

TRINITY VALLEY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

1. REPORTING ENTITY

Trinity Valley Community College (the College) was established in 1946, in accordance with the laws of the State of Texas, to serve the educational needs of the Trinity Valley Community College District and the surrounding communities. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Report Guidelines

The significant accounting policies followed by the College in preparing these financial statements are in accordance with the Texas Higher Education Coordinating Board's *Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The College applies all applicable GASB pronouncements and all applicable Financial Accounting Standard Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The College has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The College is reported as a special-purpose government engaged in business-type activities.

B. Tuition Discounting

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.0333). When the award is used by the student for the tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act Program Funds

Certain Title IV HEA Program funds are received by the College to pass through to the student. These funds are initially received by the College and recorded as revenue. When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Other tuition discounts

The College awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amounts are recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

The financial statements of the College have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

D. Budgetary Data

Each community college in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendments must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1.

E. Cash and cash equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

F. Investments

In accordance with GASB Statement No 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of \$ -0- to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

G. Inventories

Inventories consist of consumable office supplies, physical plant supplies, food service supplies, and bookstore stock. Inventories are valued at cost and are charged to expense as consumed.

H. Capital assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure as well as the cost of new buildings are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Deferred revenues

Tuition, fees, and other revenues received and related to the period after August 31, 2005 have been deferred.

J. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Operating and Non-Operating Revenue and Expense Policy

The College distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenue are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

L. Prior year restatement

Prior year restatement was necessary to add accumulated depreciation of library books in accordance with APB20.

3. AUTHORIZED INVESTMENTS

Trinity Valley Community College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligation of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

4. DEPOSITS AND INVESTMENTS

Cash and Deposits included on Exhibit 1, State of Net Assets, consist of the following items reported below.

Cash and Deposits

	<u>2005</u>	<u>2004</u>
Bank Deposits:	\$ 8 304 158	\$ 3 288 094
Demand Deposits	<u>8 304 158</u>	<u>3 288 094</u>
Cash and Cash Equivalents:	4 328	3 827
Petty Cash on Hand	<u>4 328</u>	<u>3 827</u>
Total Cash and Deposits	<u>\$ 8 308 486</u>	<u>\$ 3 291 921</u>

Reconciliation of Deposits and Investments to Exhibit 1

<u>Type of Security</u>	<u>Market Value August 31, 2005</u>	<u>Market Value August 31, 2004</u>
U. S. Government	\$ 0	\$ 0
U. S. Instrumentality	0	0
Real Estate Investments	<u>0</u>	<u>0</u>
Totals	<u>\$ 0</u>	<u>\$ 0</u>
Total Cash and Deposits	8 308 486	3 291 921
Total Investments	<u>0</u>	<u>0</u>
Total Deposit and Investments	<u>8 308 486</u>	<u>3 291 921</u>
Cash and Temporary Investments (Exhibit 1)	6 024 158	7 851 593
Investments (Exhibit 1)	<u>0</u>	<u>0</u>
Total Deposits and Investments	<u>\$ 14 332 644</u>	<u>\$ 11 143 514</u>

The College has no investments exposed to credit or custodial risk. All deposits are either insured by federal deposit insurance or covered by collateral pledged in Trinity Valley Community College's name and held in the safekeeping departments of unrelated banks which act as the pledging bank's agents.

5. DERIVATIVES

The College had no derivatives at August 31, 2005.

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6. CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2005 was as follows:

	Balance September 1, 2004 (Restated)	<u>Increases</u>	<u>Decreases</u>	Balance August 31, 2005
<u>Not Depreciated:</u>				
Land	\$ 1 139 726	\$	\$	\$ 1 139 726
Construction in Progress	<u>1 147 353</u>	<u>2 758 101</u>	<u>16 332</u>	<u>3 889 122</u>
Subtotal	<u>2 287 079</u>	<u>2 758 101</u>	<u>16 332</u>	<u>5 028 848</u>
Other Capital Assets:				
Building	20 920 163	1 197 801		22 117 964
Facilities & Improvements	1 458 623	634 567		2 093 190
Library Books	2 347 559	96 055	58 647	2 384 967
Furniture, Machinery, Vehicles, and Other Equipment	1 019 100	148 122	75 772	1 091 450
Telecommunications and Peripheral Equipment	<u>751 298</u>	<u>135 748</u>	<u>142 434</u>	<u>744 612</u>
Subtotal	<u>26 496 743</u>	<u>2 212 293</u>	<u>276 853</u>	<u>28 432 183</u>
Accumulated Depreciation:				
Buildings	6 209 232	411 241		6 620 473
Facilities & Improvements	395 695	61 006		456 701
Library Books	1 378 644	146 398	4 195	1 520 847
Furniture, Machinery, Vehicles, and Other Equipment	545 616	145 324	63 346	627 594
Telecommunications and Peripheral Equipment	<u>425 287</u>	<u>108 509</u>	<u>142 434</u>	<u>391 362</u>
Subtotal	<u>8 954 474</u>	<u>872 478</u>	<u>209 975</u>	<u>9 616 977</u>
Net Other Capital Assets	<u>17 542 269</u>	<u>1 339 815</u>	<u>66 878</u>	<u>18 815 206</u>
Net Capital Assets	<u>\$ 19 829 348</u>	<u>\$ 4 097 916</u>	<u>\$ 83 210</u>	<u>\$ 23 844 054</u>

