

**TEXAS SOUTHMOST COLLEGE DISTRICT**

**ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2006**

**UTB/TSC  
RECEIVED**

**JAN 08 2007**

**Administration &  
Partnership Affairs**

TEXAS SOUTHMOST COLLEGE DISTRICT  
ANNUAL FINANCIAL REPORT

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TEXAS SOUTHMOST COLLEGE DISTRICT

ORGANIZATIONAL DATA

FOR THE FISCAL YEAR 2006

Board of Trustees

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Officers

Chester Gonzalez	Chairperson
Rosemary Breedlove	Vice-chairperson
Eduardo A. Campirano	Secretary

Members

Term Expires

Roman Esparza	Brownsville, Texas	May, 2008
Rosemary Breedlove	Brownsville, Texas	May, 2010
David G. Oliveira	Brownsville, Texas	May, 2012
Chester Gonzalez	Brownsville, Texas	May, 2010
Dolly Zimmerman	Port Isabel, Texas	May, 2008
Dr. Roberto Robles	Brownsville, Texas	May, 2012
Eduardo A. Campirano	Brownsville, Texas	May, 2010

Principal Administrative Officers

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Dr. Juliet V. Garcia	President, UTB/TSC
Dr. Wayne J. Moore	Vice President for Administration and Partnership Affairs, UTB/TSC
Melba M. Sanchez, CPA	District Controller

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Texas Southmost College District  
Brownsville, Texas

We have audited the accompanying financial statements of Texas Southmost College District, as of and for the years ended August 31, 2006 and 2005 as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. 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 the 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 District, as of August 31, 2006 and 2005, and the changes in its net assets and, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages 7 through 22, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 District taken as a whole. The accompanying supplementary information on pages 63 through 80 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 cursive script, appearing to read "Long Chilton LLP".

Brownsville, Texas

November 7, 2006

## TEXAS SOUTHMOST COLLEGE

### MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2006

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, 2006. This discussion and analysis is to be read in conjunction with the College's financial statements which begin on page 23.

### 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 required by GASB No. 34 and No. 35, 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 27 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 expenses. The College is primarily

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

dependent upon four sources of revenues: state allocations, tuition and fees, grants and contracts and property taxes. Since state allocations and 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)

	August 31, <u>2006</u>	August 31, <u>2005</u>	August 31, <u>2004</u>
Current Assets	\$ 20.3	\$ 19.8	\$ 18.6
Noncurrent Assets			
Cash and Cash Equivalents - Restricted	69.1	22.5	1.4
Capital Assets, Net of Accumulated Depreciation	59.2	60.7	59.5
Other Non-Current Assets	<u>1.7</u>	<u>0.8</u>	<u>0.2</u>
Total Assets	<u>150.3</u>	<u>103.8</u>	<u>79.7</u>
Current Liabilities	17.5	14.9	11.2
Noncurrent Liabilities	<u>76.9</u>	<u>33.0</u>	<u>15.4</u>
Total Liabilities	<u>94.4</u>	<u>47.9</u>	<u>26.6</u>
Net assets:			
Invested in capital assets, net of related debt	42.9	25.5	42.6
Restricted Expendable	8.8	27.7	7.7
Unrestricted	<u>4.2</u>	<u>2.6</u>	<u>2.7</u>
Total Net Assets	\$ <u>55.9</u>	\$ <u>55.8</u>	\$ <u>53.0</u>

Total Assets increased by \$46.5 million. The major factors affecting this net increase are the sale and reinvestment of the following: \$13.6 million in Wellness Center revenue bonds, \$24.945 million in general obligation tax bonds, \$4.835 million in maintenance tax notes and \$6.590 million in revenue refunding and improvement bonds. All issuances will be used for various construction and renovation projects on campus which began this fiscal year.

*Statement of Net Assets (continued)*

Total liabilities increased by \$46.5 million. Included in this increase are: \$13.655 in Wellness Center revenue bonds, \$24.945 million in general obligation tax bonds, \$4.835 million in maintenance tax notes and an additional \$1.815 million in revenue refunding and improvement bonds. Deferred revenues also increase by almost \$1.9 million which represents tuition and fees for the Fall 2006 semester and is indicative of a growing enrollment.

Net assets (assets less liabilities) increased slightly in fiscal year 2006, from \$55.844 million at August 31, 2005 to \$55.926 million at August 31, 2006. 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 \$4.2 million of total net assets at August 31, 2006.

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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)**

	<b>Fiscal Year</b> <b><u>2006</u></b>	<b>Fiscal Year</b> <b><u>2005</u></b>	<b>Fiscal Year</b> <b><u>2004</u></b>
Operating Revenues	\$ 28.5	\$ 23.7	\$ 21.0
Operating Expenses	46.6	40.6	38.2
Non-Operating Revenues	27.1	20.7	21.5
Non-Operating Expenses	<u>2.5</u>	<u>1.0</u>	<u>0.9</u>
<b>INCREASE IN NET ASSETS</b>	\$ 6.5	\$ 2.8	\$ 3.4
<b>NET ASSETS - Beginning of Year</b>	\$ <u>55.9</u>	\$ <u>53.1</u>	\$ <u>49.1</u>
Prior Period Adjustments	-6.5		0.6
<b>NET ASSETS - End of Year</b>	\$ <u>55.8</u>	\$ <u>55.9</u>	\$ <u>53.1</u>

