



**Comprehensive Annual Financial Report
Fiscal Years Ended
August 31, 2005 and 2004**

Hidalgo County and Starr County, Texas

Hidalgo County and Starr County, Texas



SOUTH TEXAS COLLEGE

Comprehensive Annual Financial Report
Fiscal Years Ended August 31, 2005 and 2004

**Prepared By:
Business Office**



INTRODUCTORY SECTION FY 2004-2005



...You Can Make It Happen!

Student Success • Excellence • Integrity • Community • Opportunity



South Texas College
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED AUGUST 31, 2005 AND 2004

TABLE OF CONTENTS

	<u>Page No.</u>
INTRODUCTORY SECTION	
Table of Contents.....	1-5
Transmittal Letter.....	7-19
GFOA Certificate of Achievement.....	20
Organizational Chart.....	21
Officials and Staff.....	22
Board of Trustees.....	23
 FINANCIAL SECTION	
Report of Independent Auditors.....	25-26
Management’s Discussion and Analysis.....	27-43
 Basic Financial Statements:	
Exhibit 1 Statements of Net Assets.....	45
Exhibit 2 Statements of Revenues, Expenses and Changes in Net Assets.....	46



South Texas College
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED AUGUST 31, 2005 AND 2004

TABLE OF CONTENTS
(Continued)

	<u>Page No.</u>
Exhibit 3	
Statements of Cash Flows.....	47-48
Notes to Financial Statements.....	49-74
 Supplementary Information:	
Schedule A.....	75-76
Schedule of Operating Revenues	
Schedule B.....	77
Schedule of Operating Expenses by Object	
Schedule C.....	78
Schedule of Non-Operating Revenues and Expenses	
Schedule D.....	80-81
Schedule of Net Assets by Source and Availability	
Schedule E.....	82-85
Schedule of Expenditures of Federal Awards	
Schedule F.....	86
Schedule of Expenditures of State Awards	
Notes to Schedule of Expenditures of Federal and State Awards.....	87



South Texas College
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED AUGUST 31, 2005 AND 2004

TABLE OF CONTENTS
(Continued)

	<u>Table No.</u>	<u>Page No.</u>
STATISTICAL SECTION (UNAUDITED)		
Net Assets - Unaudited.....	Table 1	89
Changes in Net Assets - Unaudited.....	Table 2	90
Operating and Non-Operating Revenue by Source – Unaudited.....	Table 3	91
Operating Expenses by Elements of Institutional Costs – Unaudited.....	Table 4	92
Expenses by Element of Institutional Costs – Unaudited.....	Table 5	94-95
Revenue by Source - Unaudited.....	Table 6	96-97
Property Tax Levies and Collections - Unaudited.....	Table 7	98-99
Net Assessed Valuation - Unaudited.....	Table 8	100
Ad Valorem Tax Rates Assessed - Unaudited.....	Table 9	101
Ad Valorem Tax Rates Authorized - Unaudited.....	Table 10	102
Property Tax Rates – All Direct and Overlapping Governments - Unaudited.....	Table 11	104-107
Principal Taxpayers - Unaudited.....	Table 12	108
Computation of Legal Debt Margin - Unaudited.....	Table 13	109
Ratio of Bonded General Obligation Debt to Assessed Value and Bonded Debt Per Capita – Unaudited.....	Table 14	110-111



South Texas College
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED AUGUST 31, 2005 AND 2004

TABLE OF CONTENTS
(Continued)

	<u>Table No.</u>	<u>Page No.</u>
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Expenses - Unaudited.....	Table 15	112-113
Computation of Direct and Overlapping Debt - Unaudited.....	Table 16	114-115
Demographic Statistics - Unaudited.....	Table 17	116-117
Headcount Enrollment Trend - Unaudited.....	Table 18	118
Contact Hour History - Unaudited.....	Table 19	119
State Allocations Per Full Time Student Equivalent - Unaudited.....	Table 20	120
Student Enrollment Demographic Statistics - Unaudited.....	Table 21	121
Tuition and Fee Schedule - Unaudited.....	Table 22	122-123
Faculty Statistics - Unaudited.....	Table 23	124
Miscellaneous Statistics - Unaudited.....	Table 24	125

SPECIAL REPORTS SECTION

Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		127-128
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South Texas College
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEARS ENDED AUGUST 31, 2005 AND 2004

TABLE OF CONTENTS
(Continued)

	<u>Page No.</u>
Report on Compliance With Requirements Applicable to Each Federal Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	129-130
Report on Compliance With Requirements Applicable to Each State Major Program and on Internal Control Over Compliance in Accordance With The State of Texas Single Audit Circular.....	131-132
Schedule of Findings and Questioned Costs - Federal and State.....	133-135
Schedule of Status of Prior Year Findings - Federal and State.....	136
Corrective Action Plan.....	137



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South Texas College

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P.O. Box 9701
McAllen, Texas 78502
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Transmittal Letter

December 15, 2005

To President Dr. Shirley A. Reed
Board Chairman Mr. Roy De Leon,
Members of the Board of Trustees and
Citizens of the South Texas College District:

The Comprehensive Annual Financial Report (CAFR) of South Texas College, Counties of Hidalgo and Starr, State of Texas, for the years ended August 31, 2005 and 2004, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the College. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the College. All disclosures necessary to enable the reader to gain an understanding of the College's financial activities, in relation to its mission, have been included.

Long Chilton, LLP, Certified Public Accountants, have issued an unqualified opinion on South Texas College's CAFR for the year ended August 31, 2005. The independent auditors' report on the financial statements and schedules is included in the financial section of this report.

This letter of transmittal should be read in conjunction with Management's Discussion and Analysis (pages 27-43), which focuses on current activities, accounting changes and currently known facts.

The College's Financial Statements are in compliance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical and special reports. The introductory section includes the table of contents, this transmittal letter, a copy of the Government Financial Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the College's 2004 CAFR, organizational chart, and a list of the College's Board of Trustees and principal administrative officer's data. The financial section includes the Report of Independent Auditors, the Management Discussion and Analysis, the Basic Financial Statements, the Notes to Financial Statements and the required supplemental information. The statistical section includes unaudited financial and demographic

information, generally presented on a multi-year basis. The special reports section includes other required auditor's reports.

PROFILE OF THE COLLEGE

South Texas College District is a political subdivision of the State of Texas located in Hidalgo and Starr Counties. The College offers academic, general occupational, developmental and continuing adult education programs through a network of locations in Hidalgo and Starr Counties. South Texas College is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award Bachelor's, Associate of Applied Science, Associate of Arts and Associate of Science degrees and Certificates. South Texas College's offerings are approved by the Texas Higher Education Coordinating Board and the Texas Education Agency.

The District was created on September 1, 1993, by Texas Senate Bill 251, now codified as Section 130.0311, as amended, Texas Education Code, to serve Hidalgo and Starr Counties. It is the only community college in Texas to have been established prior to a taxing district being approved by local voters. A confirmation election, held on August 12, 1995, established a taxing district for the College. Seven districts, based on population, were also approved for single member representation on the Board of Trustees. A community leader, from each of the seven districts, was originally appointed by the Texas Governor to serve on the founding Board of Trustees. Since then, elections have been held, as required by State law, and all members were elected by the year 2000. The Board of Trustees serve staggered six-year terms with elections held in May of each even-numbered year. Policy making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the President, who is the Chief Administrative Officer of the District.

The College was established from the McAllen Branch of Texas State Technical College. During fiscal year 1993-1994, the College's first year of operation, the financial activities were reported on Texas State Technical College's Comprehensive Annual Financial Report. The financial activities for the College were separately maintained and a Comprehensive Annual Report was prepared for the first time in fiscal year 1994-1995.

The College's Board of Trustees voted unanimously at its June 24, 2004 meeting to change the name of the College from South Texas Community College to South Texas College to reflect the expanded scope and mission of the College. The College is implementing a Bachelor of Applied Technology degree in technology management in fall 2005.

The College's vision, mission, core values, guiding principles, and institutional statement of purpose are as follows:

Vision - A better quality of life for our communities.

Mission - South Texas College is a public institution of higher education meeting the diverse educational and workforce needs of the people of Hidalgo and Starr Counties.

Core Values - Student Success, Excellence, Integrity, Community and Opportunity

Guiding Principles -

- Be a premier learning-centered higher education institution where student and community success are paramount;
- Serve as the cornerstone for the economic vitality of South Texas;
- Foster an environment for the students and community to achieve a better quality of life;
- Nurture a culture where collaboration is valued and achievement is recognized.

Institutional Statement of Purpose - South Texas College achieves its mission and demonstrates commitment to its core values by being a learning-centered college offering a variety of educational programs, services, and opportunities designed to:

- Develop a prepared workforce by offering programs leading to employment in today's businesses and industries;
- Provide quality education by offering college courses in the arts, sciences and technology for those pursuing certificates and associate or baccalaureate degrees;
- Encourage life-long learning by offering workforce training and continuing education courses for those interested in changing careers, upgrading skills, or seeking personal enrichment;
- Promote student success by providing student-centered services;
- Provide effective developmental education to prepare students to attain their educational goals.

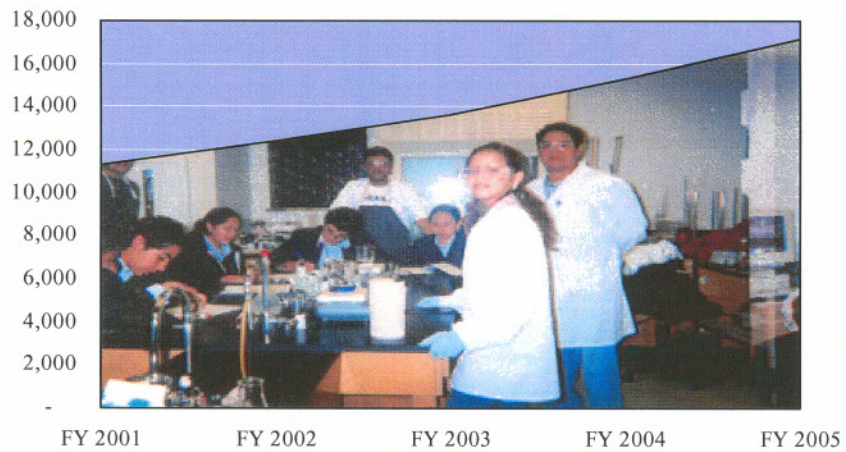
In the pursuit of its institutional purpose, South Texas College is committed to:

- Providing an accessible and effective learning environment;
- Fostering leadership in our communities;
- Capitalizing on the unique strengths of a multi-cultural environment;
- Promoting regional economic growth and prosperity;
- Partnering with business and industry and other educational institutions;
- Creating a supportive collegial work environment.

The following tables illustrate the College's fall semester enrollment, annual credit and contact hours, and FTE over the last five years.

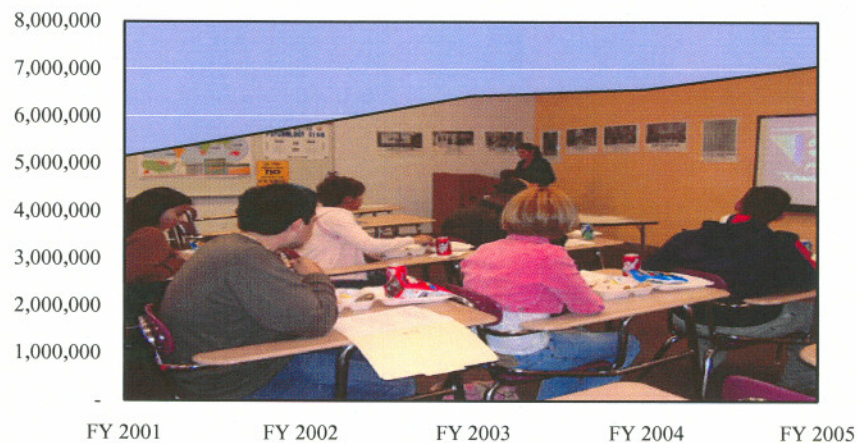
	FALL SEMESTER ENROLLMENT				
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
<u>Academic</u>					
Headcount	11,338	12,444	13,695	15,334	17,138
Full-Time Equivalent	8,939	9,633	10,532	11,245	12,452
<u>Continuing Education</u>					
Headcount	851	1,131	1,655	603	985
Full-Time Equivalent	464	741	1,330	443	461

Fall Semester Enrollment Academic Headcount

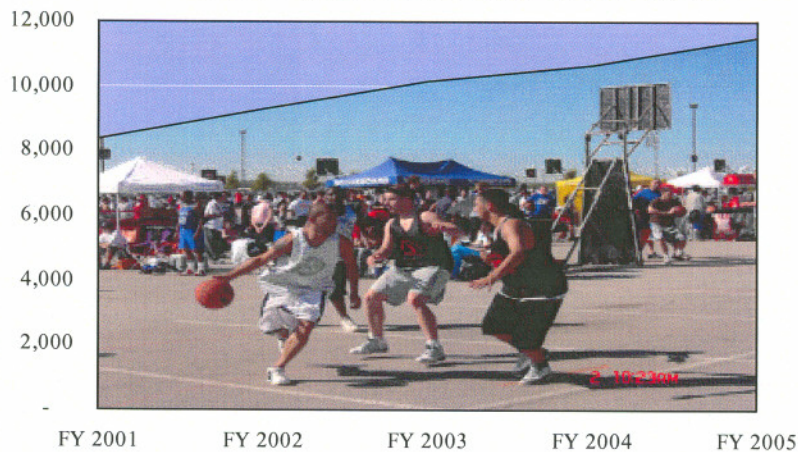


	ANNUAL				
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Unduplicated Credit Hours	252,728	280,186	305,442	319,876	344,538
Unduplicated Contact Hours	5,160,192	5,785,328	6,432,976	6,578,557	7,075,776
Unduplicated Full-Time Equivalent	8,418	9,312	10,181	10,663	11,485

Annual Unduplicated Contact Hours



Annual Unduplicated Full-time Equivalents



ECONOMIC CONDITIONS

Local Economy Overview

Located near the Texas-Mexico border, South Texas College serves Hidalgo and Starr Counties and covers approximately 2,793 square miles with a 2005 estimated population of 916,969. Hidalgo County was formed in 1852 from portions of Cameron and Starr Counties. Starr County was formed in 1848 out of Nueces County. Both counties are located in South Texas and border the Republic of Mexico, served by 7 international bridges.

Data related to some of the major cities in the District include the following:

- McAllen is ranked as the second lowest cost of living city in the nation for households earning between \$70,000 and \$100,000 a year. (ACCRA Cost of Living Index, first quarter figures 2005).
- McAllen is ranked 1st in the United States in job growth and 8th in economic growth. (Forbes Magazine, 2004).
- Donna's commercial building permit values increased from \$821,000 in 2004 to \$9,600,000 in 2005. (Rio Grande Valley Partnership Chamber of Commerce).
- McAllen Metropolitan Statistical Area is home to nearly 100 Fortune 500 company operations. (McAllen Economic Development Corporation).

Although the economy is strong, unemployment remains relatively high, due to an abundant labor force. Companies start up daily, drawn by what the region has to offer, such as low utility costs, no state income tax, and one of the largest pools of available labor in the country.

The state is committed to getting South Texas College students ready for the demands of jobs at all levels of design, manufacturing, and management. The College plays a vital role in providing opportunities for its citizens to meet the challenge of change.

After obtaining degrees, many STC graduates find work in the Rio Grande Valley, helping to stimulate the economy. Hidalgo County's property value has shown a steady increase, growing from \$17.5 billion in 2004 to about \$19 billion in 2005 due to a tremendous amount of development. Much of the farmland found in Hidalgo County is being converted into residential subdivisions which are increasing property values for the county.

The Texas Department of Transportation is currently implementing a three-year, \$220 million transportation construction program for Valley roadways. The program involves construction projects, the widening and maintenance of existing roads, and traffic mobility improvement projects for Texas' southernmost eight counties. Ongoing work is bolstering the infrastructure to meet the rapid growing demands of the region.

Future Economic Outlook

The local economy's future outlook continues to be positive. Economic indicators and trends, enumerated below, all indicate favorable conditions.

- The unemployment rate for Hidalgo County decreased from 18.2% in 1997 to 7.3% in 2005.
- The unemployment rate for Starr County decreased from 28.2% in 1997 to 9.8% in 2005.
- Bank deposits in the major cities of the district increased 5.39% from 2004 to 2005.
- Building permits in the major cities of the district increased 22.7% from 2004 to 2005.

Hidalgo and Starr Counties are poised for continued growth and for a continued increase in residents' and investors' prosperity.

The area's rising number of college-educated residents has contributed to its economic boom. This year the College hosted three ceremonies for its largest graduating class of more than 2,000 students. The continuing growth in student enrollment demonstrates that the College is meeting the community's need. The College has the resources required to serve the student enrollment growth anticipated in both counties.

Financial Standards

The College maintains its accounts and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) as set forth by Governmental and Financial Accounting Standards Boards (GASB and FASB), National Association of College and University Business Officers (NACUBO) and the Texas Higher Education Coordinating Board (THECB). The financial records of the College are maintained on the accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when incurred.

The College's financial statements are prepared using the economic resources measurement focus. The notes to the financial statements expand on and explain the financial statements and the accounting principles applied.

Internal Control

Management of the College is responsible for establishing and maintaining an internal control structure designed to protect the assets of the College, prevent loss from theft or misuse and provide adequate accounting data to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met.

The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

The College maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the College's Board of Trustees.

For internal management purposes, activities of the following fund groups and individual funds are included in the annual budget.

Fund Group	Fund
Current Funds	Unrestricted Auxiliary Restricted
Plant Funds	Unexpended Renewals and Replacements Retirement of Indebtedness

General Functions

The College has levied taxes since fiscal year 1997. The following table illustrates the College's property tax levy rates and tax collections over the last nine years.

Fiscal Year	TAX LEVY RATES (Per \$100 of assessed valuation)		
	Current Operations	Debt Service	Total Tax Collections
1996-97	0.08000	0.02000	\$ 9,067,110
1997-98	0.08000	0.01490	10,010,895
1998-99	0.08000	0.01180	10,397,958
1999-00	0.08000	0.01200	11,019,406
2000-01	0.08000	0.01220	12,106,414
2001-02	0.07900	0.01070	13,526,015
2002-03	0.11000	0.06760	27,727,098
2003-04	0.11000	0.06380	29,691,941
2004-05	0.11000	0.05470	32,077,466

The College's average collection rate over the past nine years, including collection of delinquent taxes, has been 95.16%.

Debt Administration

The College has no short term or long term loans at August 31, 2005.

At August 31, 2005, the College has outstanding bonds payable for Bond Series 1996, Bond Series 1999, Bond Series 2002, Bond Series 2003 and Bond Series 2004 in the amounts of \$800,000, \$4,140,000, \$62,270,000, \$20,770,000, and \$14,979,996 respectively. Total bonds payable at August 31, 2005 was \$102,959,996. All debt service requirements are to be paid with ad-valorem taxes levied.

Cash Management

The College's investments are made with the primary objective of preservation of capital, safety of South Texas College funds, maintenance of sufficient liquidity, maximization of return within acceptable risk constraints and diversification of investments.

The fiduciary responsibility for the College's investments is entrusted to the College Board of Trustees, who delegate these functions to the Investment Committee as permitted by the Public Funds Investment Act, Chapter 2256.005(e).

In keeping with existing Board policy, all investments are made in a prudent, conservative and secured manner and in accordance with the guidelines detailed in the College Investment Policy No. 5120. The Board of Trustees approves the designation of depositories of College funds.

Cash and Deposits consist of the items reported below:

Cash and Deposits

Petty Cash on Hand	\$ 5,760
Demand Deposits	23,288,614
Certificates of Deposit	<u>51,728,998</u>

Total Cash and Deposits \$ 75,023,372

Risk Management

The District maintains insurance for all business and government functions for which it may be liable for claims.

The more significant of these include \$1,000,000 of general liability insurance, property insurance covering the District’s buildings and properties in an aggregate amount of approximately \$109,263,350, and \$5,000,000 in educators’ legal liability.

The College participates in a medical group insurance program administered by the Employers Retirement System of Texas under the Uniform Group Insurance Program. The medical insurance is administered by one of two plans. These include Blue Cross and Blue Shield of Texas, a preferred provider organization (PPO) that offers the Health Select Plan, and Valley Health Plans, a Health Maintenance Organization (HMO).

The employees’ coverage under Health Select of Texas is a self-funded managed care plan offered to employees of State agencies and Uniform Group Insurance Plan participating institutions of higher education.

Current Year Projects

The College continues to expand its program options, facilities and course offerings to meet the needs of its business community. In 1999, the College began a District Wide Campus Development Master Plan for construction of new facilities. The Facilities Master Plan was developed to coincide with the projected student enrollment through the year 2006 at all campuses. In an election held on September 29, 2001, the residents of Hidalgo and Starr Counties authorized the issuance of \$98,700,000 in bonds to construct, renovate and furnish instructional facilities, acquire necessary sites and pay issuance costs. With the passage of the \$98,700,000 bond construction program in 2001, approximately 736,136 square feet of proposed construction projects will be constructed to accommodate the facilities requirements through 2006. In the first phase of the Bond Construction Program 16 new buildings have been brought up in 16 months. The second phase, which includes the new Information Technology Building, Institutional Support Services Building and the Communication Arts Building on the Pecan Campus, began this summer.

In fiscal years 1998 through 2002, the College set aside \$2,500,000 per year to be used for construction of facilities required due to the dramatic enrollment increases. In fiscal years 2003 and 2004, the College set aside \$5,000,000 and in fiscal year 2005, the college set aside \$7,500,000 for this purpose.

During fiscal year 2005, South Texas College received a donation for \$1,943,742 from Sylvia Esterline, a local citizen, who chose the college as her beneficiary. The donation was used to renovate an existing facility of more than 20,000 square feet that is dedicated to academic support services for STC students. In fall 2005 this building was named the Sylvia Esterline Student Success Center. Tutoring services and supplemental instruction programs are provided to students in this building.

South Texas College has successfully met the educational needs of the community through the development of new degree and certificate programs. In June of 2003, the 78th Texas State Legislature approved Senate Bill 286, Section 50. This bill granted approval for the Texas Higher Education Coordinating Board to conduct a pilot project with three community colleges to grant baccalaureate degrees in applied science and applied technology. Specifically, the Texas Legislature amended Subchapter A, Chapter 130, Texas Education Code, adding Section 130.0012 permitting three state community colleges to offer bachelor's degrees after acquiring Texas Higher Education Coordinating Board approval and appropriate regional accreditation. At their regular meeting on July 17, 2003, the Texas Higher Education Coordinating Board approved South Texas College as one of the three pilot colleges.

STC subsequently submitted a program application for the Bachelor of Applied Technology in Technology Management to the Texas Higher Education Coordinating Board and the application was approved on April 22, 2004. On September 22, 2004 STC submitted the Application for Member Institutions Seeking Accreditation at a More Advanced Degree Level to the Commission on Colleges of the Southern Association of Colleges and Schools. By December 7, 2004 STC was approved as a Level II degree granting institution and began offering the Bachelor of Applied Technology in Technology Management in fall of 2005.

Future Projects

The College's financial outlook for the future continues to be positive. In just twelve years South Texas College has grown from 1,058 headcount in fall 1993 to 17,138 headcount in spring 2005. The College's adult continuing education programs, which provide opportunities for lifelong learners to update their skills, have also shown enrollment gains in the past twelve years.

The College's operating budget has increased from \$3,900,000 in 1993 to \$78,886,475 in 2005.

The College's capital improvement plan for fiscal years 2004 through 2006 is designated primarily for instructional facilities and necessary sites. The College's funding for these projects will come from accumulated net assets and bond proceeds.

The tax base is increasing by an average of 8.65% annually. The tax base has increased from \$10,231,504,713 during fiscal year 1997 to \$19,869,963,507 during fiscal year 2005.