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6. CAPITAL ASSETS (continued)

Capital assets activity for the year ended August 31, 2004 was as follows:

	Balance September 1, 2003 <u>(Restated)</u>	<u>Increases</u>	<u>Decreases</u>	Balance August 31, 2004 <u>(Restated)</u>
<u>Not Depreciated:</u>				
Land	\$ 1 139 726	\$	\$	\$ 1 139 726
Construction in Progress	<u>0</u>	<u>1 147 353</u>	<u></u>	<u>1 147 353</u>
Subtotal	<u>1 139 726</u>	<u>1 147 353</u>	<u>0</u>	<u>2 287 079</u>
Other Capital Assets:				
Building	20 828 219	91 944		20 920 163
Facilities & Improvements	1 105 931	352 692		1 458 623
Library Books	2 321 798	101 673	75 912	2 347 559
Furniture, Machinery, Vehicles, and Other Equipment	926 885	169 379	77 164	1 019 100
Telecommunications and Peripheral Equipment	<u>737 802</u>	<u>13 496</u>	<u></u>	<u>751 298</u>
Subtotal	<u>25 920 635</u>	<u>729 186</u>	<u>153 076</u>	<u>26 496 743</u>
Accumulated Depreciation:				
Buildings	5 799 830	409 402		6 209 232
Facilities & Improvements	354 979	40 716		395 695
Library Books (Restated)	1 231 994	146 650		1 378 644
Furniture, Machinery, Vehicles, and Other Equipment	465 970	140 126	60 480	545 616
Telecommunications and Peripheral Equipment	<u>307 917</u>	<u>117 370</u>	<u></u>	<u>425 287</u>
Subtotal	<u>8 160 690</u>	<u>854 264</u>	<u>60 480</u>	<u>8 954 474</u>
Net Other Capital Assets	<u>17 759 945</u>	<u>(125 080)</u>	<u>16 684</u>	<u>15 194 710</u>
Net Capital Assets	<u>18 899 671</u>	<u>(1 022 273)</u>	<u>92 596</u>	<u>19 829 348</u>

7. LONG - TERM LIABILITIES

Long-term liability activity for the year ended August 31, 2005 was as follows:

	<u>Balance September 1 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance August 31 2005</u>	<u>Current Portion</u>
Bonds:					
Revenue Bonds	\$ 0	\$ 5 500 000	\$	\$ 5 500 000	\$ 465 000
Total Long-term Liabilities	<u>\$ 0</u>	<u>\$ 5 500 000</u>	<u>\$</u>	<u>\$ 5 500 000</u>	<u>\$ 465 000</u>

There were no long-term liabilities for the previous year.

Debt service requirements at August 31, 2005 were as follows:

<u>For the Year Ended August 31,</u>	<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 480 000	\$ 201 400	\$ 681 400
2008	495 000	182 699	677 699
2009	515 000	162 400	677 400
2010	535 000	141 800	676 800
2011	555 000	120 400	675 400
2012-2015	<u>2 455 000</u>	<u>250 869</u>	<u>2 705 869</u>
Total	<u>\$ 5 035 000</u>	<u>\$ 1 059 568</u>	<u>\$ 6 094 568</u>

General information related to bonds payable is summarized as follows:

Bond issue Name, Series - Series 2005
 Purpose of the bond issue - To construct a classroom building
 Issue date - June 27, 2005
 Original amount of issue - \$5,500,000
 Source of revenue for debt service - Pledged tuition fee, building use fee, student services fee, laboratory fee, other fees and Auxiliary Enterprise Fund System revenue including all interest income on such funds.

