factors affecting this net increase include the purchase and renovation of buildings, and decreases in cash and cash equivalents offset by increases in accounts receivable.



*Statement of Net Assets (continued)*

Total liabilities increase by \$0.7 million. Included in this amount are: an increase in Deferred Revenues (for student tuition and fees) of \$1.2 million, slight increases in accounts payables and a \$0.6 million decrease in Bonds Payable.

Net assets (assets less liabilities) increased by 15% in fiscal year 2003, from \$42.7 million at August 31, 2002 to \$49.2 million at August 31, 2003. 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 \$2.5 million of total net assets at August 31, 2003.

*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)**

	<b>Fiscal Year</b>	<b>Fiscal Year</b>	<b>Change</b>
	<b>2003</b>	<b>2002</b>	
Operating Revenues	\$ 41.7	\$ 34.3	\$ 7.5
Operating Expenses	41.9	38.4	3.5
Non-Operating Revenues	8.2	7.7	0.5
Non-Operating Expenses	<u>1.7</u>	<u>1.3</u>	<u>0.4</u>
<b>INCREASE IN NET ASSETS</b>	\$ 6.4	\$ 2.3	\$ 4.2
<b>NET ASSETS - Beginning of Year</b>	\$ <u>42.7</u>	\$ <u>40.4</u>	\$ <u>2.3</u>
<b>NET ASSETS - End of Year</b>	\$ <u>49.1</u>	\$ <u>42.7</u>	\$ <u>6.4</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 2003		Fiscal Year 2002		Increase/ (Decrease)
	Amount	Percentage of Total	Amount	Percentage of Total	
State Allocations	\$ 12.7	30.5%	\$ 13.2	38.4%	\$ (0.4)
Net Tuition and Fees	6.1	14.6%	5.7	16.5%	0.4
Grants and Contracts	21.9	52.5%	14.6	42.7%	7.3
Auxiliary Enterprises	0.7	1.8%	0.6	1.7%	0.2
Other Operating Revenues	<u>0.2</u>	<u>0.6%</u>	<u>0.2</u>	<u>0.7%</u>	<u>0.0</u>
Total Operating Revenues	\$ <u>41.7</u>	<u>100.00%</u>	\$ <u>34.3</u>	<u>100.00%</u>	\$ <u>7.5</u>

Operating revenues were affected by the following key factors:

- State allocations were reduced by 7% per a directive from the Governor of Texas for all community colleges, universities and state agencies. This reduced state allocations by \$0.8 million.
- Tuition and fees (net of scholarship discounts) increased as a result of an 11% increase in enrollment. Other factors affecting the tuition and fee increase are a \$2 per semester credit hour increase in resident tuition, a \$9 increase in non-resident tuition, an increase in the Student Union Fee of 10% and the implementation of \$25 advising fee for first-time freshman, undeclared majors and transfer students.
- Grants and Contracts revenues increased as a result of local grants and increased funding for Pell and other federal programs. The largest increase in grants and contracts came in the form of non-governmental grants and contracts. The College was awarded a grant in the amount of \$5.5 million from the Greater Brownsville Investment Corporation (GBIC)



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

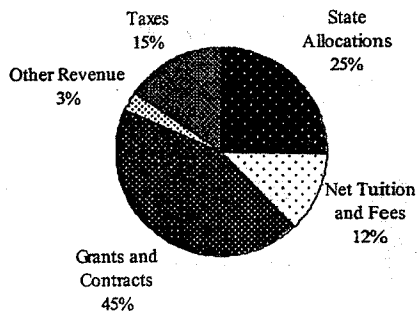
over a two year period for the renovation of the College's International Technology Education and Commerce Campus (ITECC). Increased enrollment resulted in an increase of federal grants and contracts awarded to the College.

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 \$0.4 million as a result of a 9.5% 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.