OTHER INFORMATION

Service Efforts and Accomplishments Information for Selected Departments or Activities

In fiscal year 2005, the College offered 80 degree and certificate programs. These include Associate of Arts degrees in 12 fields of study, Associate of Science degrees in 7 fields of study, 26 Associate of Applied Science degrees and 35 certificate programs. The College remains firm in its commitment to economic development and workforce training and will continue to ensure that the degrees offered by STC, including the new Bachelor of Applied Technology Degree program, are aligned with the employment needs of the communities served by STC.

Dr. Shirley A. Reed, South Texas College's founding president, has led the College in developing new degree and certificate programs that have resulted in dramatic increases in student enrollment.

Some of the College's specific accomplishments are as follows:

- South Texas College has campuses in McAllen, Weslaco and Rio Grande City, as well as the Dr. Ramiro R. Casso Nursing and Allied Health Center in McAllen and the Technology Center in South McAllen. Concurrent enrollment and academic dual credit programs are offered in school districts throughout the two counties. The programs allow eligible high school students to take college courses while attending high school. The College continues to add programs, facilities and course offerings to meet community needs. All new programs are designed, developed and implemented based on workforce needs identified through labor market research, and in conjunction with local advisory committees.
- The Partnership for Workforce Training and Continuing Education provides opportunities for lifelong learners who want to upgrade their skills, change careers or seek personal enrichment. The division offers a variety of courses that satisfy employers' needs for customized training to upgrade skills of current employees and prepare new employees. An example of this was the partnering of LifeCare Hospitals of South Texas with South Texas College to train 304 new and incumbent workers at the McAllen and Edinburg hospitals in an effort to raise the income of our citizens and boost economic prosperity in the Valley. Mandatory Continuing Education Units meeting licensing requirements are also available for certified professionals.
- The College's faculty is among the most qualified in the nation. There are 5 faculty members with juris doctorate degrees, 60 with doctorate degrees, 255 with master's degrees, 42 with bachelor's degrees, 39 with associate's degrees and 3 with certificates. The College is currently accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award Bachelor's, Associate of Applied Science, Associate of Arts, Associate of Science degrees, and Certificates. The Commission on

Colleges granted membership to South Texas College at the December 1995 meeting. The College was granted a ten-year reaffirmation of accreditation at the December 2001 meeting from the Southern Association of Colleges and Schools.

- South Texas College was recognized internationally with 12 NISOD Excellence Awards at the NISOD annual conference held in Austin. NISOD is an international organization dedicated to student success by the professional development of faculty administrators and staff. The award is given to higher education institutions that are reaching superior teaching excellence in their everyday activities.
- South Texas College is also participating in the Achieving the Dream: Community Colleges Count grant, a multi-year grant created to promote changes to improve student success in community colleges. The grant will be used to develop and implement new models for comprehensive student advising, student assessment, placement and matriculation and shared accountability for student learning.
- In 1990 an agreement was signed between the United Mexican States and the United States of America providing for the establishment of the Mexico-United States Commission for Educational and Cultural Exchanges. Recently, on August 26, 2004 South Texas College and Universidad de Monterrey (U.D.E.M.) signed a two-year agreement for an exchange program that will intensify collaboration and improve the educational endeavors of their respective student populations.
- In 12 short years, South Texas College has earned the 5th spot on the Community College Week's top 100 list of associate degree and certificate producers nationwide. It also ranked 3rd nationally for the total number of associate degrees awarded to Hispanics. It has grown from about 1,000 to over 17,000 students, and from a faculty and staff of 267 to 1489. Local college enrollment is at an all time high; STC experienced a 49% increase from fall 2000 to spring 2005.
- At the annual Community College Leadership conference the College's President Dr. Shirley A. Reed and the Board of Trustees were recognized by the Association of Community College Trustees for the leadership and contributions made to the community they serve. South Texas College was also awarded the ACCT 2005 Western Region Equity Award for its leadership and its expansion of opportunities for minorities and women within the institution.

Certificate of Achievement

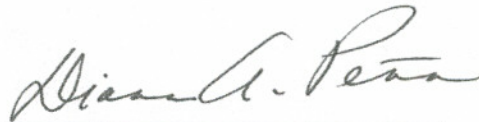
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to South Texas College for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended August 31, 2004. This was the second year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The timely preparation of the Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of the entire staff of the College's Business Office. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report. Due credit is also granted to the College's Board of Trustees and President for their continued support for maintaining the highest standards of professionalism in the management of South Texas College's finances and operations.

Respectfully submitted,



Diana A. Peña
Vice President for Finance and
Administrative Services



Mary G. Elizondo, MBA, CPA
Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Texas Community
College

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

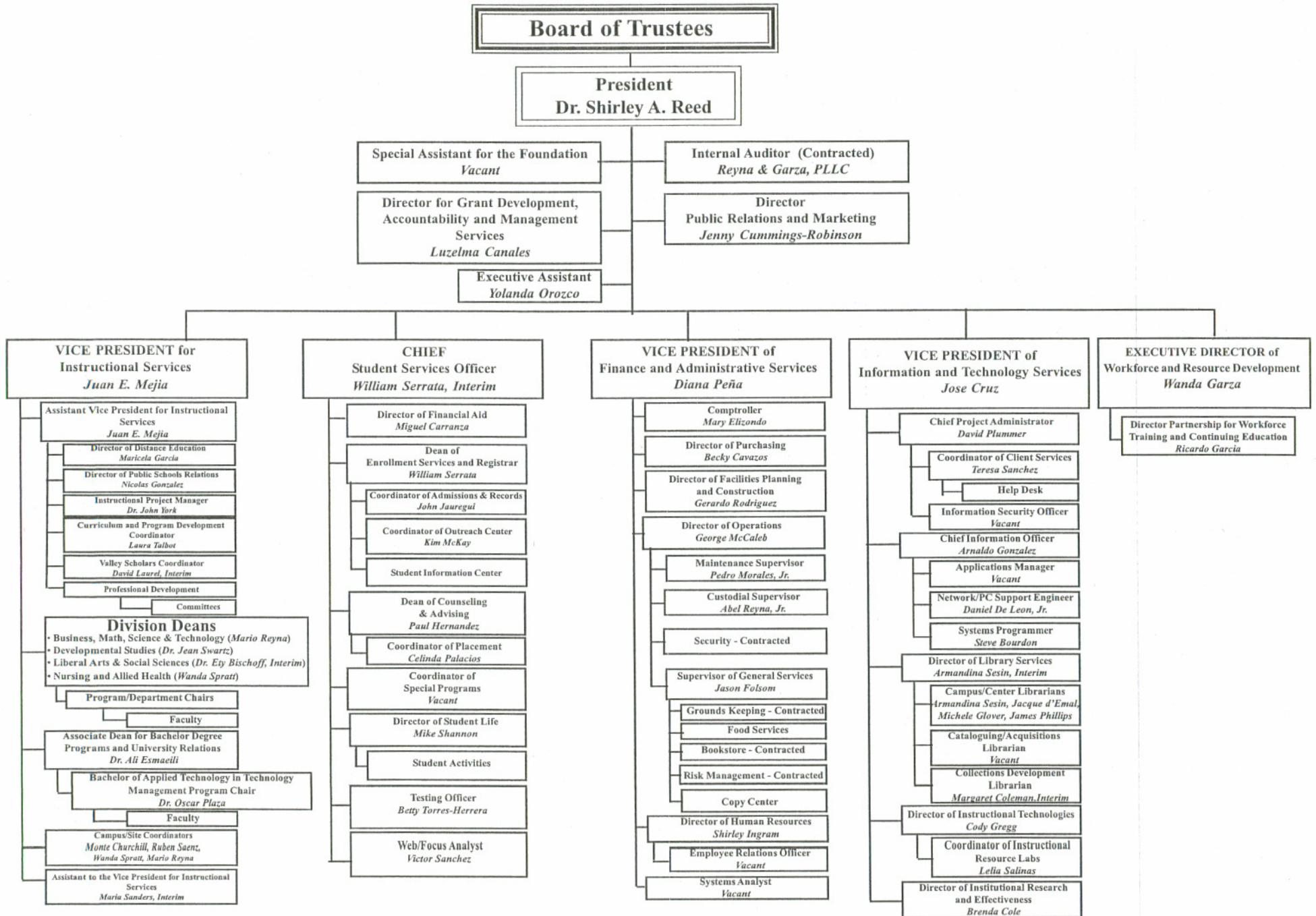
President

Jeffrey R. Emery

Executive Director

South Texas College

2004 - 2005 Organizational Chart by Position





South Texas College OFFICIALS AND STAFF

For the Fiscal Year Ended August 31, 2005

Elected Officials

<u>Board of Trustees</u>	<u>City</u>	<u>Term Expires</u>
Manuel Benavidez, Jr. District 1	La Grulla, Texas	May, 2006
Irene Garcia Vice Chair, District 2	Mission, Texas	May, 2006
Mike Allen District 3	McAllen, Texas	May, 2010
Gary Gurwitz District 4	McAllen, Texas	May, 2010
Dr. Alejo Salinas, Jr. District 5	Edinburg, Texas	May, 2008
Jesse Villarreal Secretary, District 6	Weslaco, Texas	May, 2006
Roy De Leon Chair, District 7	Mercedes, Texas	May, 2008

Principal Administrative Officers

<u>Name</u>	<u>Position</u>
Shirley A. Reed, M.B.A., Ed. D.	President
Jose Cruz	Vice President of Information and Technology Services
Diana A. Peña	Vice President of Finance and Administrative Services
Juan Mejia	Vice President for Instructional Services
William Serrata	Interim Chief Student Services Officer
Wanda Garza	Executive Director of Workforce and Resource Development
Mary G. Elizondo, M.B.A., C.P.A.	Comptroller

South Texas College BOARD OF TRUSTEES



Irene Garcia
Vice Chair



Roy De Leon
Chair



Jesse Villarreal
Secretary



Manuel Benavidez, Jr.

The governing body for the college is a Board of Trustees composed of 7 members who serve staggered six-year terms with elections held in May of each even-numbered year. Policymaking and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the President, who is the Chief Administrative Officer of the District. The Board, within the limits imposed by law, has complete and full control of the College. The Board has final authority to formulate and interpret the policies that govern the College. Regular board meetings are held the third Thursday of each month and are open to the public.



Gary Gurwitz



Mike Allen



Dr. Alejo Salinas, Jr.



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FINANCIAL SECTION FY 2004-2005



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Student Success • Excellence • Integrity • Community • Opportunity •

Independent Auditor's Report

Board of Trustees
South Texas College

We have audited the accompanying basic financial statements of the South Texas College as of and for the years ended August 31, 2005 and August 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the South Texas College 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 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, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Texas College as of August 31, 2005 and August 31, 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to

describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 27 through 43 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America, as promulgated by the Government Accounting Standards Board. 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 conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Texas College's basic financial statements. The introductory section, the supplementary information section, which includes the accompanying schedule of expenditures of federal awards required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the schedule of expenditures of state awards required by the Texas Governor's Office of Budget and Planning, State of Texas Single Audit Circular presented in accordance with the requirements of the Texas Higher Education Coordinating Board, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements of South Texas College. The supplementary information section, which includes the schedule of expenditures of federal awards and the schedule of expenditures of state awards, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical supplement section have not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we express no opinion on them.


LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
December 2, 2005

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

INTRODUCTION

This section of South Texas College's Comprehensive Annual Financial Report presents Management's Discussion and Analysis of the College's financial position and activities for the year ended August 31, 2005, and comparative information for the year ended August 31, 2004. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, it must be read in conjunction with the transmittal letter, the College's Basic Financial Statements and the footnotes. Responsibility for the completeness and fairness of this information rests with the College.

FINANCIAL HIGHLIGHTS

- ◆ The College's total combined net assets were \$121,494,599 at August 31, 2005. Of this amount, \$47,788,784 may be used to meet the College's ongoing obligations.
- ◆ During the fiscal year, the College's combined net assets increased by \$16,399,660 or 16%.
- ◆ During fiscal year 2005, the balance of cash and cash equivalents and short-term and long-term investments decreased by \$11,662,183 or 13%, largely due to the use of bond proceeds for construction projects.
- ◆ Capital assets, net of accumulated depreciation, increased by \$17,657,666 due mainly to an increase of \$70,483,015 in buildings, an increase of \$6,046,659 in land improvements, and a decrease of \$58,166,495 in construction in progress. Other additions included \$3,053,900 in equipment and \$264,071 in library books.

FINANCIAL STATEMENTS

The financial statements of this annual report consist of three parts – Management's Discussion and Analysis, the Basic Financial Statements, and Required Supplementary Information. The financial statements, consisting of the Statements of Net Assets; the Statements of Revenues, Expenses, and Changes in Net Assets; and, the Statements of Cash Flows are prepared in accordance with the Governmental Accounting Standards Board Statements No. 34 (GASB 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; and No. 35 (GASB 35), *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

These three statements will assist the reader in determining whether the College, as a whole, is performing financially better this year as compared to last year. These statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

The Statements of Net Assets include all assets and liabilities. The College's net assets (which is the difference between assets and liabilities) are one indicator of the College's financial health.

Over time, increases or decreases in net assets indicate the improvement or erosion of the College's financial health when considered with non-financial facts, such as enrollment levels and the condition of the facilities.

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The College's dependency on state allocations and ad-valorem taxes will result in operating deficits, because GASB 35 classifies state allocations and ad-valorem taxes as non-operating revenues.

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they mature. The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing and investing activities.

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year.

**ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS
AND CONDENSED FINANCIAL INFORMATION**

Statements of Net Assets

The Statements of Net Assets present end of year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the data presented, readers of the financial statements are able to determine the assets available to continue operations of the College. They are also able to determine how much the College owes vendors, investors and lending institutions.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, reflects the equity in property, plant and equipment owned by the College. The next asset category is restricted net assets, which is divided into two subcategories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes.

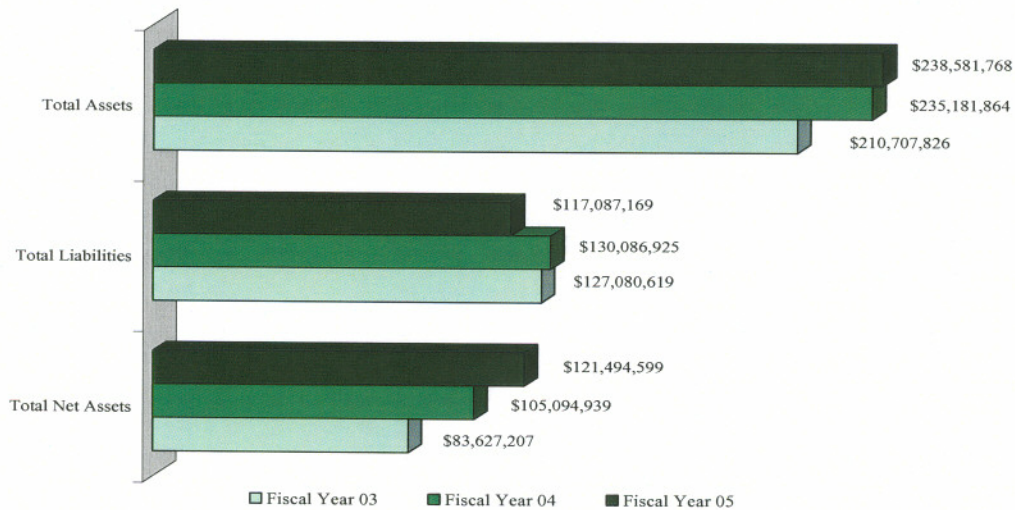
Expendable restricted net assets are available for expenditure by the College but must be spent for purposes as determined by donors and/or entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available for any lawful purpose of the College.

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

Condensed financial information from the Statements of Net Assets is as follows:

Statement of Net Assets			
	2005	2004	2003
Assets			
Current assets	\$ 89,912,523	\$ 93,534,047	\$ 82,425,998
Capital assets, net	147,377,962	129,720,296	74,043,974
Non-current assets	1,291,283	11,927,521	54,237,854
Total Assets	238,581,768	235,181,864	210,707,826
Liabilities			
Current liabilities	15,966,998	22,757,057	14,137,065
Non-current liabilities	101,120,171	107,329,868	112,943,554
Total Liabilities	117,087,169	130,086,925	127,080,619
Net Assets			
Invested in capital assets, net of related debt	65,488,899	53,401,242	47,543,186
Restricted-expendable	8,216,916	8,910,256	3,648,591
Unrestricted	47,788,784	42,783,441	32,435,430
Total Net Assets	\$ 121,494,599	\$ 105,094,939	\$ 83,627,207

**Statement of Net Assets
Comparison - Fiscal Year 2005, 2004 and 2003**



SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

The total assets of the College increased by \$3,399,904 from fiscal year 2004 to fiscal year 2005. A review of the Statements of Net Assets will reveal that the increase was primarily due to an increase of \$17,657,666 in capital assets, a decrease of \$10,531,543 in long-term investments, which resulted mainly from use of bond proceeds for new facility construction, and a decrease in accounts receivables of \$2,528,404 due primarily to receipt during fiscal year 2005 of a bequeath. Short-term investments decreased by \$10,448,144 and cash and cash equivalents increased by \$9,317,504 due to cash requirements primarily for construction projects.

The total liabilities from 2004 to 2005 decreased by \$12,999,756. The primary cause for the decrease was due to an accounts payable decrease of \$5,615,018, mainly consisting of a construction and construction retainage payables decrease of \$3,205,971 and \$2,630,783, respectively and an unearned revenue decrease of \$1,576,621. Bonds payable decreased by \$5,759,697 because of principal payments made in fiscal year 2005 and associated amortization of bond discount, premium and deferred loss.

The combination of the increase in total assets from 2004 to 2005 of \$3,399,904 and the decrease in total liabilities of \$12,999,756 yields an increase in total net assets of \$16,399,660.

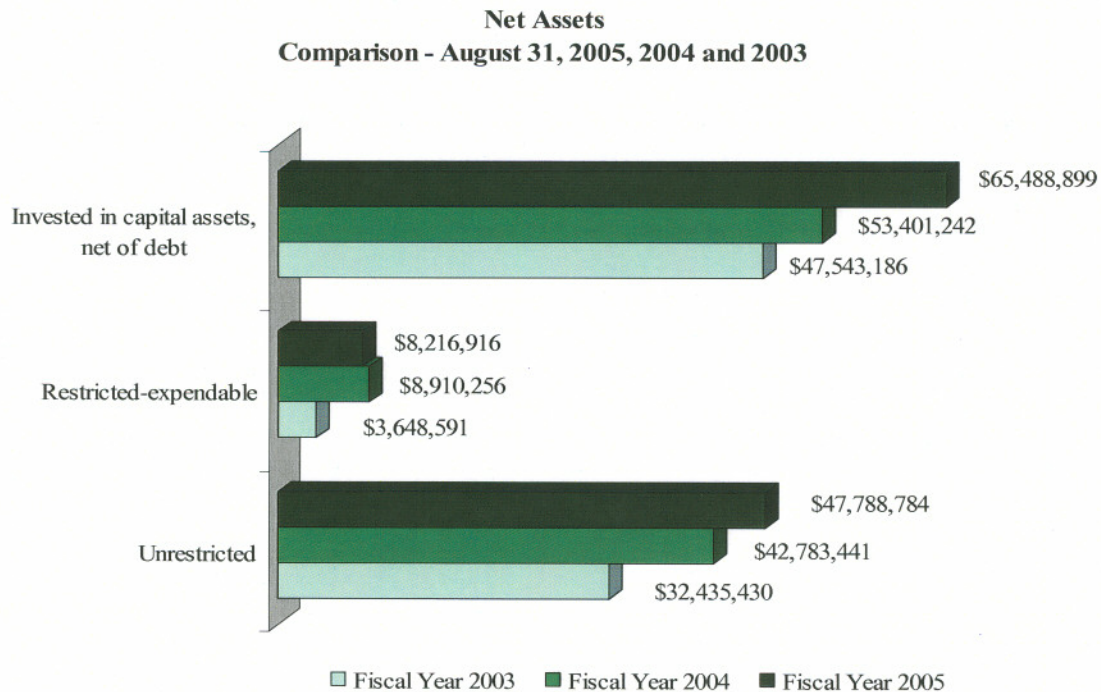
The total assets of the College increased by \$24,474,038 from 2003 to 2004. A review of the Statement of Net Assets will reveal that the increase was primarily due to an increase of \$55,676,322 in capital assets. The increase is due mainly to new facility construction in progress. A decrease of \$42,426,955 in long-term investments is reflected which is attributed to the payments for construction projects. Cash and cash equivalents increased by \$5,622,256 and accounts receivable increased by \$5,550,396 mainly as a result of two trust bequeaths totaling \$3,150,000.

The total liabilities from 2003 to 2004 increased by \$3,006,306. The primary cause for the increase was due to an accounts payable increase of \$6,999,295, mainly due to a construction and retainage payable increase of \$3,883,217 and \$2,670,886, respectively and a deferred revenue increase of \$942,827. Bonds payable decreased by \$4,588,686 because of principal payments made in fiscal year 2004 and associated amortization of bond discount, premium and deferred loss.

The combination of the increase in total assets of \$24,474,038 and the increase in total liabilities of \$3,006,306 yields an increase from 2003 to 2004 in total net assets of \$21,467,732.

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

The following is a graphic illustration of net assets at August 31, 2005, 2004 and 2003:



Statements of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statements of Net Assets are based on the activity presented in the Statements of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues earned by the College, both operating and non-operating, and the expenses incurred by the College, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the College.

Operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Non-operating revenues are revenues received for which goods and services are not provided.

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

Condensed financial information from the Statements of Revenues, Expenses and Changes in Net Assets is as follows:

Statements of Revenues, Expenses and Changes in Net Assets

	2005	2004	2003
Operating revenues	\$ 56,798,142	\$ 49,928,687	\$ 48,729,956
Operating expenses	93,859,451	83,293,546	83,974,546
Operating loss	(37,061,309)	(33,364,859)	(35,244,590)
Non-operating revenues and expenses	53,460,969	54,832,591	50,201,226
Increase in net assets	16,399,660	21,467,732	14,956,636
Net assets at beginning of year	105,094,939	83,627,207	68,670,571
Net assets at end of year	\$ 121,494,599	\$ 105,094,939	\$ 83,627,207

An operating loss of \$37,061,309 resulted in fiscal year 2005. Because state allocations, ad-valorem taxes and investment income are not included within operating revenue per GASB 35, the College will usually show a significant operating loss.

The operating loss increased by \$3,696,450 from fiscal year 2004 to fiscal year 2005 or 11%, from \$33,364,859 to \$37,061,309. Operating revenues increased by \$6,869,455 and total operating expenses increased by \$10,565,905. State allocations received increased by \$816,275 due to an increase in state funding for group insurance of \$669,659, an increase in state funding for state retirement matching of \$146,944 and a decrease in State contact hour funding of \$328.

In fiscal year 2005 operating expenses were funded to a greater extent, by ad-valorem taxes and state allocations, than in fiscal year 2004.

In fiscal year 2005, the increase in operating expense of \$10,565,905 was due to the budgeted level of spending associated with the student enrollment increase. In addition, depreciation expense increased by \$1,567,554 due mainly to an increase of \$1,161,869 for building and land improvement depreciation and \$390,691 for equipment and furniture.

An operating loss of \$33,364,859 resulted in fiscal year 2004.

The operating loss decreased by \$1,879,731 from fiscal year 2003 to fiscal year 2004 or 5% from \$35,244,590 to \$33,364,859. Operating revenues increased by \$1,198,731 and total operating expenses decreased by \$681,000. State allocations received increased by \$1,303,473 due mainly to an increase in state budget contact hour funding of \$1,661,401. In fiscal year 2004, the College did not receive state funding for developmental education and nursing, resulting in a

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

decrease of \$471,415 in state allocations. In fiscal year 2004 operating expenses were funded to a lower extent, by ad-valorem taxes and state allocations, than in fiscal year 2003.