Bonds payable are due in annual installments varying from \$642,205 to \$681,200 with an interest rate to maturity of \$4.0 percent with the final installment due in 2015.

8. DEBT AND LEASE OBLIGATIONS

The College had no debt and lease obligations for the year ending August 31, 2005.

9. BONDS PAYABLE

See Note 7.

10. ADVANCE REFUNDING BONDS

The College had no advance refunding bonds for the year ending August 31, 2005.

11. DEFEASED BONDS OUTSTANDING

The College had no defeased bonds outstanding for the year ending August 31, 2005.

12. SHORT - TERM DEBT

The College had no short - term debt for the year ending August 31, 2005.

13. EMPLOYEES' RETIREMENT PLAN

The State of Texas has joint contributory retirement plans for almost all of its employees. One of the primary plans in which the College participates is administered by the Teacher Retirement System of Texas. The percentages of participant salaries currently contributed by the state and by each participant are 6% and 6.4% respectively, of annual compensation.

The Teachers Retirement System does not separately account for each of its component government agencies, because it bears sole responsibility for retirement commitments beyond contributions fixed by the Legislature.

The state has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts. The percentages of participant salaries currently contributed by the state and each participant are 6.0% and 6.65% respectively. The College contributes 2.5% percent for employees who were participating in the optional retirement program prior to September 1, 1995. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense to the State for the College was \$645,920 and \$617,426 for the fiscal years ended August 31, 2005 and 2004, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for all College employees was \$13,679,026 and \$13,029,351 for fiscal years ending August 31, 2005 and 2004, respectively. The total payroll of employees covered by the Teacher Retirement System was \$5,468,588 and \$5,198,214, and the total payroll of employees covered by the Optional Retirement System was \$5,296,746 and \$5,092,220 for fiscal years ending August 31, 2005 and 2004, respectively.

14. DEFERRED COMPENSATION PROGRAM

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The College acts as a withholding agent for the employee contracts with their individual plan. The College has no liability to the employee other than withholding from their salary check and remitting to their designated plan. For the year ended August 31, 2005 the College withheld and remitted \$190,620 for 41 employees. For the year ended August 31, 2004, the College withheld and remitted \$200,204 for 48 employees.

15. COMPENSABLE ABSENCES

Full-time employees earn annual vacation leave of one day per month of employment during their first ten years of employment. After ten years of employment annual leave is earned at the rate of one and one-half days per month. This leave can accumulate up to one year. Accrued compensation balances have been recorded. The College recognized the accrued liability for the unpaid annual leave for in the amounts of \$201,025 at August 31, 2005 and \$184,759 at August 31, 2004.

Also, all full-time employees are granted medical leave at the rate of one day per month of service to up 45 days depending on length of employment. If this leave is not used for medical purposes, it lapses upon the retirement or resignation of the employee and the employee is not paid for it. Therefore, no accruals have been recorded for medical leave.

16. PENDING LAWSUITS AND CLAIMS

There were no pending lawsuits or claims during the current period according to Trinity Valley Community College personnel.

17. DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at August 31, 2005, were as follows:

	2005		2004	
	Primary Institution	Component Unit (Foundation)	Primary Institution	Component Unit (Foundation)
Student Receivables	\$ 877 156	\$	\$ 711 722	\$
Taxes Receivables	566 453		524 800	
State Receivables	154 856		10 736	
Federal Receivables	1 057		1 128	
Grant Receivables	577 108		699 731	
Other Receivables	65 333		107 025	1 129
Subtotal	2 241 963	0	2 055 142	1 129
Allowance for Doubtful Accounts	(242 619)		(203 892)	0
Total	<u>\$ 1 999 344</u>	<u>\$ 0</u>	<u>\$ 1 851 250</u>	<u>\$ 1 129</u>

Payables

Payables at August 31, 2005, were as follows:

	2005		2004	
	Primary Institution	Component Unit (Foundation)	Primary Institution	Component Unit (Foundation)
Vendors Payable	\$ 241 463	\$	\$ 214 822	\$
Due to State	2 044		5 271	
Sales Tax Payable	73 728		58 388	
Payable to Bookstore	357 856		305 355	
Other Payables	878		1 056	
Total	<u>\$ 675 969</u>	<u>\$ 0</u>	<u>\$ 584 892</u>	<u>\$ 0</u>

18. FUNDS HELD IN TRUST BY OTHERS

There were no known funds held in trust by others on behalf of Trinity Valley Community College for the year ending August 31, 2005.

19. CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, Audits of Colleges and Universities. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grants awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g. multi-year awards, or funds awarded during fiscal years ending August 31, 2005 and 2004 respectively for which monies have not been received nor funds expended totaled \$121,480 and \$127,023. Of these amounts, \$114,493 and \$124,365 were from Federal Contract and Grant Awards; \$6,987 and \$2,658 were from State Contract and Grant Awards; \$-0- and \$-0- were from Local Contract and Grant Awards; and \$-0- and \$-0- were from Private Contract and Grant Awards for the fiscal years ended August 31, 2005 and 2004, respectively.

20. SELF-INSURED PLANS

The College did not participate in any self-insured plans as of August 31, 2005.

21. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee was \$316.68 per month for the year ended August 31, 2005 (\$300.27 per month for year ended August 31, 2004) and totaled \$1,218,021 for the year ended August 31, 2005 (\$1,175,286 for the year ended August 31, 2004). The cost of providing those benefits for 80 retirees in the year ended August 31, 2005 was \$371,972 (retiree benefits for 79 retirees cost \$331,089 for the year ended August 31, 2004). For 239 active employees, the cost of providing benefits was \$846,049 for the year ended August 31, 2005 (active employee benefits for 239 employees cost \$844,197 for the year ended August 31, 2004).

22. PROPERTY TAX

The District's ad valorem property tax is levied each October 1, on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

At August 31:

	<u>2005</u>		<u>2004</u>	
Assessed Valuation of the College	\$ 9 347 838 075		\$ 9 150 024 028	
Less: Exemptions	1 735 553 144		2 026 544 296	
Less: Abatements	<u>35 550 720</u>		<u>44 071 117</u>	
Net Assessed Valuation of the College	<u>\$ 7 576 734 211</u>		<u>\$ 7 079 408 615</u>	
	<u>2005</u>		<u>2004</u>	
	<u>Current</u>	<u>Total</u>	<u>Current</u>	<u>Total</u>
	<u>Operations</u>		<u>Operations</u>	
Tax Rate per \$100 valuation for Authorized	\$.50	\$.50	\$.50	\$.50
Tax Rate per \$100 valuation for Assessed	\$.0615	\$.0615	\$.0615	\$.0615
Tax Rate per \$100 Valuation for Assessed Maintenance Tax	\$.05	\$.05	\$.0485	\$.0485

Tax levied during the year ended August 31, 2005 and 2004 is \$4,594,741 and \$4,243,249 which includes any penalty and interest assessed if applicable. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

22. PROPERTY TAX (continued)

<u>Taxes Collected (Includes Maintenance Tax)</u>	<u>2005</u>		<u>2004</u>	
	<u>Current Operations</u>	<u>Total</u>	<u>Current Operations</u>	<u>Total</u>
Current Taxes Collected	\$ 4 303 274	\$ 4 303 274	\$ 3 955 513	\$ 3 955 513
Delinquent Taxes Collected	204 358	204 358	236 508	236 508
Penalties and Interest Collected	<u>120 909</u>	<u>120 909</u>	<u>94 962</u>	<u>94 962</u>
Total Collections	<u>\$ 4 628 541</u>	<u>\$ 4 628 541</u>	<u>\$ 4 286 983</u>	<u>\$ 4 286 983</u>

Tax collections for the year ended August 31, 2005 and 2004 were 94% and 93%, respectively of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and/or operations.

23. BRANCH CAMPUS MAINTENANCE TAX

A branch campus maintenance tax which is established by election is supposed to be levied by the Palestine Independent School District. However, due to an agreement by the College and the Palestine Independent School District, this tax is completely administered by the College. It is levied each October 1, on the assessed value listed as of the prior January 1 for all real and business personal property located in the district. Collections are made by Anderson County Tax Assessor-Collector and are transferred to the College District to be used for operation of a Branch Campus at Palestine, Texas.

<u>County or Independent School District</u>	<u>Collections (including Penalties and Interest) 2005</u>	<u>Collections (including Penalties and Interest) 2004</u>
Palestine ISD	\$ 407 575 ●	\$ 393 033 ●

● This amount included in the amount of the preceding notes.

24. INCOME TAXES

The College is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc. Unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the year ended August 31, 2005.

25. COMPONENT UNITS

The Trinity Valley Community College Foundation is not a component unit as defined in GASB 39. However, we have reported Trinity Valley Community College Foundation as an affiliated organization.

26. RELATED PARTIES

The only noted and possible related party instance is that Carol Staples, Mother of state legislator Todd Staples, is an instructor at Trinity Valley Community College.