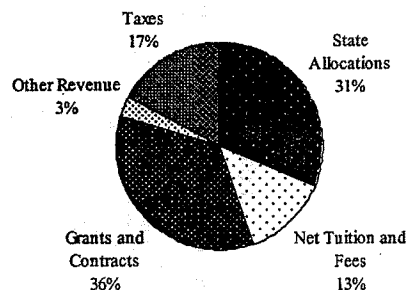
Key sources of revenue in total for the College are state allocations, grants and contracts, property taxes and tuition and fees (net of scholarship discounts). Table 4 shows a comparison of the breakdown of total revenues by source for the College in Fiscal Years 2003 and 2002.

**TABLE 4**  
**Total Revenues**  
*(Operating and Non-operating)*

**Fiscal Year 2003**



**Fiscal Year 2002**



In fiscal year 2003, grants and contracts made up the largest source of revenue (45%) for the College. State allocations are the next largest revenue source at 25%. These two sources along with property tax revenue provide the bulk of the College's total revenue. Tuition and fees account for 12% of the total revenue.

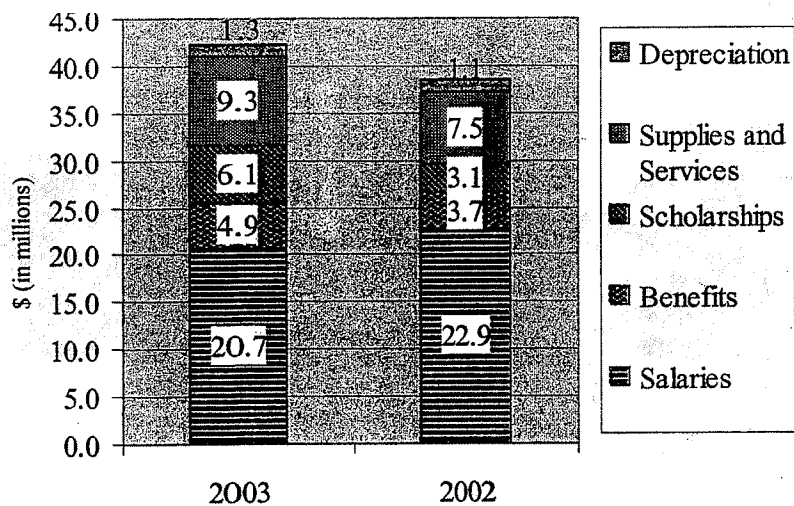


*Statement of Revenues, Expenses and Changes in Net Assets (continued)*

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

**TABLE 5**  
**OPERATING EXPENSES**  
**Natural Classification**  
 (in millions)

	Fiscal Year <u>2003</u>	Fiscal Year <u>2002</u>	<u>Change</u>
Salaries	\$ 20.7	\$ 22.9	\$ -2.3
Benefits	4.9	3.7	1.2
Scholarships	6.1	3.1	3.0
Supplies and Services	9.3	7.5	1.8
Depreciation	<u>1.3</u>	<u>1.1</u>	<u>0.1</u>
Total Operating Expenses	\$ <u>42.3</u>	\$ <u>38.4</u>	\$ <u>3.8</u>





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

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

**TABLE 6**  
**OPERATING EXPENSES**  
**Functional Classification**  
(in millions)

	<u>2003</u>	<u>2002</u>	<u>Change</u>
<u>Educational and General</u>			
Instruction	\$ 13.7	\$ 18.4	\$ -4.7
Public Service	0.6	1.7	-1.1
Academic Support	4.1	2.0	2.1
Student Services	4.9	2.7	2.2
Institutional Support	6.7	5.0	1.6
Operation and Maintenance of Plant	3.4	2.9	0.5
Scholarship and Fellowships	6.1	3.1	3.0
Depreciation	<u>1.3</u>	<u>1.1</u>	<u>0.1</u>
Total Educational Activities	40.7	36.9	3.8
Auxiliary Enterprises	<u>1.6</u>	<u>1.5</u>	<u>0.1</u>
Total Operating Expenses	\$ <u>42.3</u>	\$ <u>38.4</u>	\$ <u>3.8</u>