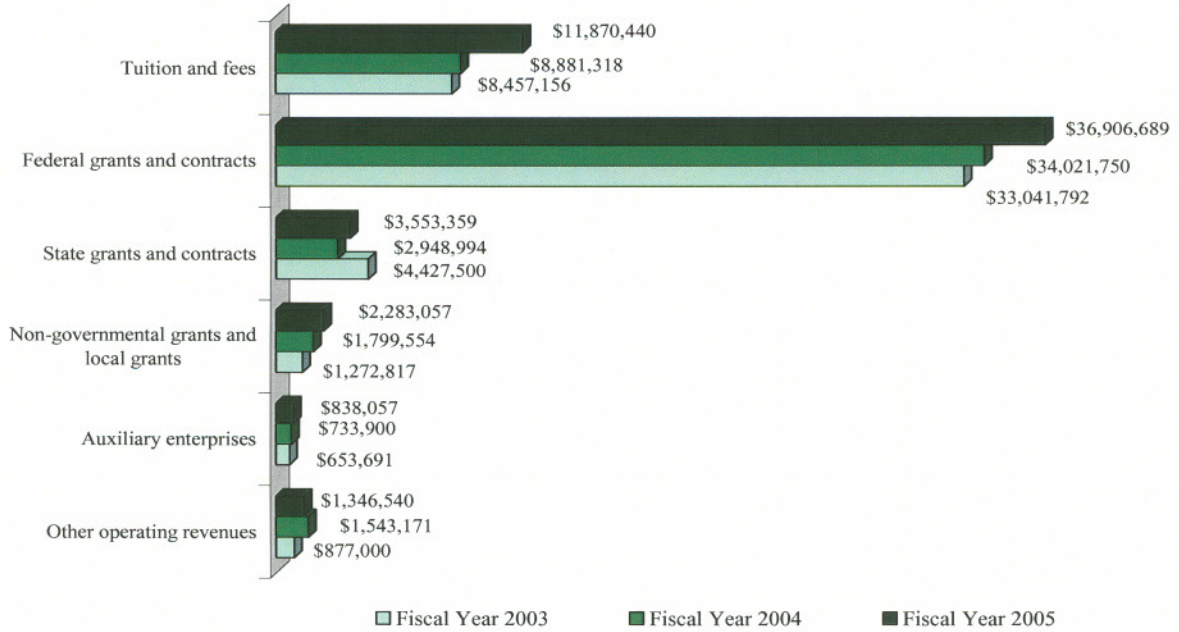
The decrease in operating expense of \$681,000 from fiscal year 2003 to 2004 was due mainly to the decrease in depreciation expense of \$1,179,066, associated with library books.

Operating revenues, used to fund operating expenses, consisted of the following percentages of the total:

Operating Revenues	2005		2004		2003	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Tuition and fees (net of discounts of \$15,589,496 and \$12,018,527 and \$10,752,594)	\$ 11,870,440	20.90%	\$ 8,881,318	17.79%	\$ 8,457,156	17.35%
Federal grants and contracts	36,906,689	64.97%	34,021,750	68.14%	33,041,792	67.81%
State grants and contracts	3,553,359	6.26%	2,948,994	5.91%	4,427,500	9.09%
Non-governmental grants and local grants	2,283,057	4.02%	1,799,554	3.60%	1,272,817	2.61%
Auxiliary enterprises	838,057	1.48%	733,900	1.47%	653,691	1.34%
Other operating revenues	1,346,540	2.37%	1,543,171	3.09%	877,000	1.80%
Total	<u>\$ 56,798,142</u>	<u>100.00%</u>	<u>\$ 49,928,687</u>	<u>100.00%</u>	<u>\$ 48,729,956</u>	<u>100.00%</u>

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

Operating Revenues
Comparison - Fiscal Year 2005, 2004 and 2003

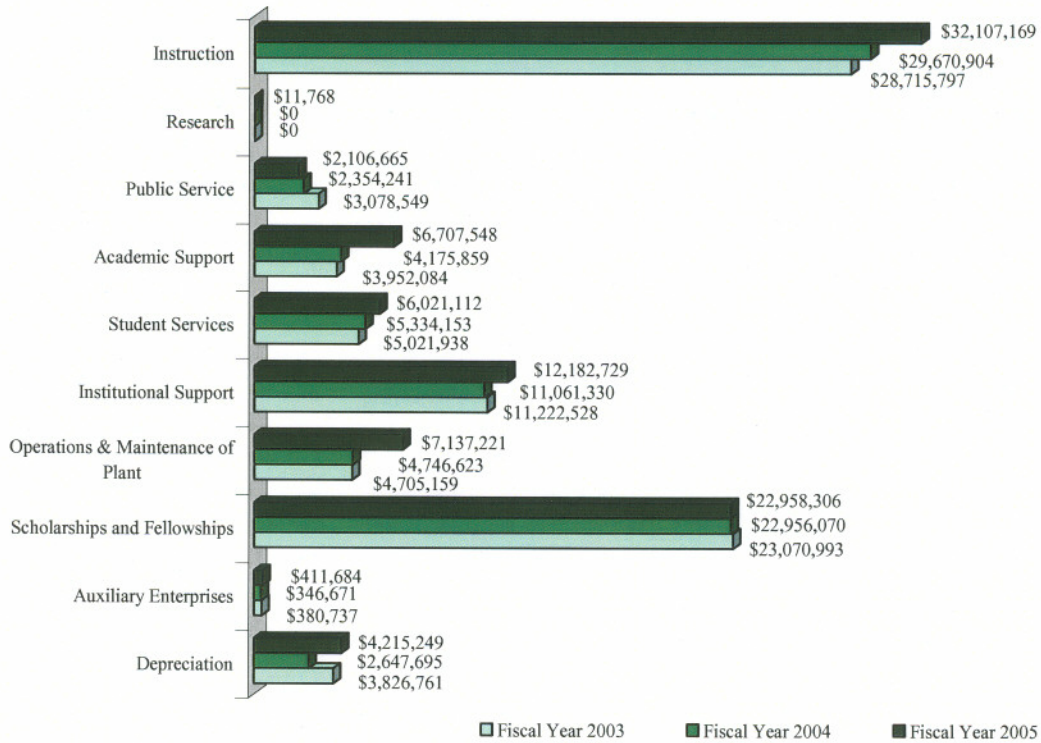


Operating expenses, including depreciation, may be viewed by their function or by natural (object) classification as illustrated below:

Operating Expenses by Function	2005		2004		2003	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Instruction	\$ 32,107,169	34.21%	\$ 29,670,904	35.62%	\$ 28,715,797	34.20%
Research	11,768	0.01%	-	-	-	-
Public service	2,106,665	2.24%	2,354,241	2.83%	3,078,549	3.67%
Academic support	6,707,548	7.15%	4,175,859	5.01%	3,952,084	4.71%
Student services	6,021,112	6.42%	5,334,153	6.40%	5,021,938	5.98%
Institutional support	12,182,729	12.98%	11,061,330	13.28%	11,222,528	13.36%
Operations and maintenance of plant	7,137,221	7.60%	4,746,623	5.70%	4,705,159	5.60%
Scholarships and fellowships	22,958,306	24.46%	22,956,070	27.56%	23,070,993	27.47%
Auxiliary enterprises	411,684	0.44%	346,671	0.42%	380,737	0.45%
Depreciation	4,215,249	4.49%	2,647,695	3.18%	3,826,761	4.56%
Total	\$ 93,859,451	100.00%	\$ 83,293,546	100.00%	\$ 83,974,546	100.00%

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

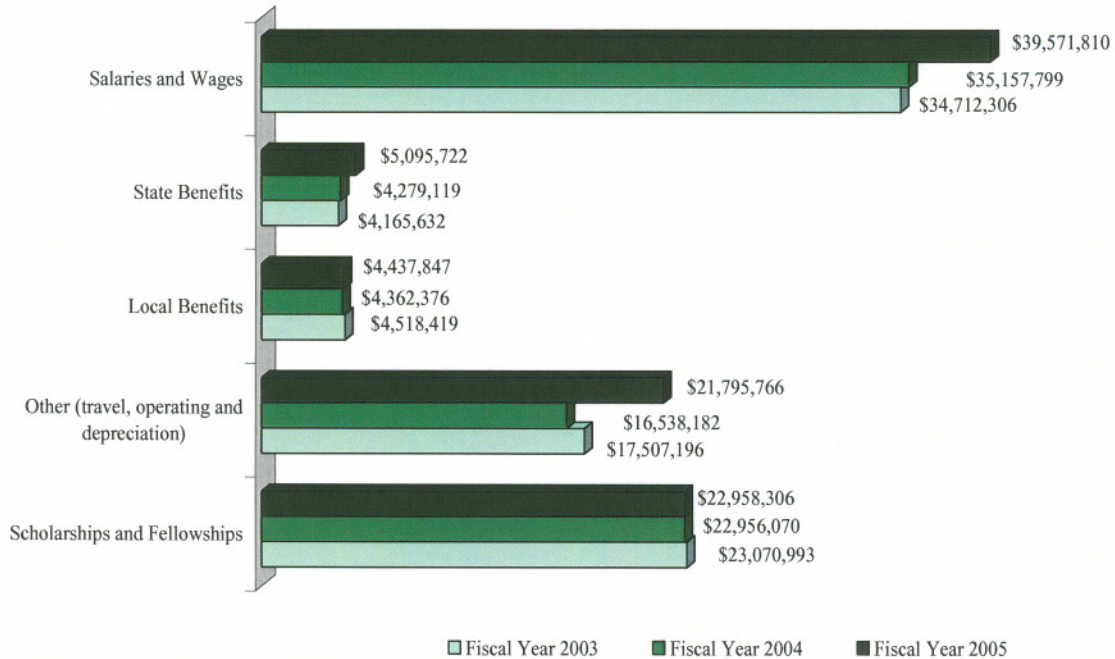
**Operating Expense by Function
Comparison - Fiscal Year 2005, 2004 and 2003**



Operating Expenses by Classification	2005		2004		2003	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Salaries and Wages	\$ 39,571,810	42.16%	\$ 35,157,799	42.20%	\$ 34,712,306	41.34%
State benefits	5,095,722	5.43%	4,279,119	5.14%	4,165,632	4.96%
Local benefits	4,437,847	4.73%	4,362,376	5.24%	4,518,419	5.38%
Other (travel, operating and depreciation)	21,795,766	23.22%	16,538,182	19.86%	17,507,196	20.85%
Scholarships and fellowships	22,958,306	24.46%	22,956,070	27.56%	23,070,993	27.47%
Total	\$ 93,859,451	100.00%	\$ 83,293,546	100.00%	\$ 83,974,546	100.00%

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

**Operating Expenses by Classification
Comparison - Fiscal Year 2005, 2004 and 2003**



Non-operating revenues and expenses consisted of the following:

Non-operating revenues	2005		2004		2003	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
State Allocations	\$ 24,945,029	40.79%	\$ 24,128,754	39.31%	\$ 22,825,281	40.82%
Ad-Valorem taxes – Maintenance and Operations	22,405,071	36.64%	19,805,773	32.27%	18,412,034	32.92%
Ad-Valorem taxes – Debt service	11,258,100	18.41%	11,592,841	18.89%	11,338,611	20.28%
Gifts	190,148	0.31%	3,265,398	5.32%	186,027	0.33%
Investment income (debt related)	2,352,936	3.85%	2,585,128	4.21%	3,161,603	5.65%
Total	\$ 61,151,284	100.00%	\$ 61,377,894	100.00%	\$ 55,923,556	100.00%

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

	2005		2004		2003	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Other non-operating expenses						
Interest on capital related debt	\$ 3,704,377	48.17%	\$ 4,606,271	70.38%	\$ 4,783,540	83.59%
Other non-operating revenues (expenses)	3,985,938	51.83%	1,939,032	29.62%	938,790	16.41%
	7,690,315	100.00%	6,545,303	100.00%	5,722,330	100.00%
Net non-operating revenues:	<u>\$ 53,460,969</u>		<u>\$ 54,832,591</u>		<u>\$ 50,201,226</u>	

The Statements of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase in the net assets at the end of the year.

Some highlights of the information presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- ◆ Tuition and fees were discounted by \$15,589,496, \$12,018,527, and \$10,752,594 in fiscal year 2005, 2004 and 2003, respectively, which consisted of federal and state grants that were provided as financial aid to students and other remissions and exemptions.
- ◆ In fiscal year 2005, state allocations totaling \$24,945,029 consisted of: \$19,849,307 contact hour funding and \$5,095,722 of state on-behalf benefits consisting of state group insurance of \$3,249,319 and state retirement matching of \$1,846,403. The contact hour allocations are received in ten payments, September through December and March through August.
- ◆ The College's state allocation consisting of state contact hour funding was decreased by \$328, from \$19,849,635 in fiscal year 2004 to \$19,849,307 in 2005.
- ◆ The tax base, net assessed valuation, for Hidalgo and Starr Counties increased 12.89% from fiscal year 2004, in the amount of \$17,601,778,873, to fiscal year 2005, in the amount of \$19,869,963,507. Tax collections increased 8% from fiscal year 2004, in the amount of \$29,691,941, to fiscal year 2005, in the amount of \$32,077,466.
- ◆ In fiscal year 2004, state allocations totaling \$24,128,754 consisted of: \$19,849,635 contact hour funding and \$4,279,119 of state on-behalf benefits.
- ◆ The College's state allocations consisting of state contact hour funding was increased by \$1,661,401, from \$18,188,234 in fiscal year 2003 to \$19,849,635 in 2004.

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

- ◆ The tax base, net assessed valuation, for Hidalgo and Starr Counties increased 6.46% from the fiscal year 2003 to fiscal year 2004, in the amount of \$16,533,570,305, to the fiscal year 2004, in the amount of \$17,601,778,873. Tax collections increased 7.09% from fiscal year 2003, in the amount of \$27,727,098 to fiscal year 2004, in the amount of \$29,691,941.
- ◆ The tax rates assessed in fiscal year 2003, 2004 and 2005 were \$.1776, \$.1738, and \$.1647, respectively.

Statements of Cash Flows

The final statement presented by the College is the Statements of Cash Flows, which details information about the cash activity of the College during the year. The statement is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section reflects cash flows from capital and related financing activities. This section reflects the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statements of Revenues, Expenses, and Changes in Net Assets.

Condensed financial information from the Statements of Cash Flows is as follows:

	2005	2004	2003
Cash provided (used) by:			
Operating activities	\$ (39,188,303)	\$ (27,656,096)	\$ (26,886,938)
Non-capital financing activities	43,132,796	43,851,431	38,476,435
Capital and related financing activities	(17,906,922)	(55,629,654)	9,511,507
Investing activities	23,279,933	45,056,575	(18,698,342)
Net change in cash and cash equivalents	9,317,504	5,622,256	2,402,662
Cash and cash equivalents - September 1	13,976,870	8,354,614	5,951,952
Cash and cash equivalents - August 31	\$ 23,294,374	\$ 13,976,870	\$ 8,354,614

Major sources of funds included in operating activities during fiscal year 2005 are student tuition and fees, \$11,176,513 and grants and contracts of \$43,639,165.

The largest payments in operating activities were compensation to employees, \$49,148,378, payments to suppliers, \$23,245,411 and payments of scholarships, \$21,719,370.

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

The largest inflows of cash in the non-capital financing activities were the state allocations of \$24,945,029 and ad-valorem taxes of \$22,306,611.

The outflows in capital and related financing activities represent the purchases of capital assets in the amount of \$20,151,010 and payments of capital debts, \$10,743,226. Inflows of ad-valorem taxes for debt services were \$11,020,499.

In cash flows from investing activities, the cash inflows constitute proceeds from sales and maturities of investments of \$37,616,088, investment income of \$2,300,246 and cash outflows of \$16,636,401, constituting the purchases of investments.

The cash and cash equivalents balance as of August 31, 2005, increased by \$9,317,504 from fiscal year 2004 because long-term investments were converted to short-term maturities which will be used to make scheduled facilities construction payments subsequent to year-end.

Major sources of funds included in operating activities during fiscal year 2004 are student tuition and fees, \$10,340,040; and grants and contracts of \$34,172,699. The largest payments in operating activities were compensation to employees, \$43,840,315, payments to suppliers, \$7,057,083, and payments of scholarships, \$19,025,009.

The two largest inflows of cash in the non-capital financing activities are the state allocations of \$24,128,754 and ad-valorem taxes of \$18,940,737.

The outflows in capital and related financing activities represent the purchases of capital assets in the amount of \$55,458,796 and payments of capital debts, \$11,901,125. Inflows of ad-valorem taxes for debt services were \$11,651,347.

In cash flows from investing activities, the cash inflows constitute proceeds from sales and maturities of investments of \$56,427,962 and investment income of \$2,695,279 and cash outflows of \$14,066,666, constituting the purchases of investments.

The cash and cash equivalents balance as of August 31, 2004, increased by \$5,622,256 over the prior year because long term investments were converted to short-term maturities which were used to make scheduled facilities construction payments subsequent to year-end.

Major sources of funds included in operating activities during fiscal year 2003 are student tuition and fees, \$11,600,783; and grants and contracts of \$39,309,021. The largest payments in operating activities were compensation to employees, \$43,447,759; payments of scholarships, \$22,342,422; and payments to suppliers, \$12,106,568.

The two largest inflows of cash in the non-capital financing activities are the state allocations of \$22,825,281 and ad-valorem taxes of \$17,045,192.

The outflows in capital and related financing activities represent the purchases of capital assets in the amount of \$15,369,268 and payments of capital debts, \$9,913,706. The largest inflows in

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

capital and related financing activities were proceeds from issuance of capital debt, \$23,398,278 and receipts from ad-valorem taxes for debt services, \$11,396,203.

In cash flows from investing activities, the cash inflows constitute proceeds from sale of maturities of investment of \$9,519,021 and investment income of \$3,134,485 and outflows of \$31,351,848 constituting the purchase of investments.

The cash and cash equivalents balance as of August 31, 2003, increased by \$2,402,662 over the prior year.

All funds are invested in accordance with the College's investment policies.

CAPITAL ASSET AND LONG - TERM DEBT ADMINISTRATION

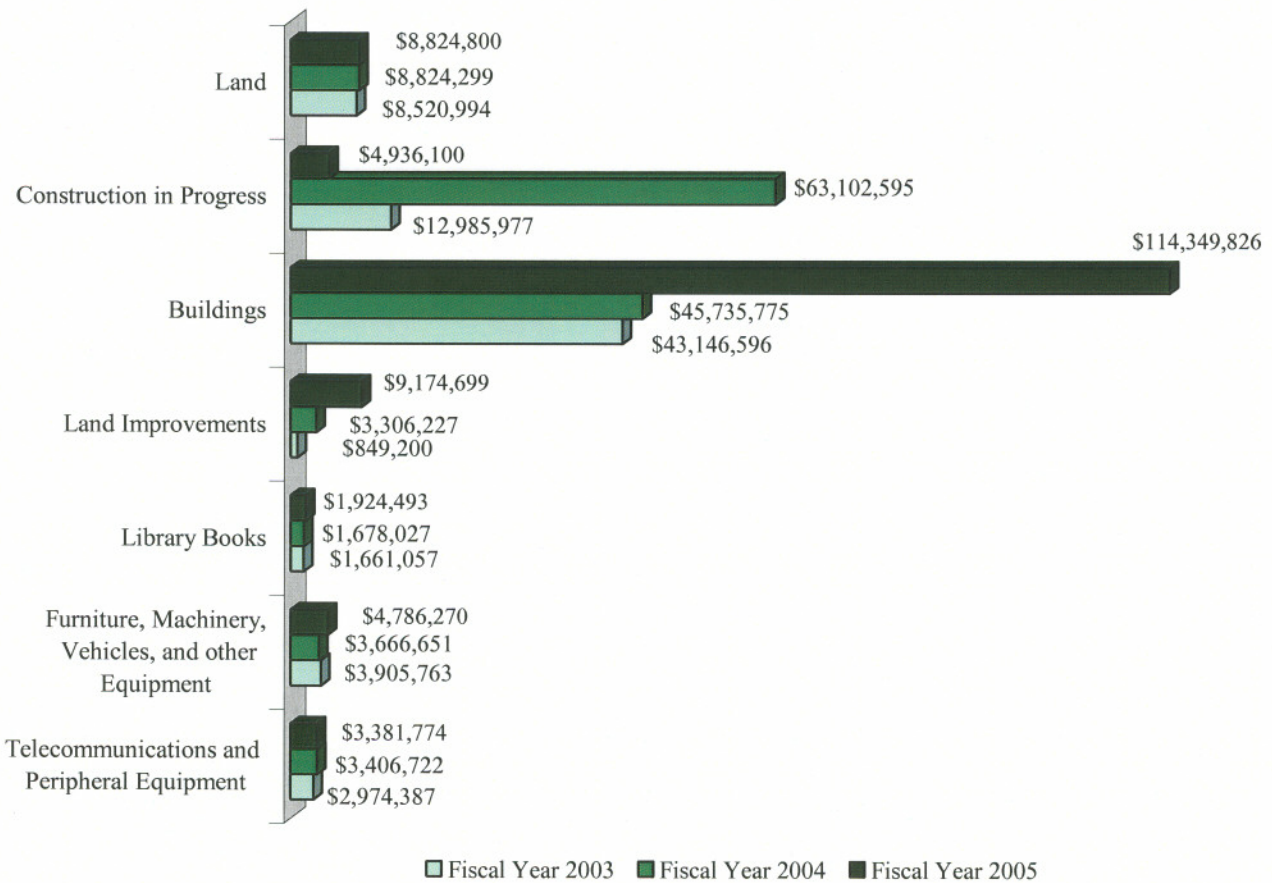
The College had \$163,688,193 in capital assets, and \$16,310,231 in accumulated depreciation at August 31, 2005.

	South Texas College Capital Assets (Net of Depreciation)		
	2005	2004	2003
Land	\$ 8,824,800	\$ 8,824,299	\$ 8,520,994
Construction in Progress	4,936,100	63,102,595	12,985,977
Buildings	114,349,826	45,735,775	43,146,596
Land improvements	9,174,699	3,306,227	849,200
Library books	1,924,493	1,678,027	1,661,057
Furniture, machinery, vehicles, and other equipment	4,786,270	3,666,651	3,905,763
Telecommunications and peripheral equipment	3,381,774	3,406,722	2,974,387
Net capital assets	<u>\$ 147,377,962</u>	<u>\$ 129,720,296</u>	<u>\$ 74,043,974</u>

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

The following is a graphic illustration of capital assets, net of depreciation at August 31, 2005, 2004 and 2003.

**Capital Assets (Net of Depreciation)
Comparison - Fiscal Year 2005, 2004 and 2003**



From fiscal year 2004 to fiscal year 2005, buildings increased by \$68,614,051, land improvements increased by \$5,868,472 and construction in progress decreased by \$58,166,495 due to the completion and continued construction of the new facilities planned for the College.

In fiscal year 2004 the construction in progress increased from fiscal year 2003 by \$50,116,618 due to the construction of the new facilities planned for the College. Land increased by \$303,305 due to purchases in fiscal year 2004.

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

The bond payable liability balances at August 31, 2003, August 31, 2004, and August 31, 2005, are as follows:

	South Texas College Outstanding Debt – Bonds		
	2005	2004	2003
South Texas College District Tax Bonds Series 1996	\$ 800,000	\$ 1,550,000	\$ 17,745,000
Public Property Finance Contractual Obligation Bond, Series 1999	4,140,000	4,355,000	4,560,000
South Texas College District Tax Bonds Series 2002	62,270,000	65,250,000	67,935,000
South Texas College District Tax Bonds Series 2003	20,770,000	21,990,000	22,845,000
South Texas College District Tax Bonds Series 2004	14,979,996	15,264,996	-
Total Bond Payable	\$ 102,959,996	\$ 108,409,996	\$ 113,085,000

The bonds issued in fiscal year 2004, are rated “Aaa” by Moody’s Investors Service and “AAA” by Standard and Poor’s Rating Service. The College’s other outstanding bonds underlying rating is “A2” by Moody’s Investors Service and “A” by Standard and Poor’s Rating Service.

