

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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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)



SOUTHMOST UNION JUNIOR COLLEGE DISTRICT

THE UNIVERSITY OF TEXAS AT BROWNSVILLE and TEXAS SOUTHMOST COLLEGE

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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.



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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.

*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.

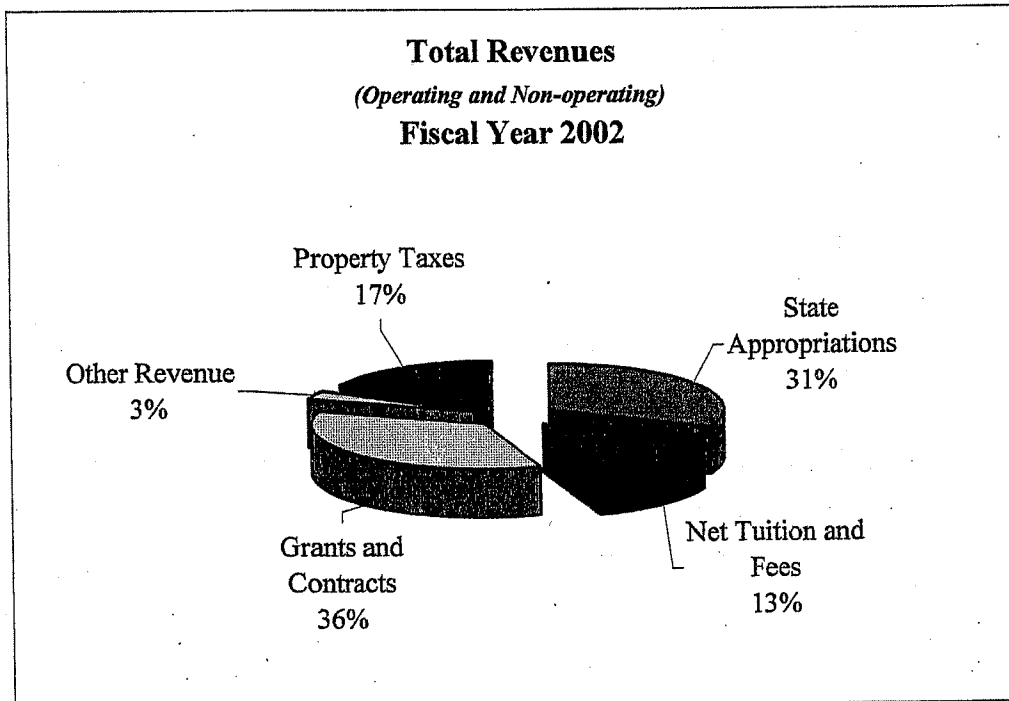


Statement of Revenues, Expenses and Changes in Net Assets (Continued)

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.