The bonds were issued to address the facility requirements of the College. The enrollment has substantially increased over the years since the College’s inception. The unduplicated annual headcount enrollment has increased by 722%, from 2,900 in fiscal year 1994 to 23,844 in fiscal year 2005. The unduplicated contact hour generation has increased 684%, from 901,954 contact hours in 1994 to 7,075,776 contact hours in 2005.

For additional information concerning capital assets and debt administration, see Notes No. 3, No. 4, and No. 5 in the notes to the financial statements.

See Note No. 20 in the notes to financial statements for contractual commitments for capital expenditures at August 31, 2005. The College intends to use the bond proceeds to construct new facilities and purchase land required due to the dramatic enrollment increases. In addition, in fiscal years 1998 through 2002, the College set aside \$2,500,000 per year to be used for construction of facilities. In fiscal years 2003 and 2004, the College set aside \$5,000,000 and in fiscal year 2005, the college set aside \$7,500,000 for this purpose.

SOUTH TEXAS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
August 31, 2005 and 2004

The College is authorized to issue, per Education Code Section 130.122, \$.50 per \$100 valuation of taxable property for bonded debt. The College's debt tax rate in fiscal year 2005 was \$0.05470 per \$100 valuation of taxable property.

ECONOMIC OUTLOOK

The College is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the coming fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

The College's overall financial position is strong. Even with a minimal decrease in state allocations from contact hour funding of \$328 and an increase in expenditures due to continuing student enrollment increases, the College was able to realize an increase in net assets.

REQUEST FOR INFORMATION

This financial report is intended to provide a general overview of South Texas College's finances. Requests for additional financial information may be addressed to South Texas College Business Office, P.O. Box 9701, McAllen, Texas 78502-9701.



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South Texas College
Exhibit 1
Statements of Net Assets
August 31, 2005 and 2004

	FY 2005	FY 2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 23,294,374	\$ 13,976,870
Short-term investments	51,728,998	62,177,142
Accounts receivable (net of allowance for doubtful accounts of \$391,514 and \$393,014, respectively)	14,698,054	17,226,458
Notes receivable	35,505	37,079
Prepaid expenses	155,592	116,498
Total current assets	89,912,523	93,534,047
Noncurrent Assets		
Other long-term investments	-	10,531,543
Deferred charges	1,291,283	1,395,978
Capital assets, net of accumulated depreciation	147,377,962	129,720,296
Total noncurrent assets	148,669,245	141,647,817
TOTAL ASSETS	238,581,768	235,181,864
LIABILITIES		
Current Liabilities		
Accounts payable	5,386,443	11,001,461
Accrued liabilities	494,576	631,700
Accrued compensable absences	385,106	301,653
Funds held for others	54,610	49,359
Unearned revenue	3,746,263	5,322,884
Bonds payable - current portion	5,900,000	5,450,000
Total current liabilities	15,966,998	22,757,057
Noncurrent Liabilities		
Bonds payable, net	101,120,171	107,329,868
Total noncurrent liabilities	101,120,171	107,329,868
TOTAL LIABILITIES	117,087,169	130,086,925
NET ASSETS		
Invested in capital assets, net of related debt	65,488,899	53,401,242
Restricted for:		
Expendable		
Loans	314,270	319,376
Debt service	5,479,373	4,414,505
Other purposes	2,423,273	4,176,375
Unrestricted	47,788,784	42,783,441
TOTAL NET ASSETS (Schedule D)	121,494,599	105,094,939
TOTAL LIABILITIES & NET ASSETS	\$ 238,581,768	\$ 235,181,864

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



South Texas College
Exhibit 2
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended August 31, 2005 and 2004

	FY 2005	FY 2004
Operating revenues		
Tuition and fees (net of discounts of \$15,589,496 and \$12,018,527, respectively)	\$ 11,870,440	\$ 8,881,318
Federal grants and contracts	36,906,689	34,021,750
State grants and contracts	3,553,359	2,948,994
Local grants and contracts	757,398	801,324
Non-governmental grants and contracts	1,525,659	998,230
Auxiliary enterprises	838,057	733,900
General operating revenues	1,346,540	1,543,171
Total operating revenues (Schedule A)	56,798,142	49,928,687
Operating expenses		
Instruction	32,107,169	29,670,904
Research	11,768	-
Public service	2,106,665	2,354,241
Academic support	6,707,548	4,175,859
Student services	6,021,112	5,334,153
Institutional support	12,182,729	11,061,330
Operations and maintenance of plant	7,137,221	4,746,623
Scholarships and fellowships	22,958,306	22,956,070
Auxiliary enterprises	411,684	346,671
Depreciation	4,215,249	2,647,695
Total operating expenses (Schedule B)	93,859,451	83,293,546
Operating loss	(37,061,309)	(33,364,859)
Non-operating revenues (expenses)		
State allocations	24,945,029	24,128,754
Ad-valorem taxes		
Taxes for maintenance & operations	22,405,071	19,805,773
Taxes for debt service	11,258,100	11,592,841
Gifts	190,148	3,265,398
Investment income (net of investment expenses)	2,352,936	2,585,128
Interest on capital related debt	(3,704,377)	(4,606,271)
Other non-operating revenues (expenses)	(3,985,938)	(1,939,032)
Net non-operating revenues (Schedule C)	53,460,969	54,832,591
Increase in net assets	16,399,660	21,467,732
Net Assets, Beginning of Year	105,094,939	83,627,207
Net Assets, End of Year	\$ 121,494,599	\$ 105,094,939

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



South Texas College
Exhibit 3
Statements of Cash Flows
For the Years Ended August 31, 2005 and 2004

	FY 2005	FY 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 11,176,513	\$ 10,340,040
Receipts from grants and contracts	43,639,165	34,172,699
Payments to suppliers for goods or services	(23,245,411)	(7,057,083)
Payments to or on behalf of employees	(49,148,378)	(43,840,315)
Payments for scholarships and fellowships	(21,719,370)	(19,025,009)
Payments for loans issued to students	(897,105)	(741,117)
Receipts from collection of loans to students	898,679	747,394
Other receipts (payments)	107,604	(2,252,705)
Net cash provided (used) by operating activities	(39,188,303)	(27,656,096)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from state allocations	24,945,029	24,128,754
Receipts from ad-valorem taxes-maintenance and operation	22,306,611	18,940,737
Payments for collection of taxes	(450,157)	(429,949)
Receipts/(payments) from gifts or grants for other than capital purposes	(3,673,939)	1,207,900
Receipts from student organizations and other agency transactions	307,904	279,679
Payments to student organizations and other agency transactions	(302,652)	(275,690)
Net cash provided (used) by non-capital financing activities	43,132,796	43,851,431
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt	3,073	-
Receipts from ad-valorem taxes-debt services	11,020,499	11,651,347
Contribution received in aid of construction	1,963,742	78,920
Purchases of capital assets	(20,151,010)	(55,458,796)
Payments on capital debt-principal	(5,450,000)	(4,425,000)
Payments on capital debt-interest and fees	(5,293,226)	(7,476,125)
Net cash provided (used) by capital and related financing activities	(17,906,922)	(55,629,654)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	37,616,088	56,427,962
Receipts from interest on investments	2,300,246	2,695,279
Purchase of investments	(16,636,401)	(14,066,666)
Net cash provided (used) by investing activities	23,279,933	45,056,575
Increase (decrease) in cash and cash equivalents	9,317,504	5,622,256
Cash and cash equivalents - September 1	13,976,870	8,354,614
Cash and cash equivalents - August 31	\$ 23,294,374	\$ 13,976,870

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



South Texas College
Exhibit 3
Statements of Cash Flows
For the Years Ended August 31, 2005 and 2004

	FY 2005	FY 2004
Reconciliation of net operating income (loss) to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$ (37,061,309)	\$ (33,364,859)
Adjustments to reconcile net operating loss to net cash provided (used)		
by operating activities:		
Depreciation expense	4,215,249	2,647,695
Changes in Assets and Liabilities		
Receivables, net	1,404,733	(4,559,647)
Notes receivable	1,574	6,277
Prepaid expenses	(39,094)	123,985
Other assets		
Accounts payable	(5,742,633)	6,565,171
Compensated absences	83,453	7,455
Deferred revenues	(1,576,621)	942,827
Donated items as a noncash transaction	(473,655)	(25,000)
Net cash provided (used) by operating activities:	\$ (39,188,303)	\$ (27,656,096)

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

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 1 - Reporting Entity

South Texas College was established on June 1, 1993, in accordance with the laws of the State of Texas, to serve the educational needs of Hidalgo and Starr Counties and the surrounding communities. South Texas College District is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 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.

Note 2 - Summary of Significant Accounting Policies

A. Reporting Guidelines

The significant accounting policies followed by South Texas 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 College* and in accordance with generally accepted accounting policies. 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 GASB. The College is reported as a special-purpose government engaged in business-type activities.

Selected separate financial statements are provided, as required by the Texas Higher Education Coordinating Board (THECB), even though the latter are excluded from the government-wide financial statements. The College adheres to the financial statement presentation required by the THECB.

B. Nature of Operations

South Texas College is a political subdivision of the State of Texas located in Hidalgo and Starr Counties, Texas. The College offers academic, general occupational, developmental and continuing adult education programs through a network of locations. The College is governed by a seven member Board of Trustees who serve staggered six-year terms with elections held in May of each even-numbered year.

C. 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 Section 56.033).

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Tuition Discounting (Continued)

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.

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 restricted 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 amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

D. Basis of Accounting, Measurement Focus & Financial Statement Presentation

The financial statements of South Texas 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. The College's financial statements are prepared using the economic resources measurement focus. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

E. 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. As business-type activities, the College's operating revenues are defined as the result of exchange transactions with those who purchase, use, or directly benefit from the goods or services of the College. The principal operating revenues are tuition and related fees, net of discounts. The College also recognizes as operating revenue Federal/State/Local Grants, Non-Governmental Grants and Contracts, Auxiliary Enterprises, and Other Operating Revenues. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. The operation of the bookstore is not performed by the College. Non-operating revenues include activities that have the characteristic of non-exchange transactions, such as gifts and contributions, property tax and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary*

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

E. Operating and Non-Operating Revenue and Expense Policy (Continued)

Fund Accounting and GASB No. 34, such as investment income. The major non-operating revenues are allocations from the state, including restricted revenues such as state insurance and benefit allocations and property tax collections. Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as non-operating revenues or non-operating expenses.

F. Budgetary Data

Each community college district 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, for internal management use at the individual fund and account group level on which the books of the College are maintained, and it 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, the Legislative Budget Board, the Legislative Reference Library and the Governor's Office of Budget and Planning by December 1.

G. Elimination of Internal Activity

The internal activity and balances reflected in the internal use only fund financial statements are eliminated in the preparation of the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets, to avoid the inappropriate "grossing-up" effects that internal activity would otherwise have on aggregated amounts.

H. Non-current Cash and Investments

Cash and investments that are externally restricted to make debt services payments, maintain sinking or reserve funds, purchase or construct capital or other non-current assets, are classified as non-current assets in the Statement of Net Assets.

I. Non-current Liabilities

Non-current liabilities include: (1) principal amount of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within a year, are to be paid from funds that are classified as non-current assets.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

J. 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.

K. 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. Long-term investments have an original maturity of greater than one year at the time of purchase.

L. Inventories

Inventories consist of consumable office supplies, physical plant supplies and food service supplies. Inventories are valued at cost under the "first-in, first-out" method and are charged to expenses as consumed.

M. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are valued at their estimated fair market value at the date of donation. STC capitalization policy includes real and personal property with a value equal to or greater than \$5,000 and an estimated life in excess of one year. Renovations of \$100,000 to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Library books and materials purchases, in total for the year, are subject to the \$5,000 capitalization threshold.

The College reports depreciation under a single-line item as a business-type activity. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

Buildings	50 years
Facilities and Land Improvements	20 years
Library Books and Materials	15 years
Furniture, Machinery, Vehicles and Equipment	10 years
Telecommunications and Peripheral Equipment	5 years

Residual values of ten percent (10%) are maintained for land improvements and buildings.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

M. Capital Assets (Continued)

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.

N. Collections/Works of Art

The College did not own collections during the fiscal years ended August 31, 2005, or August 31, 2004, or as of either year end.

O. Unearned Revenues

Tuition and fees of \$3,650,574 and \$2,246,074 and federal, state, and local grants of \$95,689 and \$3,076,810 have been reported as unearned revenues at August 31, 2005 and August 31, 2004, respectively.

P. 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.

Q. Net Assets

The College's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

Q. Net Assets (Continued)

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, sales and services of educational departments and auxiliary enterprises which are substantially self-supporting activities that provide services for students, faculty and staff. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards unrestricted resources.

R. Funds Held in Trust for Others

At August 31, 2005, and at August 31, 2004, the College held, in trust funds, amounts of \$54,610 and \$49,359, respectively, that pertain primarily to student organizations. These funds are not available to support the College's programs.

S. Capitalization of Interest

Interest cost during the construction period is capitalized in accordance with FASB Statement No. 34.

T. Bond Discounts/Premiums

Bond discounts/premiums and issuance costs are deferred and amortized over the term of the bond. Bond discounts/premiums are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

U. Gain or Loss on Retirement of Debt

The gain or loss on the early retirement of debt is deferred and amortized over the shorter of (1) the remaining amortization period that was used in the original refunding or (2) the life of the newly issued debt. This deferred amount is reported as a deduction from the new debt liability on the statement of net assets.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 3 - Capital Assets

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

	Balances			Balances August 31, 2005
	September 1, 2004	Increases	Decreases	
Capital Assets Not Depreciated:				
Land	\$ 8,824,299	\$ 501	\$ -	\$ 8,824,800
Construction in Progress	63,102,595	18,405,881	76,572,376	4,936,100
Total Capital Assets Not Being Depreciated	<u>71,926,894</u>	<u>18,406,382</u>	<u>76,572,376</u>	<u>13,760,900</u>
Capital Assets Being Depreciated:				
Buildings	48,873,968	70,805,108	322,093	119,356,983
Land Improvements	3,458,663	6,046,659	-	9,505,322
Total Buildings and Other Land Improvements	<u>52,332,631</u>	<u>76,851,767</u>	<u>322,093</u>	<u>128,862,305</u>
Library Books	2,955,592	264,071	-	3,219,663
Furniture, Machinery, Vehicles and Equipment	6,377,410	1,880,759	129,427	8,128,742
Telecommunications and Peripheral Equipment	8,414,015	1,408,999	106,431	9,716,583
Total Capital Assets Being Depreciated	<u>70,079,648</u>	<u>80,405,596</u>	<u>557,951</u>	<u>149,927,293</u>
Accumulated Depreciation:				
Buildings	3,138,193	1,868,964	-	5,007,157
Land Improvements	152,436	178,187	-	330,623
Library Books	1,277,565	17,605	-	1,295,170
Furniture, Machinery, Vehicles and Other Equipment	2,710,759	716,546	84,833	3,342,472
Telecommunications and Peripheral Equipment	5,007,293	1,433,947	106,431	6,334,809
Total Accumulated Depreciation	<u>12,286,246</u>	<u>4,215,249</u>	<u>191,264</u>	<u>16,310,231</u>
Total Capital Assets Being Depreciated, Net	<u>57,793,402</u>	<u>76,190,347</u>	<u>366,687</u>	<u>133,617,062</u>
Total Capital Assets, Net	<u>\$ 129,720,296</u>	<u>\$ 94,596,729</u>	<u>\$ 76,939,063</u>	<u>\$ 147,377,962</u>

The College does not possess other collections that it does not capitalize.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 3 - Capital Assets (Continued)

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

	Balances September 1, 2003	Increases	Decreases	Balances August 31, 2004
Capital Assets Not Depreciated:				
Land	\$ 8,520,994	\$ 303,305	\$ -	\$ 8,824,299
Construction in Progress	12,985,977	56,310,655	6,194,037	63,102,595
Total Capital Assets Not Being Depreciated	<u>21,506,971</u>	<u>56,613,960</u>	<u>6,194,037</u>	<u>71,926,894</u>
Capital Assets Being Depreciated:				
Buildings	45,452,280	3,421,688	-	48,873,968
Land Improvements	948,863	2,509,800	-	3,458,663
Total Buildings and Other Land Improvements	<u>46,401,143</u>	<u>5,931,488</u>	<u>-</u>	<u>52,332,631</u>
Library Books	2,936,011	19,581	-	2,955,592
Furniture, Machinery, Vehicles and Equipment	6,018,093	389,317	30,000	6,377,410
Telecommunications and Peripheral Equipment	6,842,567	1,571,448	-	8,414,015
Total Capital Assets Being Depreciated	<u>62,197,814</u>	<u>7,911,834</u>	<u>30,000</u>	<u>70,079,648</u>
Accumulated Depreciation:				
Buildings	2,305,684	832,509	-	3,138,193
Land Improvements	99,663	52,773	-	152,436
Library Books	1,274,954	2,611	-	1,277,565
Furniture, Machinery, Vehicles and Other Equipment	2,112,330	620,689	22,260	2,710,759
Telecommunications and Peripheral Equipment	3,868,180	1,139,113	-	5,007,293
Total Accumulated Depreciation	<u>9,660,811</u>	<u>2,647,695</u>	<u>22,260</u>	<u>12,286,246</u>
Total Capital Assets Being Depreciated, Net	<u>52,537,003</u>	<u>5,264,139</u>	<u>7,740</u>	<u>57,793,402</u>
Total Capital Assets, Net	<u>\$ 74,043,974</u>	<u>\$ 61,878,099</u>	<u>\$ 6,201,777</u>	<u>\$ 129,720,296</u>

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 3 - Capital Assets (Continued)

Construction in progress as of August 31, 2005, including capitalized interest of \$1,576,870, consists of the following:

<u>Project</u>	<u>Balances September 1, 2004</u>	<u>Additions / Deductions</u>	<u>Completed / Reclassification</u>	<u>Balances August 31, 2005</u>
Mid Valley	\$ 11,775	\$ (333,669)	\$ (321,894)	\$ -
Mid Valley Remediation	525,147	413,795	938,942	-
Mid Valley Renovation	-	76,063	76,063	-
Mid Valley Renovation SSC	-	2,296	-	2,296
Allied Health	1,194,861	(491,312)	703,549	-
Allied Health Temp Parking	9,276	-	-	9,276
Pecan Renovation Bldg "C"	12,445	1,157,872	1,170,317	-
Pecan Renovation Bldg "D"	-	17,283	-	17,283
Pecan Parking	-	534,080	-	534,080
Pecan Fence	-	64,380	-	64,380
Pecan Phase II Site Dev	-	17,891	-	17,891
Pecan Replacement HVAC Units	-	1,682,940	-	1,682,940
Tech Parking	-	335,188	335,188	-
Starr Roof	-	22,855	22,855	-
Starr Renovation SSC	-	2,296	-	2,296
District Wide Land	-	1,857	-	1,857
Pecan	23,614,823	2,695,718	25,174,822	1,135,719
Technology Center	6,878,767	763,389	7,549,869	92,287
Starr	13,275,255	2,894,922	15,959,748	210,429
Mid Valley	13,127,419	6,171,160	18,186,148	1,112,431
Nursing Allied Health	4,439,678	2,376,260	6,776,769	39,169
Satellite Center	13,149	617	-	13,766
Total	<u>\$ 63,102,595</u>	<u>\$ 18,405,881</u>	<u>\$ 76,572,376</u>	<u>\$ 4,936,100</u>

As a result of the Mid Valley campus settlement between the College and subcontractors, \$322,093 was recorded and recognized as a receivable.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 3 - Capital Assets (Continued)

Construction in progress as of August 31, 2004, including capitalized interest of \$1,000,060, consists of the following:

Project	Balances September 1, 2003	Additions / Deductions	Completed / Reclassification	Balances August 31, 2004
Mid Valley	\$ 11,775	\$ -	\$ -	\$ 11,775
Mid Valley Remediation	142,743	382,404	-	525,147
Allied Health	1,194,860	-	-	1,194,860
Allied Health Temp Parking	-	9,276	-	9,276
Library Expansion II	2,630,122	25,623	2,655,745	-
Pecan Renovation Bldg. "C"	-	12,445	-	12,445
Pecan	4,047,798	21,082,114	1,515,089	23,614,823
Technology Center	685,999	8,052,284	1,859,515	6,878,768
Starr	1,995,110	11,340,145	60,000	13,275,255
Mid Valley	1,720,351	11,510,756	103,688	13,127,419
Nursing Allied Health	544,070	3,895,608	-	4,439,678
Satellite Center	13,149	-	-	13,149
Total	\$ 12,985,977	\$ 56,310,655	\$ 6,194,037	\$ 63,102,595

As a result of pre-construction costs determined to be a part of the original guaranteed maximum price, \$262,548 was recorded as a reclassification and recognized as receivables from contractors.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 4 - Long Term Liabilities

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

	Balances September 1, 2004	Additions	Reductions	Balances August 31, 2005	Less Current Portion	Less Discount / Deferred Loss Plus Premium	Amount Net of Current Portion, Discount & Premium
Leases Bonds and Notes:							
South Texas College District Tax Bonds, Series 1996	\$ 1,550,000	\$ -	\$ 750,000	\$ 800,000	\$ (800,000)	\$ -	\$ -
Public Property Finance Contractual Obligation Bond, Series 1999	4,355,000	-	215,000	4,140,000	(220,000)	(28,248)	3,891,752
South Texas College District Tax Bonds, Series 2002	65,250,000	-	2,980,000	62,270,000	(3,345,000)	3,010,157	61,935,157
South Texas College District Tax Bonds, Series 2003	21,990,000	-	1,220,000	20,770,000	(1,245,000)	737,128	20,262,128
South Texas College District Tax Bonds, Series 2004	15,264,996	-	285,000	14,979,996	(290,000)	341,138	15,031,134
Total long-term liabilities	<u>\$ 108,409,996</u>	<u>\$ -</u>	<u>\$ 5,450,000</u>	<u>\$ 102,959,996</u>	<u>\$ (5,900,000)</u>	<u>\$ 4,060,175</u>	<u>\$ 101,120,171</u>

Compensated absences consist of accrued vacations. Such liabilities are considered to be current liabilities and are not included in long-term liabilities.

Unamortized bond discount/premium, bond issue costs and deferred loss for the year ended August 31, 2005, on the above bond issues are as follows:

	Bond Issue Cost	Bond Discount	Bond Premium	Deferred Loss
South Texas College District Tax Bonds, Series 1996	\$ 2,661	\$ -	\$ -	\$ -
Public Property Finance Contractual Obligation Bond, Series 1999	90,688	28,248	-	-
South Texas College District Tax Bonds, Series 2002	675,695	-	3,010,157	-
South Texas College District Tax Bonds, Series 2003	281,237	-	737,128	-
South Texas College District Tax Bonds, Series 2004	241,003	-	1,703,082	1,361,944
Total	<u>\$ 1,291,284</u>	<u>\$ 28,248</u>	<u>\$ 5,450,367</u>	<u>\$ 1,361,944</u>

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 4 – Long Term Liabilities (Continued)

Long-term liabilities activity for the year ended August 31, 2004, was as follows:

	Balances September 1, 2003	Additions	Reductions	Balances August 31, 2004	Less Current Portion	Less Discount / Deferred Loss Plus Premium	Amount Net of Current Portion, Discount & Premium
Leases Bonds and Notes:							
South Texas College District Tax Bonds, Series 1996	\$ 17,745,000	\$ -	\$ 16,195,000	\$ 1,550,000	\$ (750,000)	\$ -	\$ 800,000
Public Property Finance Contractual Obligation Bond, Series 1999	4,560,000	-	205,000	4,355,000	(215,000)	(30,347)	4,109,653
South Texas College District Tax Bonds, Series 2002	67,935,000	-	2,685,000	65,250,000	(2,980,000)	3,241,708	65,511,708
South Texas College District Tax Bonds, Series 2003	22,845,000	-	855,000	21,990,000	(1,220,000)	789,934	21,559,934
South Texas College District Tax Bonds, Series 2004	-	15,514,996	250,000	15,264,996	(285,000)	368,577	15,348,573
Total long-term liabilities	<u>\$ 113,085,000</u>	<u>\$ 15,514,996</u>	<u>\$ 20,190,000</u>	<u>\$ 108,409,996</u>	<u>\$ (5,450,000)</u>	<u>\$ 4,369,872</u>	<u>\$ 107,329,868</u>

Compensated absences consist of accrued vacations. Such liabilities are considered to be current liabilities and are not included in long-term liabilities.

Unamortized bond discount/premium, bond issue costs and deferred loss for the year ended August 31, 2004, on the above bond issues are as follows:

	Bond Issue Cost	Bond Discount	Bond Premium	Deferred Loss
South Texas College District Tax Bonds, Series 1996	\$ 5,321	\$ -	\$ -	\$ -
Public Property Finance Contractual Obligation Bond, Series 1999	97,426	30,347	-	-
South Texas College District Tax Bonds, Series 2002	727,672	-	3,241,708	-
South Texas College District Tax Bonds, Series 2003	301,325	-	789,934	-
South Texas College District Tax Bonds, Series 2004	264,234	-	1,848,599	1,480,022
Total	<u>\$ 1,395,978</u>	<u>\$ 30,347</u>	<u>\$ 5,880,241</u>	<u>\$ 1,480,022</u>

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 5 – Bonds Payable

General information related to bonds payable and balances at August 31 are summarized below:

	2005	2004
\$20,000,000 South Texas College District Tax Bonds, Series 1996 due in varying installments through 2006, interest at 5.50% - 8.50%. Purpose: construction, renovation, equipment of College facilities and acquisition of necessary sites thereof Issued: May 15, 1996, refunded in part by issue dated March 15, 2004 Source of revenue for debt service: Ad-valorem taxes.	\$ 800,000	\$ 1,550,000
\$5,200,000 South Texas College Public Property Finance Contractual Obligations, Series 1999 due in varying installments through 2019, interest at 3.30% - 4.75%. Purpose: office and classroom equipment and furniture, motor vehicles, industrial training equipment, portable buildings and computer equipment Issued: March 24, 1999. Source of revenue for debt service: Ad-valorem taxes.	4,140,000	4,355,000
\$71,230,000 South Texas College Limited Tax General Obligation Bonds, Series 2002 due in varying installments through 2018, interest at 4.0% - 5.5%. Purpose: construction, renovation and equipment of College facilities Issued: May 17, 2002. Source of revenue for debt services: Ad-valorem taxes.	62,270,000	65,250,000
\$22,845,000 South Texas College Limited Tax General Obligation Bonds, Series 2003 due in varying installments through 2019, interest at 2.0% - 5.25%. Issued \$22,845,000 in principal amount of bonds (with a net premium of \$859,378 less a deposit to the interest and sinking fund of \$4,378). Purpose: construction, renovation and equipment of College facilities Issued: May 8, 2003. Source of revenue for debt services: Ad-valorem taxes	20,770,000	21,990,000
\$15,514,996 South Texas College Limited Tax General Obligation Bonds, Series 2004 due in varying installments through 2017, interest at 2.0% - 5.0%. Purpose: To advance refund a portion of the College's outstanding debt, in order to lower the overall debt service requirements of the College, and to pay for costs of issuance of the Bonds. Issued: March 15, 2004. Source of revenue for debt services: Ad-valorem taxes.	14,979,996	15,264,996
Total Bonds Payable	\$ 102,959,996	\$ 108,409,996

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 5 – Bonds Payable (Continued)

As of August 31, 2005, bonds payable are due in annual installments varying from \$220,000 to \$6,355,000 with interest rates from 2.0% to 5.59% and the final installment due in 2019. The principal and interest expense requirement for the next five years and beyond is summarized below for bonds issued:

Fiscal Year	Principal	Interest	Total
2006	\$ 5,900,000	\$ 5,047,644	\$ 10,947,644
2007	5,509,996	5,625,520	11,135,516
2008	6,670,000	4,486,656	11,156,656
2009	6,925,000	4,230,071	11,155,071
2010	7,220,000	3,938,705	11,158,705
2011-2015	41,465,000	14,327,934	55,792,934
2016-2019	29,270,000	3,124,469	32,394,469
Total	<u>\$ 102,959,996</u>	<u>\$ 40,780,999</u>	<u>\$ 143,740,995</u>

As of August 31, 2004, bonds payable are due in annual installments varying from \$215,000 to \$6,355,000 with interest rates from 2.0% to 8.5% and the final installment due in 2019. The principal and interest expense requirement for the next five years and beyond is summarized below for bonds issued:

Fiscal Year	Principal	Interest	Total
2005	\$ 5,450,000	\$ 5,293,226	\$ 10,743,226
2006	5,900,000	5,047,644	10,947,644
2007	5,509,996	5,625,520	11,135,516
2008	6,670,000	4,486,656	11,156,656
2009	6,925,000	4,230,071	11,155,071
2010-2014	39,565,000	16,225,889	55,790,889
2015-2019	38,390,000	5,165,219	43,555,219
Total	<u>\$ 108,409,996</u>	<u>\$ 46,074,225</u>	<u>\$ 154,484,221</u>

Note 6 – Advance Refunding of Bonds

On March 15, 2004, South Texas College issued Limited Tax General Obligation Refunding Bonds, Series 2004 totaling \$15,514,996 (all authorized bonds were issued) to advance refund a portion of the South Texas College issued Tax Bonds, Series 1996 in order to lower the overall debt service requirements of the College and to pay for costs of issuance of the bonds. A total of

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 6 – Advance Refunding of Bonds (Continued)

\$15,515,000 of Tax Bonds, Series 1996 were refunded. The average interest rate of bonds refunded was 6.4%. In order to refund the bonds, the proceeds of the new bonds were deposited and held in an escrow fund by JP Morgan. The portion of post-refunding Tax Bonds, Series 1996, outstanding at August 31, 2004 is \$800,000. This issue of refunding bonds is not subject to early redemption.

Note 7 – Disaggregation of Receivable and Payable Balances

Receivables

Receivables at August 31, 2005 and August 31, 2004, were as follows:

	August 31, 2005	August 31, 2004
Student Receivables	\$ 9,575	\$ 3,555
Taxes Receivable	7,926,253	7,141,534
Federal Receivables	4,391,550	5,830,720
Interest Receivable	183,227	130,537
Accounts Receivable		
Bookstore and Auxiliary	134,585	187,176
State, Local and Private	586,244	615,146
Contractors	322,093	400,855
Bequeath	1,250,000	3,150,000
Other Receivables	236,041	159,949
Subtotal	<u>15,039,568</u>	<u>17,619,472</u>
Allowance for Doubtful Accounts	<u>(391,514)</u>	<u>(393,014)</u>
Total Receivables - Exhibit 1	<u>\$ 14,648,054</u>	<u>\$ 17,226,458</u>

Taxes receivable may not all be collected within one year.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 7 – Disaggregation of Receivable and Payable Balances (Continued)

Payables

Payables at August 31, 2005 and August 31, 2004, were as follows:

	August 31, 2005		August 31, 2004	
	Accounts Payable	Accrued Liabilities	Accounts Payable	Accrued Liabilities
Vendor Payable				
Vendors	\$ 1,740,122	\$ -	\$ 1,457,316	\$ -
Construction	2,851,518	-	6,057,489	-
Construction Retainage	483,452	-	3,114,235	-
International Schools	146,077	-	183,657	-
Salaries & Benefits	-	274,927	-	401,378
Students Payable	84,823	-	94,522	-
Accrued Interest	-	219,649	-	230,322
Other Payables	80,451	-	94,242	-
Total Payables – Exhibit 1	\$ 5,386,443	\$ 494,576	\$ 11,001,461	\$ 631,700

Note 8 – Compensable Absences

With the exception of faculty members who have appointments of less than 12 months, all full-time benefit eligible employees accrue vacation leave time at the rate of 8 hours per month. Less than full-time employees accrue vacation on a pro-rated basis.

All hours of unused accumulated vacation leave must be used by March 1, following the fiscal year in which it was accumulated. Any vacation leave not used by that date is forfeited. A time extension may be requested from the College President for extenuating circumstances. Upon retirement, resignation, termination, or death of full-time benefit eligible employees, the College pays employees for unused accrued vacation leave.

The College recognized the accrued liability for the unpaid annual leave in the amount of \$385,106 at August 31, 2005 and \$301,653 at August 31, 2004.

Sick leave, which can be accumulated to 720 hours, is earned at the rate of 8 hours per month. It is paid to an employee who misses work under the criteria of board-approved guidelines for sick leave. Sick leave does not vest.

SOUTH TEXAS COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 August 31, 2005 and 2004

Note 9 – Authorized Investments

The 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) obligations 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.

Note 10 – Deposits and Investments

The Public Funds Investment Act allows funds belonging to South Texas College to be invested. College policy delegates this authority to three Investment Officers.

It is the policy of the College to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the College and conforming to all state and local statutes governing the investment of public funds, using the “prudent person” standard for managing the overall portfolio. The primary objectives of the policy are preservation of capital, safety of College funds, maintenance of sufficient liquidity, maximization of return within acceptable risk constraints, and diversification of investments.

At August 31, 2005, and 2004 the carrying amount of South Texas College’s deposits was \$75,023,372, and \$86,685,555 respectively. Bank balances of \$200,000 were covered by federal depository insurance and \$78,211,599 and \$88,030,363 were covered by collateral pledged in South Texas College’s name for the years ended August 31, 2005 and 2004.

Cash and deposits reported on Exhibit 1, Statements of Net Assets, consist of the items reported below:

	<u>August 31, 2005</u>	<u>August 31, 2004</u>
Bank Deposit		
Demand Deposits	\$ 23,288,614	\$ 13,090,764
Certificates of Deposits	51,728,998	73,591,431
Total Bank Deposits	<u>75,017,612</u>	<u>86,682,195</u>
Cash		
Petty Cash on Hand	<u>5,760</u>	<u>3,360</u>
Total Cash	<u>5,760</u>	<u>3,360</u>
Total Cash and Deposits	<u>\$ 75,023,372</u>	<u>\$ 86,685,555</u>

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 10 – Deposits and Investments (Continued)

As of August 31, 2005 the College had the following investments and maturities.

Investment Type	Fair Value	Investment Maturity (In Years)	
		Less Than 1	1 to 2
Certificate of Deposit	\$ 51,728,998	\$ 51,728,998	\$ -

As of August 31, 2004 the College had the following investments and maturities.

Investment Type	Fair Value	Investment Maturity (In Years)	
		Less Than 1	1 to 2
Certificate of Deposit	\$ 73,591,431	\$ 63,059,888	\$ 10,531,543

Interest Rate Risk - In accordance with its investment policy, the College limits its exposure to interest rate risk by investing in securities whose maturities will not exceed the anticipated cash flow requirements of the funds. College policy states that investments of operating funds are limited to a weighted average of 270 days until maturity for all investments, with a maximum allowable maturity of two years for any one investment. The investment maturities of construction funds and of funds for retirement of indebtedness are generally limited to the anticipated cash flow requirements of the funds.

Credit Risk – In accordance with state law and the College’s investment policy, the College limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by limiting its investments to the types herein described: obligations of the United States, direct or guaranteed obligations of the State of Texas, obligations of states, agencies, counties, cities or other political subdivisions of any state that have been rated as to investment quality by a nationally recognized investment rating firm and received a rating of not less than “AAA” or its equivalent, certificates of deposit which are secured by obligations described above and governed by a depository agreement, money market mutual funds regulated by the SEC, or eligible investment pools organized and operating in compliance with the Public Funds Investment Act.

Concentration of Credit Risk – The College’s investment policy seeks to minimize its concentration of credit risk by establishing the following maximum percentages of investment type for the total College investment portfolio: U.S. Treasury Bills/Notes/Bonds 100%; U.S. Agencies and Instrumentalities 100%; States, Counties, Cities, and Other 25%; Certificates of Deposits 100%; Money Market Mutual Funds 25%; and Eligible Investment Pools 50%.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 10 – Deposits and Investments (Continued)

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>
Petty Cash	\$ 5,760	\$ 3,360
Money Market	23,288,614	13,090,764
Certificate of Deposits	-	882,746
Total of Cash and Cash Equivalents (Exhibit 1)	<u>23,294,374</u>	<u>13,976,870</u>
Certificates of Deposit – Short-term investments	51,728,998	62,177,142
Certificates of Deposit – Other long-term investments	-	10,531,543
Total Investments (Exhibit 1)	<u>51,728,998</u>	<u>72,708,685</u>
Total Reconciliation to Exhibit 1	<u>\$ 75,023,372</u>	<u>\$ 86,685,555</u>

Note 11 – Ad Valorem Taxes

The College'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 within the District.

	<u>August 31, 2005</u>	<u>August 31, 2004</u>
Assessed Valuation of the College	\$ 20,630,450,580	\$ 18,323,427,659
Less: Exemptions	(760,487,073)	(721,648,786)
Less: Abatements	-	-
Net Assessed Valuation of the College	<u>\$ 19,869,963,507</u>	<u>\$ 17,601,778,873</u>

	<u>Fiscal Year 2005</u>			<u>Fiscal Year 2004</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized Tax Rate per \$100 valuation	\$ 0.1100	\$ 0.5000	\$ 0.6100	\$ 0.1100	\$ 0.5000	\$ 0.6100
Assessed Tax Rate per \$100 valuation	<u>\$ 0.1100</u>	<u>\$ 0.0547</u>	<u>\$ 0.1647</u>	<u>\$ 0.1100</u>	<u>\$ 0.0638</u>	<u>\$ 0.1738</u>

Taxes levied for the year ended August 31, 2005 and 2004 amounted to \$33,168,212 and \$30,593,312, respectively including any penalty and interest assessed. 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.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 11 – Ad Valorem Taxes (Continued)

	August 31, 2005			August 31, 2004		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes Collected	\$ 19,886,447	\$ 9,888,222	\$ 29,774,669	\$ 17,601,297	\$ 10,210,067	\$ 27,811,364
Delinquent Taxes Collected	1,586,765	716,032	2,302,797	1,350,788	529,789	1,880,577
Penalties & Interest Collected	845,133	361,416	1,206,549	732,190	301,105	1,033,295
Total Collections	\$ 22,318,345	\$ 10,965,670	\$ 33,284,015	\$ 19,684,275	\$ 11,040,961	\$ 30,725,236

Tax collections for the year ended August 31, 2005 and 2004 were 89.77 percent and 90.91 percent, 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 for the use of maintenance and/or general obligation debt service.

Note 12 – Designation of Unrestricted Assets

Unrestricted net assets in the amount of \$1,387,221 for fiscal year 2005, and \$3,657,442 for fiscal year 2004, have been designated by the College's Board of Trustees and management as follows:

	August 31, 2005	August 31, 2004
ERP Computer System	\$ 1,387,221	\$ 3,657,442
Total	\$ 1,387,221	\$ 3,657,442

Note 13 – Employees' Retirement Plan

The College contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C.

TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading. State law provides for fiscal years 2005, 2004, and 2003 a state contribution rate of 6.0% and a

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 13 – Employees' Retirement Plan (Continued)

member contribution rate of 6.4%. In certain instances, the reporting district is required to make all or a portion of the state's 6.0% contribution.

Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS made on behalf of the district's employees for the years ended August 31, 2005, 2004, and 2003 were \$1,244,855, \$1,084,137, and \$1,208,022, respectively. The district's expenditures for on behalf State contributions to TRS for the years ended August 31, 2005, 2004, and 2003 were \$1,244,855, \$1,084,137, and \$1,208,022, respectively. The district paid additional state contributions for the years ended August 31, 2005, 2004, and 2003, in the amount of \$150,773, \$128,903, and \$127,630, respectively on the portion of the employees' salaries that exceeded the statutory minimum. The total payroll for all college employees for the years ended August 31, 2005, 2004, and 2003 were \$39,571,810, \$35,157,799, and \$34,712,271, respectively. The total payroll of employees covered by the Teacher Retirement System for the years August 31, 2005, 2004, and 2003 were \$23,350,045, \$20,365,998, and \$20,133,696, respectively.

The state has also established an optional retirement program (ORP) 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 % for employees who were participating in the optional retirement program prior to September 1, 1995. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. The payroll for employees covered by ORP for the years ended August 31, 2005, 2004, and 2003 was \$10,113,427, \$10,255,311, and \$10,121,919, respectively.

The College has made all contributions required under the plan as described above.

Note 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. A total of \$271,143 and \$271,531 in payroll deductions have been invested in approved 403(b) plans during the fiscal years 2005 and 2004, respectively. The deferred compensation program is not included in the basic financial statements because the program assets are assets of the plan participants and not of the College.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 15 - Operating Lease Commitments and Rental Agreement

Included in current expenditures are the following amounts of rent paid or due.

Fund Group	August 31, 2005	August 31, 2004
Unrestricted Current Funds	\$ 771,334	\$ 1,083,829
Restricted Current Funds	-	63,049
	<u>\$ 771,334</u>	<u>\$ 1,146,878</u>

The College leases building and office facilities and other equipment under non-cancelable operating leases. The future minimum lease rental payments under these leases having an initial term in excess of one year were as follows:

Year Ended	August 31, 2005 Minimum Future Lease Payments	August 31, 2004 Minimum Future Lease Payments
2005	\$ -	\$ 549,337
2006	542,721	153,519
2007	184,281	112,174
2008	132,287	15,548
2009	123,700	3,752
2010	29,554	-
Total	<u>\$ 1,012,543</u>	<u>\$ 834,330</u>

Note 16 - Contract and Grant Awards

Grant funds are considered to be earned when all eligibility requirements have been met and to the extent of expenses made under the provisions of the grant. Accordingly, when such funds are received in advance, they are recorded as unearned revenue until earned. Grant funds expended but not yet collected are reported as receivables. 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 award funds already committed (e.g. multi-year awards) or funds awarded during fiscal years 2005 and 2004, for which monies have not been received nor funds expended totaled \$17,614,804 and \$18,529,644 respectively. Of this amount, \$16,489,288 and \$17,103,907 were from federal contract and grant awards; \$962,082 and \$1,173,718 were from the state contract and grant awards; \$151,912 and \$218,373 were from local contract and grant awards and \$11,522 and \$33,646 were from private contract and grant awards for fiscal years 2005 and 2004, respectively.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 17 - Risk Management

The District maintains insurance for all insurable risks for which it may be liable for claims.

In fiscal year 2005, the more significant of these included \$1,000,000 of general liability insurance, property insurance covering the District's buildings and properties in an aggregate amount of approximately \$109,263,350 which includes commercial inland marine coverage, and \$5,000,000 in educators' legal liability. Employees were covered by a fully insured health insurance plan. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

In fiscal year 2004, the more significant of these included \$1,000,000 of general liability insurance, property insurance covering the District's buildings and properties in an aggregate amount of approximately \$61,932,327 which includes commercial inland marine coverage, and \$5,000,000 in educators' legal liability. Employees were covered by a fully insured health insurance plan. Settlement amounts did not exceed insurance coverage for the year or the three prior years.

Note 18 – Post Retirement, Health Care, and Life Insurance Benefits

In addition to providing pension benefits, the state provides post-retirement health care and life insurance benefits to all employees who retire from the College on or after attaining age 65 with at least ten years of TRS/ORP eligible service credit at the College or other institutions of higher education with the same plan as the state, or who retire at a younger age and meet the Rule of 80 as described in Note 15. 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 \$315.56 and \$273.33 per month for the year ended August 31, 2005 for the Blue Cross Blue Shield – Health Select plan and Valley Health Plan – HMO plan respectively. The state's contribution totaled \$3,249,319 for fiscal year 2005 and \$2,579,660 for fiscal year 2004. The cost of providing those benefits for six retirees in the year ended August 31, 2005 was \$24,969 and \$23,676 in fiscal year 2004. For 796 Blue Cross Blue Shield – Health Select Plan active employees and 46 Valley Health Plan – HMO plan active employees the cost of providing benefits was \$3,224,350 for the year ended August 31, 2005. Active employee benefits for 768 employees totaled \$2,555,984 for the year ended August 31, 2004.

Note 19 - Related Parties

During a portion of the fiscal year, a member of the Board of Trustees was a principal of the College's depository bank. The spouse of a member of the Board of Trustees is employed at the College's depository bank and a member of the Board of Trustees provided professional services to the College's depository bank. In addition, a Board of Trustees member's legal firm provided professional services to a contractor of the College.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 20 - Construction and Improvements Commitments

Construction and improvements commitments for August 31, 2005, were as follows:

<u>Project</u>	<u>Contracted Amount</u>	<u>Spent to Date</u>	<u>Commitments</u>
Library Expansion Ph II	\$ 2,526,000	\$ 2,408,417	\$ 117,583
Pecan Campus	31,853,520	26,187,264	5,666,256
Technology Center	8,120,332	8,120,332	-
Starr Campus	14,125,786	14,125,786	-
Mid Valley Campus	17,004,067	16,848,638	155,429
Nursing Allied Health	5,803,082	5,803,082	-
Project Management	2,991,962	2,592,463	399,499
	<u>\$ 82,424,749</u>	<u>\$ 76,085,982</u>	<u>\$ 6,338,767</u>

At August 31, 2005, the College had \$6,338,767 of remaining contractual commitments in construction and improvement projects.

Construction and improvements commitments for August 31, 2004, were as follows:

<u>Project</u>	<u>Contracted Amount</u>	<u>Spent to Date</u>	<u>Commitments</u>
Library Expansion Ph II	\$ 2,526,000	\$ 2,408,417	\$ 117,583
Mid Valley Remediation	271,575	271,575	-
Pecan	23,304,638	21,814,159	1,490,479
Technology Center	8,122,504	7,547,513	574,991
Starr Campus	13,514,573	11,557,374	1,957,199
Mid Valley Campus	16,518,763	11,170,229	5,348,534
Nursing Allied Health	5,795,000	3,649,580	2,145,420
Project Management	2,733,000	2,188,752	544,248
	<u>\$ 72,786,053</u>	<u>\$ 60,607,599</u>	<u>\$ 12,178,454</u>

At August 31, 2004, the College had \$12,178,454 of remaining contractual commitments in construction and improvement projects.

Note 21 – Income Taxes

The College, as a political subdivision of the State of Texas, is excluded from federal income taxes under Section 115 of the Internal Revenue Code. The College had no unrelated business income and therefore has no tax liability for the years ended August 31, 2005 and August 31, 2004.

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 22 – Noncash, Investing, Capital, and Financing Activities

As of August 31, 2005 and 2004, the noncash investing, capital and financing activities are as follows:

	August 31, 2005	August 31, 2004
Increase in taxes receivable	\$ 787,382	\$ 1,177,974
Increase (decrease) in interest receivable on investment	52,690	(108,306)
Increase in vendor payable – capital assets	-	384,513
Increase (decrease) in accrued interest	(10,673)	(308,963)
Increase in taxes collections fees payable	1,165	-
Donations of capital assets	473,655	25,000
Donations of operating items	14,424	-
Bond premium /discount / issuance cost amortization	201,930	132,501
Deferred loss	-	1,535,017
Deferred loss amortization	118,078	54,995
Bequest	-	3,150,000
Total	\$ 1,638,651	\$ 6,042,731

Note 23 – Contingencies

A. Litigation

The District is involved in various legal proceedings. The District maintains insurance to minimize the District's exposure to these claims. The extent to which insurance coverage satisfy claims, if any, is not known. The District, in consultation with its attorney, is presently unable to estimate the District's liability, if any, in these matters. Management believes the outcome of the pending litigation will not have a material effect on the District's financial position or operations.

B. Federal and State Assisted Grant Programs

The District participates in several federal and state assisted grant programs. The principal grant program is the Federal Pell Grant. Although the District's grant programs have been audited in accordance with the provisions of OMB A-133 and the State of Texas Single Audit Circular through August 31, 2005, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time. The District expects such amounts, if any, to be immaterial.

Note 24 – Restatement

The College determined that restatements of prior year presentation were necessary for the following items. Library books, per the Texas Higher Education Coordinating Board, were changed from non-depreciable to depreciable in fiscal year 2005. Compensable absences are all current since the College's policy is to carry over vacation balances into only six months of the following year. The taxes collection fee was changed from an operating expense to a non-

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 24 – Restatement (*Continued*)

operating expense. The state allocations, per the Texas Higher Education Coordinating Board, were changed from operating revenue to non-operating revenue.

Note 25 – Subsequent Events

On September 9, 2005, the College purchased for \$850,125, a building and the land located at 2501 Pecan Blvd., McAllen, Texas. The building is currently being used by the division of Information Technology. On November 17, 2005, the College entered into a contract to purchase 2.826 acres of land in Weslaco, Texas for \$1,275,000. This land will become part of the Mid Valley campus.



**South Texas College
Schedule A**

**Schedule of Operating Revenues
Year Ended August 31, 2005 (With Totals for the Year Ended August 31, 2004)**

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	FY 2005 Total	FY 2004 Total
Tuition:						
State funded credit courses						
In-district resident tuition	\$19,306,543	\$ -	\$19,306,543	\$ -	\$19,306,543	\$14,587,987
Out-of-district resident tuition	406,315	-	406,315	-	406,315	309,431
Non-resident tuition	605,894	-	605,894	-	605,894	396,965
TPEG state (set aside) *	1,082,563	-	1,082,563	-	1,082,563	841,582
State funded continuing education	593,689	-	593,689	-	593,689	517,633
TPEG non-credit (set aside) *	44,818	-	44,818	-	44,818	36,309
Non-state funded continuing education	108,462	-	108,462	-	108,462	51,216
Total tuition	<u>22,148,284</u>	<u>-</u>	<u>22,148,284</u>	<u>-</u>	<u>22,148,284</u>	<u>16,741,123</u>
Fees:						
Student registration fee	3,690,026	-	3,690,026	-	3,690,026	3,065,484
Laboratory fees	527,261	-	527,261	-	527,261	3,077
Incidental fees	1,094,365	-	1,094,365	-	1,094,365	1,090,161
Total fees	<u>5,311,652</u>	<u>-</u>	<u>5,311,652</u>	<u>-</u>	<u>5,311,652</u>	<u>4,158,722</u>
Scholarship allowances and discounts:						
Remissions and exemptions	(3,264,802)	-	(3,264,802)	-	(3,264,802)	(2,013,816)
TPEG allowances	(936,851)	-	(936,851)	-	(936,851)	(601,959)
State grants to students	(1,228,654)	-	(1,228,654)	-	(1,228,654)	(898,782)
Federal grants to students	(10,159,189)	-	(10,159,189)	-	(10,159,189)	(8,503,970)
Total scholarship allowances	<u>(15,589,496)</u>	<u>-</u>	<u>(15,589,496)</u>	<u>-</u>	<u>(15,589,496)</u>	<u>(12,018,527)</u>
Total net tuition and fees	<u>11,870,440</u>	<u>-</u>	<u>11,870,440</u>	<u>-</u>	<u>11,870,440</u>	<u>8,881,318</u>
Additional operating revenues:						
Federal grants and contracts	299,511	36,607,178	36,906,689	-	36,906,689	34,021,750
State grants and contracts	58,126	3,495,233	3,553,359	-	3,553,359	2,948,994
Local grants and contracts	718	756,680	757,398	-	757,398	801,324
Nongovernmental grants and contracts	1,319,968	205,691	1,525,659	-	1,525,659	998,230
General operating revenues	107,741	1,238,799	1,346,540	-	1,346,540	1,543,171
Total additional operating revenues	<u>1,786,064</u>	<u>42,303,581</u>	<u>44,089,645</u>	<u>-</u>	<u>44,089,645</u>	<u>40,313,469</u>



South Texas College
Schedule A
Schedule of Operating Revenues
Year Ended August 31, 2005 (With Totals for the Year Ended August 31, 2004)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	FY 2005 Total	FY 2004 Total
Auxiliary Enterprises:						
Bookstore	\$ -	\$ -	\$ -	\$ 365,818	\$ 365,818	\$ 297,872
Food service	-	-	-	281,451	281,451	260,053
Vending commissions	-	-	-	163,107	163,107	145,774
Electronic testing center	-	-	-	-	-	996
Wellness center	-	-	-	27,681	27,681	29,205
Total auxiliary enterprises	-	-	-	838,057	838,057	733,900
 Total Operating Revenues	 \$ 13,656,504	 \$ 42,303,581	 \$ 55,960,085	 \$ 838,057	 \$ 56,798,142	 \$ 49,928,687

(Exhibit 2) (Exhibit 2)

* In accordance with Education Code 56.033, \$1,127,381 and \$877,891 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended 2005 and 2004, respectively.



South Texas College
Schedule B
Schedule of Operating Expenses by Object
Year Ended August 31, 2005 (With Totals for the Year Ended August 31, 2004)

	Operating Expenses				FY 2005 Total	FY 2004 Total
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
Unrestricted - Educational Activities						
Instruction	\$ 23,724,613	\$ -	\$ 2,110,040	\$ 3,030,658	\$ 28,865,311	\$ 26,755,445
Research	-	-	-	-	-	-
Public Service	142,843	-	14,201	32,741	189,785	191,242
Academic Support	2,877,555	-	293,279	1,157,366	4,328,200	2,231,616
Student Services	3,469,912	-	365,847	928,919	4,764,678	4,154,580
Institutional Support	5,217,173	-	733,209	4,757,377	10,707,759	9,845,709
Operation and Maintenance of Plant	1,686,364	-	522,718	4,889,566	7,098,648	4,698,746
Scholarships and Fellowships	-	-	-	-	-	-
Total Unrestricted Educational Activities	37,118,460	-	4,039,294	14,796,627	55,954,381	47,877,338
Restricted - Educational Activities						
Instruction	88,606	3,147,011	-	6,241	3,241,858	2,915,459
Research	3,578	-	464	7,726	11,768	-
Public Service	462,134	15,500	105,006	1,334,240	1,916,880	2,162,999
Academic Support	848,363	489,755	146,635	894,595	2,379,348	1,944,243
Student Services	467,638	559,024	67,305	162,467	1,256,434	1,179,573
Institutional Support	396,107	884,432	42,432	151,999	1,474,970	1,215,621
Operation and Maintenance of Plant	38,573	-	-	-	38,573	47,877
Scholarships and Fellowships	-	-	-	22,958,306	22,958,306	22,956,070
Total Restricted Educational Activities	2,304,999	5,095,722	361,842	25,515,574	33,278,137	32,421,842
Total Educational Activities	39,423,459	5,095,722	4,401,136	40,312,201	89,232,518	80,299,180
Auxiliary Enterprises	148,351	-	36,711	226,622	411,684	346,671
Depreciation Expense-Buildings and other real estate improvements	-	-	-	2,047,151	2,047,151	885,282
Depreciation Expense-Books	-	-	-	17,605	17,605	2,611
Depreciation Expense-Equipment and furniture	-	-	-	2,150,493	2,150,493	1,759,802
Total Operating Expenses	\$ 39,571,810	\$ 5,095,722	\$ 4,437,847	\$ 44,754,072	\$ 93,859,451	\$ 83,293,546
					(Exhibit 2)	(Exhibit 2)



**South Texas College
Schedule C**

**Schedule of Non-Operating Revenues and Expenses
Year Ended August 31, 2005 (With Totals for the Year Ended August 31, 2004)**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>FY 2005 Total</u>	<u>FY 2004 Total</u>
Non-Operating Revenues					
State allocations:					
Education and general state support	\$ 19,849,307	\$ -	\$ -	\$ 19,849,307	\$ 19,849,635
State group insurance	-	3,249,319	-	3,249,319	2,579,660
State retirement matching	-	1,846,403	-	1,846,403	1,699,459
Total state allocations	<u>19,849,307</u>	<u>5,095,722</u>	<u>-</u>	<u>24,945,029</u>	<u>24,128,754</u>
Maintenance ad-valorem taxes	33,663,171	-	-	33,663,171	31,398,614
Gifts	-	190,148	-	190,148	3,265,398
Investment income	2,341,532	4,089	7,315	2,352,936	2,585,128
Total non-operating revenues	55,854,010	5,289,959	7,315	61,151,284	61,377,894
Non-Operating Expenses					
Interest on capital related debt	3,704,377	-	-	3,704,377	4,606,271
Other non-operating expenses	3,845,177	140,761	-	3,985,938	1,939,032
Total non-operating expenses	7,549,554	140,761	-	7,690,315	6,545,303
Net non-operating revenues (expenses)	<u>\$ 48,304,456</u>	<u>\$ 5,149,198</u>	<u>\$ 7,315</u>	<u>\$ 53,460,969</u>	<u>\$ 54,832,591</u>
				(Exhibit 2)	(Exhibit 2)



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**South Texas College
Schedule D**

**Schedule of Net Assets by Source and Availability
Year Ended August 31, 2005 (With Totals for the Year Ended August 31, 2004)**

	Detail by Source			Total
	Unrestricted	Restricted Expendable	Capital Assets Net of Depreciaton & Related Debt	
Current:				
Unrestricted	\$ 25,899,790	\$ -	\$ -	\$ 25,899,790
Board Designated	1,387,221	-	-	1,387,221
Restricted	-	958,045	-	958,045
Auxiliary enterprises	993,145	-	-	993,145
Loan	-	314,270	-	314,270
Endowment:				
Quasi:				
Unrestricted	-	215,228	-	215,228
Restricted	-	-	-	-
Endowment				
True	-	-	-	-
Term (per instructions at maturity)	-	-	-	-
Life Income Contracts	-	-	-	-
Annuities	-	-	-	-
Plant:				
Unexpended	18,339,283	1,250,000	-	19,589,283
Renewals	1,169,345	-	-	1,169,345
Debt Services	-	5,479,373	-	5,479,373
Investment in Plant	-	-	65,488,899	65,488,899
Total Net Assets, August 31, 2005	47,788,784	8,216,916	65,488,899	121,494,599
				(Exhibit 1)
Total Net Assets, August 31, 2004	42,783,441	8,910,256	53,401,242	105,094,939
				(Exhibit 1)
Net Increase (Decrease) in Net Assets	\$ 5,005,343	\$ (693,340)	\$ 12,087,657	\$ 16,399,660
				(Exhibit 2)

Available for Current Operations

Yes	No
\$ 25,899,790	\$ -
-	1,387,221
-	958,045
993,145	-
-	314,270
-	215,228
-	-
-	-
-	-
-	-
-	19,589,283
-	1,169,345
-	5,479,373
-	65,488,899
26,892,935	94,601,664
22,902,237	82,192,702
<u>\$ 3,990,698</u>	<u>\$ 12,408,962</u>



South Texas College
Schedule E
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2005

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
U.S. Department of Education			
Direct Programs:			
FSEOG	84.007		\$ 620,000
Strengthening Institutions - Hispanic Serving Institutions	84.031		450,772
Federal Work-Study Program	84.033		652,790
Talent Search Program	84.044		210,986
Upward Bound Program	84.047		269,837
Federal Pell Grant Program	84.063		27,018,347
Childcare Access Means Parents In School	84.335		173,601
Pass-Through From:			
Texas Higher Education Coordinating Board			
Carl D. Perkins Vocational Education Program	84.048	54241	1,734,518
Leveraging Educational Assistance Partnership	84.069	109225	23,735
Teacher Quality	84.367	236	44,809
El Paso Community College			
Texas Collaborative for Teaching Excellence	84.048	51102	30,000
Hidalgo ISD			
21st Century Project	84.287		18,400
Total Department of Education			\$ 31,247,795
U.S. Department of Commerce			
Direct Programs:			
Title II - Public Work and Economic Development	11.300	08-01-03747	\$ 1,033,008
Title II - Public Work and Economic Development	11.300	08-01-03846	1,000,000
Total Department of Commerce			\$ 2,033,008
U.S. Department of Defense			
Pass-Through From:			
Sam Houston State University			
Air Force Defense Research Sciences Program - TRIES - Brooks AFB AFIERA	12.800	321-20-S026	\$ 11,768



South Texas College
Schedule E
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2005

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
U.S. Department of Labor			
Direct Programs:			
H1B Technical Skills Training Grant	17.261		\$ 513,342
Pass-Through From:			
ACS State & Local Solutions, Inc.			
Employment Services Demonstration Grant	17.207	12-02 DOL	11,062
Workforce Investment Act - Adult Program	17.258		806,412
Workforce Investment Act - Youth	17.259		4,653
Workforce Investment Act - Dislocated Workers	17.260		38,562
Workforce Investment Act - Allied Health Training	17.261	12-03 DOL	16,589
Lower Rio Grande Valley Workforce Development Board			
Workforce Investment Act - Apprenticeship Project	17.258	2304-WSW001	145,428
Workforce Investment Act - Youth Program - Mid Valley	17.259	05-WIAYS-024	68,046
Workforce Investment Act - Youth Program - Starr	17.259	04-WIAYS-006	493,179
Workforce Investment Act - Youth Program - Starr	17.259	05-WIAYS-006	20,175
Subtotal			<u>581,400</u>
Workforce Investment Act - Dislocated Worker - Customized Training	17.260	05-WIALA0BP-001	29,475
Workforce Investment Act - Dislocated Worker - President's High Growth	17.260	05-DOLOBP-001	248,355
Subtotal			<u>277,830</u>
Workforce Investment Act - Leadership Academy	17.261	04-WIASA-001	127,891
Workforce Investment Act - Leadership Academy	17.261	05-WIASA-001	30,072
Subtotal			<u>157,963</u>
Texas Workforce Commission			
Wagner-Peyser 7(b) Programs	17.207	2300WPB001	32,591
Motivation Education & Training, Inc.			
Professional Commercial Truck Driver Training (WIA)	17.258		211,000



South Texas College
Schedule E
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2005

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
Motivation Education and Training, Inc.	17.264		\$ 273
Valley Initiative for Development and Advancement			
Workforce Investment Act - Dislocated Worker- Post Associate Radiologic Specialties	17.260	PY05-STC/PARSP-100	22,461
Workforce Investment Act - Dislocated Worker- Post Associate Nursing Specialties	17.260	PY05-STC/PLPASTN-100	8,461
Workforce Investment Act - Dislocated Worker - Allied Health Basic Skills	17.260	STC/ABS-100	66,325
Subtotal			<u>97,247</u>
Total Department of Labor			\$ 2,894,352
Institute of Museum and Library Services			
Pass-Through From:			
University of North Texas			
Rio Grande Initiative Grant	45.313	73260-7	\$ 13,333
U.S. Department of Veterans' Affairs			
Direct Programs:			
Chapter 31 Disabled Veterans/Tuition Assistance	64.125		\$ 153,832
U.S. Department of Health & Human Services			
Direct Programs:			
Milagros, Center of Excellence in Migrant Health	93.137	D52MP03109-01-0	\$ 239,528
Pass-Through From:			
Texas Workforce Commission			
Self Sufficiency Phase V	93.558	2303SSF000	111,026
Self Sufficiency Phase III	93.558	2301SSF001	2,017
Self Sufficiency Phase IV	93.558	2301SSF002	1,427
			<u>114,470</u>
Lower Rio Grande Workforce Development Board			
Child Care Quality Local Match Agreement	93.596	11180C05	33,987
Community Action Council of South Texas			
Headstart Program	93.600		7,835
Hidalgo County Headstart			
Headstart Program	93.600		74,205



South Texas College
Schedule E
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2005

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
Texas Migrant Council Headstart Program	93.600		\$ 10,702
Total Department of Health & Human Services			\$ 480,727
Corporation for National and Community Service			
Direct Programs:			
AmeriCorps - National Service Award	94.006		\$ 71,874
Total Federal Financial Assistance			\$ 36,906,689
<u>Note 1: Federal Assistance Reconciliation</u>			
Federal Grants and Contracts Revenue - per Schedule A			\$ 36,906,689
Total Federal Revenues per Schedule of Expenditures of Federal Awards			\$ 36,906,689
<u>Note 2: Prior Period Expenditures</u>			
Expenditures not recognized in grant in prior period.			
Self Sufficiency Phase III		\$ 2,017	
Self Sufficiency Phase IV		1,427	
Total		<u>\$ 3,444</u>	

The accompanying notes are an integral part of this statement.



South Texas College
Schedule F
Schedule of Expenditures of State Awards
For the Year Ended August 31,2005

Grantor Agency/Program Title	Grant Contract Number	Expenditures
Texas A&M University		
Pass-Through From:		
Texas A&M University System Health Science Center		
Pilot Non-Certificate Promotora Program		\$ 9,283
HSC-Milagros Center		13,007
Total Texas A&M University		\$ <u>22,290</u>
Texas Higher Education Coordinating Board		
AFDC/TANF		\$ 8,276
Certified Educational Aides		606,201
Early High School Graduate		177,888
Nursing Innovation		6,792
Public State Incentive Grant		38,456
Texas College Workstudy Program		23,910
Texas B-On-Time Loan Program		8,623
TEXAS Grant I - Initial Year		1,041,610
TEXAS Grant I - Renewal Year		807,510
TEXAS Grant II - Initial Year		204,322
TEXAS Grant II - Renewal Year		138,578
Texas National Guard (TAP)		11,821
Total Texas Higher Education Coordinating Board		\$ <u>3,073,987</u>
Texas Workforce Commission		
Skills Development Fund #11	2304SDF000	\$ 375,396
Skills Development Fund #12		25,655
Total Texas Workforce Commission		\$ <u>401,051</u>
Texas Rehabilitation Commission		\$ 56,031
Total State Financial Assistance		\$ <u><u>3,553,359</u></u>
Note 1: State Assistance Reconciliation		
State Revenues - per Schedule A		
State Financial Assistance		
Per Schedule of Expenditures of State Awards		\$ <u>3,553,359</u>
Total State Revenues per Schedule A		\$ <u><u>3,553,359</u></u>

The accompanying notes are an integral part of this statement

SOUTH TEXAS COLLEGE
NOTES TO FINANCIAL STATEMENTS
August 31, 2005 and 2004

Note 1 - Basis of Presentation

The accompanying schedules of expenditures of federal and state awards include the federal and state grant activity of South Texas College and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, Local Governments, and Non-Profit Organizations and the Governor's Office of Budget and Planning, Uniform Grant Management Standards.

Note 2- Inkind Match

The U.S. Department of Labor H-1B Grant, CFDA 17.261, and President's High Growth Grant, CFDA 17.260, received an in-kind match in the amount of \$953,773.00 and \$237,267.24 respectively from the South Texas Manufacturing Association. The Workforce Investment Act - Dislocated Worker - Customized Training Grant, CFDA 17.260, received an in-kind match in the amount of \$36,636.41 from Ticketmaster and \$2,621.65 from General Electric Engine Services. The U.S. Department of Education Talent Search Program, CFDA 84.044 received an in-kind match in the amount of \$8,500.00 from Rio Grande City ISD, Roma ISD, San Isidro ISD and South Texas College. These amounts were not included in the Schedule of Expenditures of Federal Awards but were included in the basic financial statements for the College.



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STATISTICAL INFORMATION FY 2004-2005



...You Can Make It Happen!

Student Success • Excellence • Integrity • Community • Opportunity



Table 1

**South Texas College
Net Assets
For the Years Ended August 31,
(Unaudited)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net Assets			
Invested in capital, net of related debt	\$ 47,543,186	\$ 53,401,242	\$ 65,488,899
Restricted	3,648,591	8,910,256	8,216,916
Unrestricted	32,435,430	42,783,441	47,788,784
Total Net Assets	<u>\$ 83,627,207</u>	<u>\$ 105,094,939</u>	<u>\$ 121,494,599</u>

Note - Only available data

**South Texas College
Changes in Net Assets
Last Three Fiscal Years
(Unaudited)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating Revenue			
Tuition and fees (net of discounts)	\$ 8,457,156	\$ 8,881,318	\$ 11,870,440
Federal grants and contracts	33,041,792	34,021,750	36,906,689
State grants and contracts	4,427,500	2,948,994	3,553,359
Local grants and contracts	634,491	801,324	757,398
Non-governmental grants and contracts	638,326	998,230	1,525,659
Auxiliary enterprises	653,691	733,900	838,057
Other operating revenues	877,000	1,543,171	1,346,540
Total Operating Revenues	<u>\$ 48,729,956</u>	<u>\$ 49,928,687</u>	<u>\$ 56,798,142</u>
Operating Expenses			
Instruction	\$ 28,715,797	\$ 29,670,904	\$ 32,107,169
Research	-	-	11,768
Public service	3,078,549	2,354,241	2,106,665
Academic support	3,952,084	4,175,859	6,707,548
Student services	5,021,938	5,334,153	6,021,112
Institutional support	11,222,528	11,061,330	12,182,729
Operations and maintenance of plant	4,705,159	4,746,623	7,137,221
Scholarships and Fellowships	23,070,993	22,956,070	22,958,306
Depreciation	3,826,761	2,647,695	4,215,249
Auxiliary enterprises	380,737	346,671	411,684
Total Operating Expenses	<u>\$ 83,974,546</u>	<u>\$ 83,293,546</u>	<u>\$ 93,859,451</u>
Operating Loss	(35,244,590)	(33,364,859)	(37,061,309)
Non-Operating Revenues (Expenses)			
State allocations	\$ 22,825,281	\$ 24,128,754	\$ 24,945,029
Ad-valorem taxes			
Taxes for maintenance & operations	18,412,034	19,805,773	22,405,071
Taxes for debt service	11,338,611	11,592,841	11,258,100
Gifts	186,027	3,265,398	190,148
Investment income (net of investment expenses)	3,161,603	2,585,128	2,352,936
Interest on capital related debt	(4,783,540)	(4,606,271)	(3,704,377)
Other non-operating revenues (expenses)	(938,790)	(1,939,032)	(3,985,938)
Net non-operating revenues	<u>\$ 50,201,226</u>	<u>\$ 54,832,591</u>	<u>\$ 53,460,969</u>
Increase in net assets	14,956,636	21,467,732	16,399,660
NET ASSETS, BEGINNING OF YEAR	<u>68,670,571</u>	<u>83,627,207</u>	<u>105,094,939</u>
NET ASSETS, END OF YEAR	<u>\$ 83,627,207</u>	<u>\$ 105,094,939</u>	<u>\$ 121,494,599</u>

Note - Only available data

**South Texas College
Operating and Non-Operating Revenue by Source (1)
Last Four Fiscal Years
(Unaudited)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating Revenues			
Tuition and fees, net of discounts	8,457,156	8,881,318	11,870,440
Federal grants and contracts	33,041,792	34,021,750	36,906,689
State grants and contracts	4,427,500	2,948,994	3,553,359
Local grants and contracts	634,491	801,324	757,398
Non-governmental grants and contracts	638,326	998,230	1,525,659
Auxiliary enterprises	653,691	733,900	838,057
Other operating revenues	877,000	1,543,171	1,346,540
Total Operating Revenues	<u>48,729,956</u>	<u>49,928,687</u>	<u>56,798,142</u>
Non-operating Revenues			
State allocations	\$ 22,825,281	\$ 24,128,754	\$ 24,945,029
Maintenance ad-valorem taxes	29,750,645	31,398,614	33,663,171
Gifts	186,027	3,265,398	190,148
Investment income	3,161,603	2,585,128	2,352,936
Total Non-operating Revenues	<u>55,923,556</u>	<u>61,377,894</u>	<u>61,151,284</u>
Total Revenues	<u>\$ 104,653,512</u>	<u>\$ 111,306,581</u>	<u>\$ 117,949,426</u>

Note - Only available data

(1) Includes current funds: Unrestricted, Auxiliary and Restricted.

**South Texas College
Operating Expenses by Elements of Institutional Costs
Last Three Fiscal Years
(Unaudited)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating Expenses			
Instruction	\$ 28,715,797	\$ 29,670,904	\$ 32,107,169
Research	-	-	11,768
Public service	3,078,549	2,354,241	2,106,665
Academic support	3,952,084	4,175,859	6,707,548
Student services	5,021,938	5,334,153	6,021,112
Institutional support	11,222,528	11,061,330	12,182,729
Operations and maintenance of plant	4,705,159	4,746,623	7,137,221
Scholarships and Fellowships	23,070,993	22,956,070	22,958,306
Depreciation	3,826,761	2,647,695	4,215,249
Auxiliary enterprises	380,737	346,671	411,684
Total Operating Expenses	<u>\$ 83,974,546</u>	<u>\$ 83,293,546</u>	<u>\$ 93,859,451</u>

Note - Only available data

(1) Includes current funds: Unrestricted, Auxiliary and Restricted.



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South Texas College
Expenses by Element of Institutional Costs ⁽¹⁾
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Instruction	Research	Public Service	Academic Support	Student Services
1995-96	\$ 5,224,676	\$ -	\$ -	\$ 933,071	\$ 1,565,211
1996-97	8,835,347	-	337,417	2,090,252	1,627,510
1997-98	12,166,997	-	393,428	3,224,996	2,177,872
1998-99	15,526,070	-	1,173,769	1,794,028	2,650,139
1999-00	21,595,878	-	1,964,423	3,653,595	3,424,902
2000-01	22,991,716	-	2,764,388	3,508,615	5,365,477
2001-02	28,230,687	-	2,642,390	5,687,616	4,561,881
2002-03	28,736,551	-	3,189,845	4,750,797	4,890,602
2003-04	30,166,515	-	2,889,711	4,478,960	5,402,089
2004-05	33,357,417	11,768	2,600,803	7,266,698	6,090,320

Source: College records

(1) Includes Unrestricted, Grants and Contracts and Debt Service.

Table 5

<u>Institutional Support</u>	<u>Operation & Maintenance of Plant</u>	<u>Scholarships and Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>General Obligation Debt Service</u>	<u>Totals</u>
\$ 2,988,137	\$ 622,009	\$ 3,500,147	\$ 119,138	\$ -	\$ 14,952,389
4,229,801	1,297,559	6,363,953	148,506	1,594,450	26,524,795
5,186,086	1,913,027	11,320,081	186,011	1,605,560	38,174,058
6,046,532	2,370,285	19,304,826	214,603	1,412,510	50,492,762
9,015,412	3,125,954	20,406,064	270,043	1,909,063	65,365,334
9,671,023	4,025,135	23,451,091	351,262	2,070,718	74,199,425
11,334,084	4,152,708	30,992,301	254,762	2,069,960	89,926,389
11,939,148	4,722,458	34,536,385	364,456	10,246,291	103,376,533
11,801,333	4,799,356	35,044,061	346,671	10,522,664	105,451,360
13,160,782	7,250,218	35,374,947	411,684	10,743,226	116,267,863



**South Texas College
Revenue by Source ⁽¹⁾
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	State Allocations	Tuition	Taxes for Current Operations	Grants and Contracts	Investment Income
1995-96	\$ 6,470,397	\$ 4,193,335	\$ -	\$ 3,878,667	\$ -
1996-97	6,527,454	6,712,732	7,450,612	7,128,571	224,182
1997-98	10,228,473	10,156,316	8,658,301	12,725,627	306,605
1998-99	10,913,780	13,377,614	9,318,770	21,285,572	550,154
1999-00	22,962,991	14,481,210	9,897,606	24,540,987	747,197
2000-01	22,520,429	15,411,806	11,266,068	27,416,995	962,873
2001-02	23,618,435	17,562,461	12,784,038	36,518,322	1,078,037
2002-03	22,825,281	19,209,750	18,834,448	38,896,884	472,552
2003-04	24,128,754	20,899,846	20,235,722	38,089,279	327,066
2004-05	24,945,029	24,195,133	22,855,228	40,915,610	874,221

Source: College records

(1) Includes Unrestricted, Grants and Contracts and Debt Service; excludes interfund transfers.

Table 6

<u>Miscellaneous</u>	<u>Sales From Auxiliary Enterprises</u>	<u>Totals</u>
\$ 147,756	\$ 609,814	\$ 15,299,969
86,134	149,445	28,279,130
13,396	288,179	42,376,897
62,775	323,173	55,831,838
61,422	501,662	73,193,075
81,155	473,025	78,132,351
406,049	531,820	92,499,162
1,258,248	653,691	102,150,854
1,998,460	733,900	106,413,027
1,787,296	838,057	116,410,574



**South Texas College
Property Tax Levies and Collections
Last Nine Years*
(Unaudited)**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Tax Levy Collected	Delinquent Tax Collections
1996-1997	\$ 10,278,094	\$ 9,067,110	88.22%	\$ -
1997-1998	10,614,262	9,572,630	90.19%	438,265
1998-1999	10,936,870	9,744,197	89.09%	653,761
1999-2000	11,488,087	10,360,442	90.18%	658,964
2000-2001	12,596,365	11,324,283	89.90%	782,131
2001-2002	13,899,515	12,438,824	89.49%	1,087,191
2002-2003	29,365,081	26,476,977	90.16%	1,250,121
2003-2004	30,593,312	27,811,364	90.91%	1,880,577
2004-2005	32,727,562	29,774,669	90.98%	2,302,797

*Taxes were levied starting in FY 1996-1997

Table 7

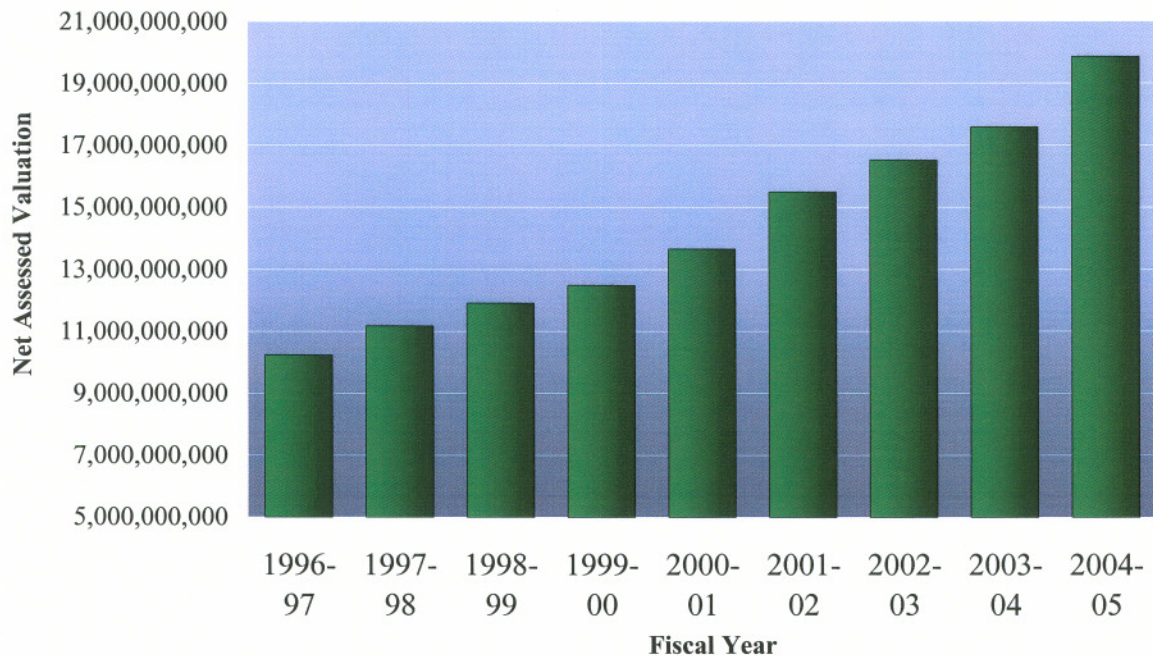
<u>Total Tax Collections</u>	Percent of Total Tax Collections <u>To Tax Levy</u>	Outstanding Delinquent <u>Taxes</u>	Percent of Delinquent Taxes to <u>Tax Levy</u>
\$ 9,067,110	88.22%	\$ 1,210,984	11.78%
10,010,895	94.32%	2,019,660	19.03%
10,397,958	95.07%	2,589,077	23.67%
11,019,406	95.92%	3,230,796	28.12%
12,106,414	96.11%	3,764,924	29.89%
13,526,015	97.31%	4,240,639	30.51%
27,727,098	94.42%	6,020,458	20.50%
29,691,941	97.05%	7,141,534	23.34%
32,077,466	98.01%	7,976,253	24.37%

**South Texas College
Net Assessed Valuation
Last Nine Fiscal Years*
(Unaudited)**

Fiscal Year	Assessed Valuation	Less: Exemptions	Net Assessed Valuation
1996-97	\$ 10,276,020,302	\$ 44,515,589	\$ 10,231,504,713
1997-98	11,219,576,683	35,218,926	11,184,357,757
1998-99	12,305,001,843	391,469,127	11,913,532,716
1999-00	12,565,234,995	78,705,008	12,486,529,987
2000-01	13,762,817,630	101,864,445	13,660,953,185
2001-02	15,577,955,470	82,953,393	15,495,002,077
2002-03	17,115,047,518	581,477,213	16,533,570,305
2003-04	18,323,427,659	721,648,786	17,601,778,873
2004-05	20,630,450,580	760,487,073	19,869,963,507

*Taxes were levied starting in FY 1996-1997

**South Texas College
Net Assessed Valuation**

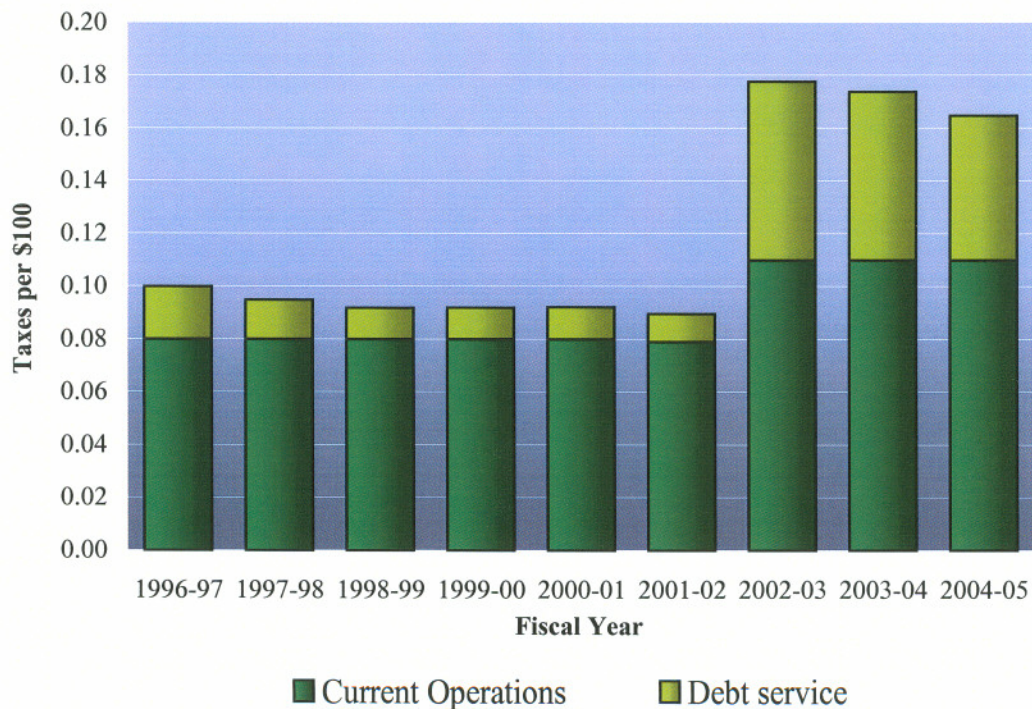


**South Texas College
Ad Valorem Tax Rates Assessed
Last Nine Fiscal Years*
(Unaudited)**

Fiscal Year	Current Operations	Debt Service	Total
1996-97	\$ 0.08000	\$ 0.02000	\$ 0.10000
1997-98	0.08000	0.01490	0.09490
1998-99	0.08000	0.01180	0.09180
1999-00	0.08000	0.01200	0.09200
2000-01	0.08000	0.01220	0.09220
2001-02	0.07900	0.01070	0.08970
2002-03	0.11000	0.06760	0.17760
2003-04	0.11000	0.06380	0.17380
2004-05	0.11000	0.05470	0.16470

*Taxes were levied starting in FY 1996-1997

**South Texas College
Ad Valorem Tax Rates Assessed**

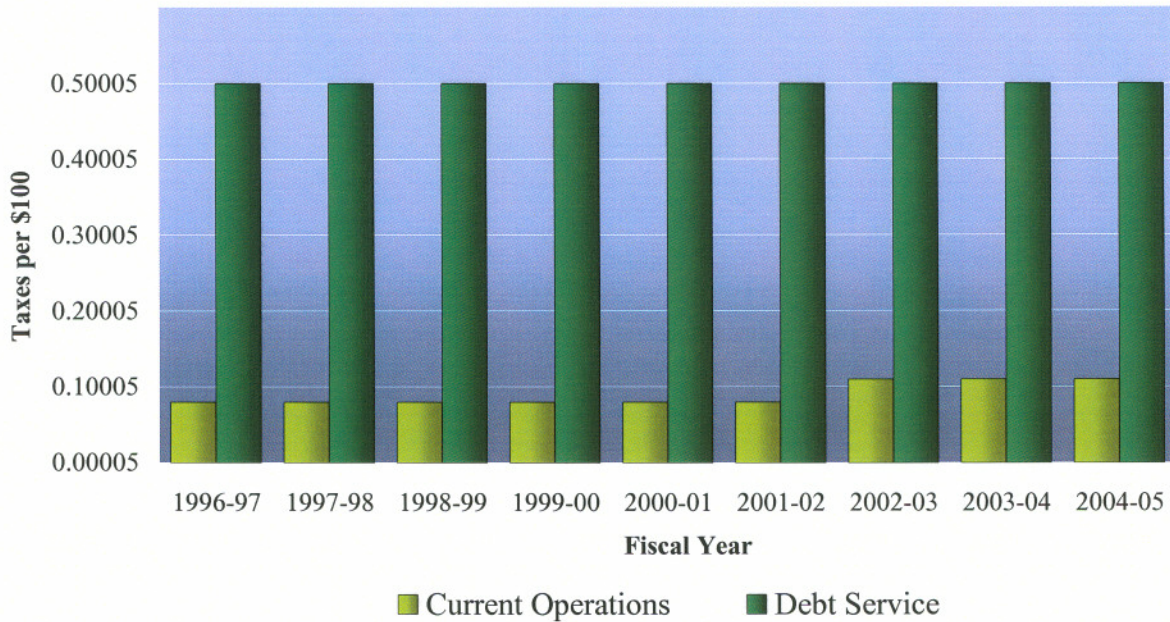


**South Texas College
Ad Valorem Tax Rates Authorized
Last Nine Fiscal Years*
(Unaudited)**

Fiscal Year	Current Operations	Debt Service	Total
1996-97	\$ 0.08000	\$ 0.50000	\$ 0.58000
1997-98	0.08000	0.50000	0.58000
1998-99	0.08000	0.50000	0.58000
1999-00	0.08000	0.50000	0.58000
2000-01	0.08000	0.50000	0.58000
2001-02	0.08000	0.50000	0.58000
2002-03	0.11000	0.50000	0.61000
2003-04	0.11000	0.50000	0.61000
2004-05	0.11000	0.50000	0.61000

*Taxes were levied starting in FY 1996-1997

**South Texas College
Ad Valorem Tax Rates Authorized**





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South Texas College
Property Tax Rates - All Direct and Overlapping Governments
August 31, 2005
(Unaudited)

Governmental Subdivision	Percent Applicable to STC	Tax Year 2004	Tax Year 2003	Tax Year 2002	Tax Year 2001
South Texas College	100.00%	\$0.164700	\$0.173800	\$0.177600	\$0.089700
HIDALGO COUNTY					
Cities:					
Alamo	100.00%	0.553800	0.522337	0.536390	0.536390
Alton	100.00%	0.409600	0.429600	0.399000	0.405600
Donna	100.00%	0.991648	1.039828	1.037270	1.037270
Edcouch	100.00%	0.776100	0.797200	0.784860	0.784860
Edinburg	100.00%	0.635000	0.635000	0.635000	0.635000
Elsa	100.00%	0.691735	0.751050	0.753399	0.753399
Granjeno	100.00%	0.283700	0.275500	0.253431	0.253100
Hidalgo	100.00%	0.351400	0.351400	0.351400	0.351400
La Joya	100.00%	0.597900	0.646500	0.660400	0.670800
La Villa	100.00%	0.781000	0.761000	0.817500	0.778700
McAllen	100.00%	0.421300	0.421300	0.421300	0.421300
Mercedes	100.00%	0.870000	0.870000	0.840000	0.850000
Mission	100.00%	0.539800	0.550000	0.550000	0.620000
Palmview	100.00%	0.307025	0.310717	0.308097	0.311902
Penitas	100.00%	0.300000	0.300000	0.293400	0.293400
Pharr	100.00%	0.683120	0.683120	0.690000	0.662310
Progreso	100.00%	0.373600	0.387300	0.365400	0.365400
San Juan	100.00%	0.681369	0.683102	0.687546	0.687546
Sullivan City	100.00%	0.300000	0.300000	0.000000	0.000000
Weslaco	100.00%	0.699500	0.699500	0.735900	0.779100
School Districts:					
Donna ISD	100.00%	1.660000	1.660000	1.560000	1.490000
Edcouch-Elsa ISD	100.00%	1.600000	1.600000	1.600000	1.600000
Edinburg ISD	100.00%	1.595100	1.599300	1.551600	1.411100
Hidalgo ISD	100.00%	1.590000	1.590000	1.570000	1.570000
La Joya ISD	100.00%	1.642000	1.569900	1.569900	1.528000
La Villa ISD	100.00%	1.606700	1.586700	1.566700	1.427600
McAllen ISD	100.00%	1.540000	1.540000	1.542500	1.542500
Mercedes ISD	100.00%	1.660000	1.620000	1.620000	1.590000
Mission ISD	100.00%	1.569100	1.584100	1.584100	1.534100
Monte Alto ISD	100.00%	1.566400	1.577600	1.580600	1.545900
PSJA ISD	100.00%	1.613534	1.611538	1.622068	1.621665
Progreso ISD	100.00%	1.654000	1.654000	1.688000	1.590000
Sharyland ISD	100.00%	1.565000	1.555000	1.540000	1.540000
South Texas ISD	100.00%	0.039200	0.039200	0.039200	0.039200
Valley View ISD	100.00%	1.548900	1.480000	1.480000	1.470000
Weslaco ISD	100.00%	1.430000	1.430000	1.430000	1.430000

Table 11

Tax Year 2000	Tax Year 1999	Tax Year 1998	Tax Year 1997	Tax Year 1996
\$0.092200	\$0.092000	\$0.091800	\$0.094900	\$0.100000
0.536390	0.539400	0.635270	0.670000	0.681850
0.405600	0.405600	0.405600	0.405600	0.425000
1.034660	1.020000	1.020000	1.032030	1.054760
0.790000	0.796630	0.752240	0.750020	0.769190
0.635000	0.635000	0.635000	0.635000	0.635000
0.753399	0.732820	0.732820	0.732820	0.763300
0.259006	0.250000	0.230650	0.250000	0.250000
0.351400	0.351400	0.000000	0.351400	0.351400
0.676700	0.680000	0.680000	0.663200	0.663200
0.778700	0.763700	0.763700	0.808200	0.808200
0.421300	0.421300	0.421300	0.421300	0.453200
0.860000	0.880000	0.890500	0.899500	0.862700
0.620000	0.620000	0.620000	0.600000	0.610000
0.307066	0.324660	0.324660	0.324310	0.325720
0.300000	0.300000	0.000000	0.000000	0.000000
0.642310	0.642310	0.630000	0.600000	0.600000
0.365400	0.365400	0.365400	0.400000	0.000000
0.687546	0.712860	0.722860	0.810832	0.842109
0.000000	0.000000	0.000000	0.000000	0.000000
0.785000	0.785000	0.785900	0.760000	0.723400
1.600000	1.500000	1.560000	1.410000	1.410000
1.600000	1.540000	0.000000	1.550000	1.410000
1.552000	1.530000	1.555000	1.475000	1.395000
1.570000	1.570000	0.000000	1.540000	1.424400
1.455800	1.556000	1.556000	1.466300	1.556000
1.576300	1.585000	1.585000	1.585000	1.500000
1.580000	1.530000	1.530000	1.450000	1.450000
1.590000	1.510000	1.510000	1.410000	1.410000
1.534100	1.505000	1.505000	1.455000	1.455000
1.540000	1.450000	1.450000	1.430000	1.400000
1.630000	1.590000	1.590000	1.573900	1.500000
1.580000	1.580000	1.550000	1.530000	1.430000
1.540000	1.460000	1.460000	1.410000	1.410000
0.037200	0.037200	0.037200	0.038500	0.037000
1.440000	1.420000	0.000000	1.380000	1.380000
1.430000	1.397500	1.397500	1.397500	1.397500



South Texas College
Property Tax Rates - All Direct and Overlapping Governments
August 31, 2005
(Unaudited)

Governmental Subdivision	Percent Applicable to STC	Tax Year 2004	Tax Year 2003	Tax Year 2002	Tax Year 2001
HIDALGO COUNTY					
Special Districts:					
Hidalgo County	91.74% *	0.590000	0.590000	0.590000	0.519500
Drainage Dist. #1	100.00%	0.043500	0.043500	0.045600	0.045600
Road District #5	100.00%	0.000000	0.000000	0.000000	0.000000
Fire District #1	100.00%	0.017500	0.018300	0.018300	0.018900
Fire District #2	100.00%	0.024700	0.027500	0.027500	0.027500
Fire District #3	100.00%	0.011500	0.012500	0.012500	0.012500
Fire District #4	100.00%	0.024100	0.024100	0.025700	0.025300
Donna Irrigation #1	100.00%	0.210000	0.210000	0.200000	0.200000
Delta Lake Irrigation	100.00%	0.550000	0.560000	0.000000	0.000000
Engleman Water District #6	100.00%	0.290000	0.335700	0.335700	0.335700
Mercedes #9	100.00%	0.000000	0.000000	0.000000	0.000000
Valley Acres	100.00%	0.000000	0.000000	0.000000	0.000000
STARR COUNTY					
Cities:					
Roma	100.00%	0.394940	0.377500	0.380000	0.363770
School Districts					
Rio Grande City ISD	100.00%	1.566000	1.566000	1.513900	1.513900
Roma ISD	100.00%	1.619700	1.594100	1.595900	1.570000
San Isidro ISD	100.00%	1.500000	1.500000	1.478900	1.500000
Special Districts:					
Starr County Memorial Hospital Distric	100.00%	0.111400	0.124200	0.115100	0.122800
Starr County	8.26% *	0.446000	0.468300	0.436800	0.420300
F&M & FC	100.00%	0.168400	0.161100	0.148900	0.147200

Source:

Hidalgo County Appraisal District

Starr County Appraisal District

Municipal Advisor Council of Texas *

Table 11

Tax Year 2000	Tax Year 1999	Tax Year 1998	Tax Year 1997	Tax Year 1996
0.500700	0.446700	0.446700	0.474700	0.465400
0.037600	0.038400	0.041000	0.039000	0.040900
0.000000	0.010900	0.019500	0.023000	0.025000
0.019100	0.020000	0.022500	0.028400	0.029500
0.027500	0.027500	0.028300	0.030000	0.030000
0.015000	0.015000	0.015000	0.017500	0.019500
0.025400	0.025500	0.026700	0.026700	0.028600
0.000000	0.017000	0.021000	0.210000	0.210000
0.000000	0.000000	0.000000	0.000000	0.000000
0.335700	0.329000	0.327900	0.352000	0.363100
0.190000	0.210000	0.240000	0.200000	0.200000
0.000000	0.000000	0.000000	0.838600	0.838600
0.317430	0.280000	0.230000	0.214890	0.214890
1.544600	1.469300	1.469300	1.440000	1.440000
1.591700	1.500000	1.500000	1.172700	1.092700
1.500000	1.500000	1.500000	1.500000	1.420100
0.156800	1.588000	0.158800	0.147900	0.158400
0.476700	0.476700	0.443200	0.412600	0.443000
0.175300	0.175300	0.162900	0.151600	0.151600



Table 12

**South Texas College
Principal Taxpayers
August 31, 2005
(Unaudited)**

Name of Taxpayer	Type of Business	2004-2005 Taxable Assessed Valuation	Percentage of Total Taxable Assessed Valuation
El Paso Production Oil & Gas*	Oil & Gas	\$ 411,146,130	2.18%
Shell Western E & G Inc.*	Oil & Gas	375,232,590	1.99%
AEP Texas Central Co.*	Electric Utility	178,031,920	0.95%
Calpine Construction Finance Co. LP	Electric Utility	153,265,270	0.81%
Total E & P USA Inc.*	Oil & Gas	131,093,560	0.70%
Southwestern Bell Telephone	Telephone Utility	100,410,407	0.53%
H E Butt Grocery Company	Grocery Chain	95,690,999	0.51%
Frontera Generation LTD	Land & Improvements	90,009,600	0.48%
Chevron U.S.A. Inc.	Oil & Gas	69,683,810	0.37%
Universal Health Services	Hospital	66,846,041	0.36%
Wal Mart Stores East, Inc. #452	Retail Store	62,685,769	0.33%
Rio Grande Regional Hospital	Hospital	53,269,350	0.28%
Simon Property Group-McAllen No. 2	Restate	44,669,232	0.24%
Texas Cable Partners	Communication Utility	44,028,400	0.23%
Symbol Technologies	Electronic Distribution Warehouse	20,084,103	0.11%
Total		\$ 1,896,147,181	10.07%
Total Assessed Value		\$ 19,869,963,507	

* Includes both Starr and Hidalgo Counties
Source: First Southwest Company



Table 13

**South Texas College
Computation of Legal Debt Margin
August 31, 2005
(Unaudited)**

South Texas Community District is authorized to issue, per Education Code Section 130.122, \$.50 per \$100 valuation of taxable property for bonded debt.

Total debt limit	\$	0.500000
Current debt tax rate		<u>0.054700</u>
Available debt tax rate	\$	<u><u>0.445300</u></u>



South Texas College
Ratio of Bonded General Obligation Debt
to Assessed Value and Bonded Debt per Capita
Last Ten Years
(Unaudited)

Fiscal		Taxable	Taxable
Year Ended		Assessed Valuation	Assessed Valuation
August 31	Population (1)	Assessed Valuation	Per Capita (1)
1995-1996	506,353	\$ 9,598,646,133 (1)	\$ 18,956
1996-1997	520,544	10,231,504,731 (2)	19,655
1997-1998	561,109	11,184,357,757 (2)	19,933
1998-1999	598,450	11,365,529,726 (2)	18,992
1999-2000	601,183	12,486,529,987 (2)	20,770
2000-2001	591,478	13,660,953,185 (2)	23,096
2001-2002	670,474	15,495,002,077 (2)	23,111
2002-2003	660,706	16,533,570,305 (2)	25,024
2003-2004	672,804	17,601,778,873 (2)	26,162
2004-2005	744,499	19,869,963,507 (2)	26,689

Source:

(1) First Southwest Company

(2) College Records

Table 14

Net Bonded Debt (2)	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
\$ 20,000,000	0.21%	\$ 39
20,000,000	0.20%	38
19,670,000	0.18%	35
24,705,000	0.22%	41
24,360,000	0.20%	41
23,715,000	0.17%	40
94,255,000	0.61%	141
113,085,000	0.68%	171
108,409,996	0.62%	161
102,959,996	0.52%	138



South Texas College
Ratio of Annual Debt Service Expenditures
for General Obligation Bonded to Total General Expenses
Last Nine Years*
(Unaudited)

Fiscal year	Principal	Interest	Total Debt Service
1996-1997	\$ -	\$ 1,594,450	\$ 1,594,450
1997-1998	330,000	1,275,560	1,605,560
1998-1999	165,000	1,247,510	1,412,510
1999-2000	345,000	1,564,063	1,909,063
2000-2001	645,000	1,425,718	2,070,718
2001-2002	690,000	1,379,960	2,069,960
2002-2003	4,015,000	6,231,291	10,246,291
2003-2004	4,675,000	5,846,954	10,521,954
2004-2005	5,450,000	5,293,226	10,743,226

* No general obligation debt existed prior to Fiscal Year 1997.
Source: College Records

Table 15

<u>Total</u> <u>General Expenditures</u>	<u>Ratio of</u> <u>Debt Service</u> <u>to Total</u> <u>General Expenditures</u>
\$ 26,524,795	6.01%
38,174,058	4.21%
50,492,762	2.80%
65,365,334	2.92%
74,199,425	2.79%
89,926,389	2.30%
103,376,533	9.91%
105,451,360	9.98%
116,267,863	9.24%



South Texas College
Computation of Direct and Overlapping Debt
August 31, 2005
(Unaudited)

<u>Overlapping Agencies</u>	<u>Outstanding Bonds</u>	<u>Applicable to District</u>	
		<u>Percent</u>	<u>Amount</u>
Alamo, City of	\$ 8,895,000	100.00%	\$ 8,895,000
Delta Lake ID	-	59.73%	-
Donna ID Hidalgo County #1	-	100.00%	-
Donna ISD	77,275,000	100.00%	77,275,000
Donna, City of	12,477,857	100.00%	12,477,857
Edcouch-Elsa ISD	28,530,000	100.00%	28,530,000
Edinburg CISD	87,423,409	100.00%	87,423,409
Edinburg, City of	34,665,000	100.00%	34,665,000
Elsa, City of	880,769	100.00%	880,769
Hidalgo County	128,456,665	91.74%	117,846,144
Hidalgo County DD #1	-	100.00%	-
Hidalgo County Rd #5	-	100.00%	-
Hidalgo ISD	28,890,000	100.00%	28,890,000
Hidalgo, City of	7,350,000	100.00%	7,350,000
Hidalgo-Cameron ID #9	-	89.85%	-
La Joya ISD	168,141,962	100.00%	168,141,962
La Joya , City of	260,000	100.00%	260,000
La Villa ISD	4,220,000	100.00%	4,220,000
La Villa, City of	-	100.00%	-
Lyford CISD	5,165,000	100.00%	5,165,000
McAllen ISD	128,916,357	100.00%	128,916,357
McAllen, City of	3,750,000	100.00%	3,750,000
Mercedes ISD	44,680,000	100.00%	44,680,000
Mercedes. City of	13,551,000	100.00%	13,551,000
Mission CISD	61,510,000	100.00%	61,510,000
Mission , City of	21,840,000	100.00%	21,840,000
Monte Alto ISD	3,100,000	100.00%	3,100,000
Pharr, City of	32,950,000	100.00%	32,950,000
Pharr-San Juan-Alamo ISD	89,115,000	100.00%	89,115,000

Table 16
(Continued)

<u>Overlapping Agencies</u>	<u>Outstanding Bonds</u>	<u>Applicable to District</u>	
		<u>Percent</u>	<u>Amount</u>
Progreso ISD	\$ 19,265,000	100.00%	\$ 19,265,000
Rio Grande City CISD	71,639,986	100.00%	71,639,986
Roma ISD	28,179,989	100.00%	28,179,989
Roma, City of	7,857,000	100.00%	7,857,000
San Juan, City of	11,330,000	100.00%	11,330,000
Sharyland ISD	35,259,999	100.00%	35,259,999
Starr County	6,036,053	8.26%	498,578
Valley Acres ID	-	87.54%	-
Valley View ISD	23,455,000	100.00%	23,455,000
Weslaco ISD	39,475,000	100.00%	39,475,000
Weslaco, City of	27,685,000	100.00%	27,685,000
Total Overlapping Agencies			\$ 1,246,078,050
South Texas College (8/31/2005)			\$ 102,959,996
<u>Direct Debt</u>			
Total Direct and Overlapping General Obligation Bonded Debt			\$ 1,349,038,046

Source: First Southwest Company
STC's outstanding debt as of 8/31/2005.



**South Texas College
Demographic Statistics
Last Ten Years
(Unaudited)**

Fiscal Year	Estimated Population (2)	Hidalgo County Median Household Money Income	Starr County Median Household Money Income (3)
1995-1996	506,353	\$ 19,030 (5)	\$ 14,476 (5)
1996-1997	520,544	20,034 (3)	14,178 (3)
1997-1998	561,109	19,728 (4)	14,728 (4)
1998-1999	598,450	20,284 (4)	15,093 (4)
1999-2000	601,183	21,307 (4)	15,785 (4)
2000-2001	591,478	22,015 (4)	15,901 (4)
2001-2002	670,474	23,152 (4)	17,020 (4)
2002-2003	660,706	24,901 (4)	17,759 (4)
2003-2004	672,804	24,926 (3)	17,928 (3)
2004-2005	744,499	25,686 (4)	18,373 (3)

Sources:

- (1) Texas Workforce Commission
- (2) First Southwest Company
- (3) US Census Bureau
- (4) Sales & Marketing Management Magazine
- (5) Average increase from FY1995 to FY1997

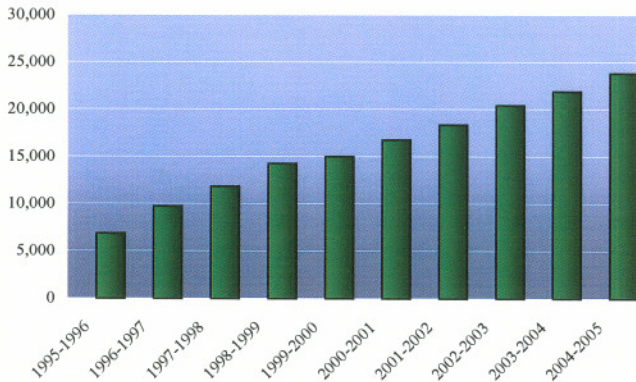
Table 17

Hidalgo County Unemployment Rate(1)	Starr County Unemployment Rate (1)	State Unemployment Rate (1)	National Unemployment Rate (1)
19.00%	28.00%	5.60%	5.40%
18.20%	28.20%	5.40%	4.90%
17.80%	27.30%	4.80%	4.50%
14.50%	24.60%	4.60%	4.20%
13.60%	22.50%	4.20%	4.00%
13.10%	19.60%	4.80%	4.70%
13.30%	19.30%	6.30%	5.80%
13.10%	12.60%	6.80%	6.00%
11.50%	14.10%	5.80%	5.40%
7.30%	9.80%	5.20%	4.90%

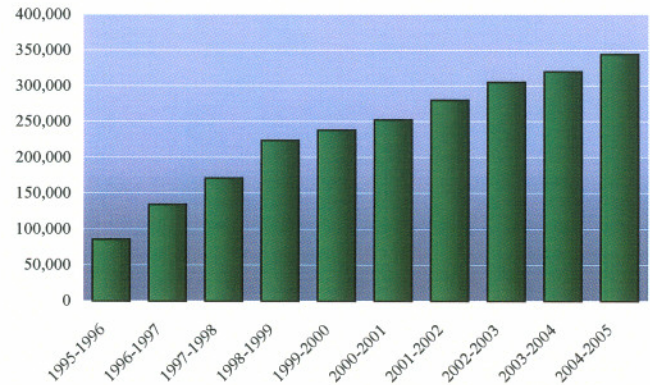
**South Texas College
Headcount Enrollment Trend
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Unduplicated Annual Headcount	Unduplicated Full Time Equivalents (FTE)	Unduplicated Credit Hours
1995-1996	6,899	2,878	86,354
1996-1997	9,758	4,487	134,618
1997-1998	11,860	5,708	171,239
1998-1999	14,288	7,474	224,231
1999-2000	15,035	7,948	238,452
2000-2001	16,793	8,424	252,728
2001-2002	18,370	9,340	280,186
2002-2003	20,447	10,181	305,442
2003-2004	21,926	10,663	319,876
2004-2005	23,844	11,485	344,538

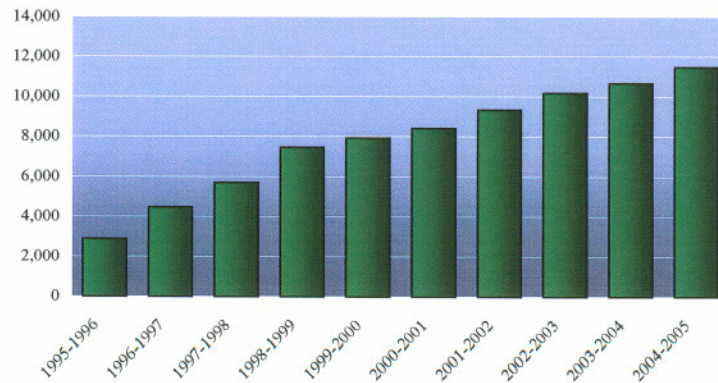
**South Texas College
Unduplicated Annual Headcount**



**South Texas College
Unduplicated Credit Hours**



**South Texas College
Unduplicated Full Time Equivalents (FTE)**

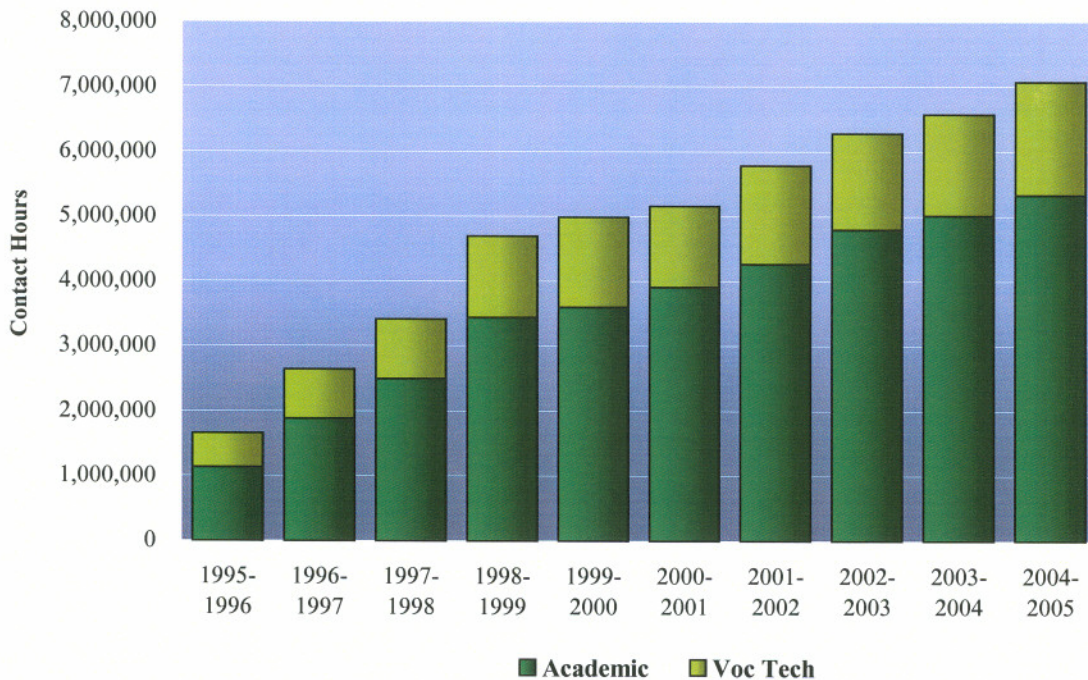


Source: College records

**South Texas College
Contact Hour History
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Contact Hours		Total
	Academic	Voc Tech	
1995-1996	1,132,752	524,123	1,656,875
1996-1997	1,885,856	755,280	2,641,136
1997-1998	2,495,456	920,464	3,415,920
1998-1999	3,439,472	1,258,048	4,697,520
1999-2000	3,595,536	1,392,672	4,988,208
2000-2001	3,906,816	1,253,216	5,160,032
2001-2002	4,267,200	1,518,082	5,785,282
2002-2003	4,794,992	1,488,006	6,282,998
2003-2004	5,014,144	1,563,949	6,578,093
2004-2005	5,334,720	1,741,056	7,075,776

**South Texas College
Contact Hour History**



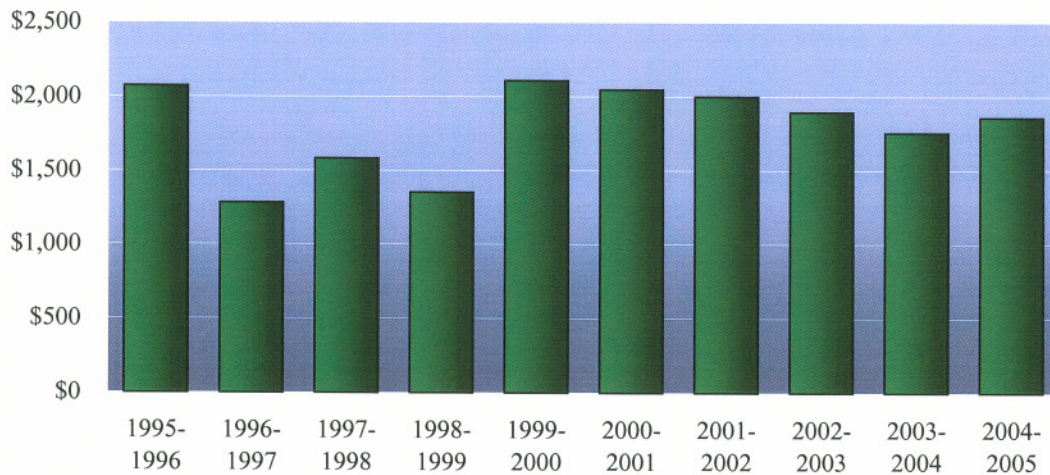
Source: College Records

**South Texas College
State Allocations Per FTSE
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Allocations per FTSE
1995-1996	\$2,075
1996-1997	1,284
1997-1998	1,584
1998-1999	1,352
1999-2000	2,109
2000-2001	2,050
2001-2002	2,002
2002-2003	1,897
2003-2004	1,756
2004-2005	1,860

*Note: State Allocations include only the formula produced amounts for Academic and Vocational/Technical Programs.

**South Texas College
State Allocations Per FTSE**



Source: College records

South Texas College
Student Enrollment Demographic Statistics
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Duplicated Headcount	Unduplicated				
		Gender		Residency		
		Male	Female	In-District	Out of County	Out of State
1995-1996	11,813	2,777	4,120	6,864	31	2
1996-1997	17,122	3,973	5,783	9,701	55	0
1997-1998	21,450	4,758	7,100	11,795	63	0
1998-1999	26,269	5,737	8,547	14,168	116	0
1999-2000	27,588	6,138	9,026	14,964	200	0
2000-2001	30,291	6,683	10,107	16,435	355	0
2001-2002	34,276	7,435	10,956	17,993	398	0
2002-2003	37,997	7,940	12,603	20,076	467	0
2003-2004	40,791	8,460	13,469	21,361	568	0
2004-2005	43,356	9,401	14,443	23,088	756	0

Fiscal Year	Average Age of Student	Ethnic Background				
		Black	Caucasian	Hispanic	Asian	Other
1995-1996	25	22	371	6,476	20	8
1996-1997	25	24	544	9,139	41	8
1997-1998	25	23	616	11,154	50	15
1998-1999	24	28	716	13,449	63	28
1999-2000	24	16	691	14,330	87	40
2000-2001	24	10	837	15,772	104	67
2001-2002	24	15	922	17,151	122	181
2002-2003	25	18	935	19,211	168	211
2003-2004	25	18	971	20,479	189	272
2004-2005	24	25	886	22,536	203	194

Source: College records.



**South Texas College
Tuition and Fee Schedule
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Tuition (4 or more hrs)	Acad Supp Serv Fee (per cr hr)	Facilities & Operations Fee (per cr hr)
1995-1996	\$ 18.00	\$ 6.00	\$ 6.00
1996-1997	18.00	6.00	6.00
1997-1998	18.00	8.00	8.00
1998-1999	18.00	8.00	8.00
1999-2000	18.00	8.00	8.00
2000-2001	42.00	-	-
2001-2002	42.00	-	-
2002-2003	42.00	-	-
2003-2004	42.00	-	-
2004-2005	57.00 / 68.00	-	-

Tuition and fees for fiscal year 1994 and fiscal year 1995 are not provided. They are not comparable due to changes from quarter basis (registration was administered by previous entity) to semester basis.

Table 22

Equipment & Tech Fee (per cr hr)		New/Returning Student Reg Fee (flat fee)	Total Cost	Percentage Increase
\$	6.00	\$ 25.00	\$ 61.00	0%
	6.00	25.00	61.00	0%
	8.00	45.00 / 25.00	87.00 / 67.00	43% / 9%
	8.00	55.00 / 35.00	97.00 / 77.00	11% / 14%
	8.00	65.00 / 45.00	107.00 / 87.00	10% / 12%
	-	65.00	107.00	0% / 22%
	-	65.00	107.00	0%
	-	65.00	107.00	0%
	-	75.00	117.00	9%
	-	85.00	142.00 / 153.00	18% / 24%

**South Texas College
Faculty Statistics
(Unaudited)**

<u>Years of Experience</u>	<u>Number of Full time Faculty</u>	<u>Percentage of Total</u>
00 - 04	217	53.71%
05 - 09	154	38.12%
10 - 14	24	5.94%
15 -19	4	0.99%
20 - 24	5	1.24%
More than 25	0	0.00%

<u>Type of Degree</u>	<u>Number of Full time Faculty</u>	<u>Percentage of Total</u>
Certificate	3	0.74%
Associate's	39	9.65%
Bachelor's	42	10.40%
Master's	255	63.12%
Doctorate	60	14.85%
Juris Doctorate	5	1.24%

Source: College records



Table 24

**South Texas College
Miscellaneous Statistics
(Unaudited)**

Date of formation:	September 1, 1993
Form of government:	State of Texas political subdivision governed by a seven-member Board of Trustees
Area of District:	Hidalgo County and Starr County, Texas
Most recent general obligation bond ratings:	
Moody's Investors Service	Aaa
Standard and Poor's Rating Service	AAA
Authorized but unissued bonds:	\$ -
Accredited by:	Commission on Colleges of Southern Association of Colleges and Schools
Number of full-time employees:	969
Number of part-time employees:	1,264

Source: College records



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SPECIAL REPORTS FY 2004-2005



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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Trustees
South Texas College

We have audited the basic financial statements of South Texas College as of and for the year ended August 31, 2005, and have issued our report thereon dated December 2, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Public Funds Investment Act

We have performed tests designed to verify the College's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2005, no instances of noncompliance were found.

This report is intended solely for the information and use of the finance committee, management, the Texas Higher Education Coordinating Board, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.


LONGCHILTON, LLP
Certified Public Accountants

McAllen, Texas
December 2, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH FEDERAL MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
South Texas College

Compliance

We have audited the compliance of South Texas College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2005. South Texas College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, South Texas College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2005.

Internal Control Over Compliance

The management of South Texas College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the finance committee, management, the Texas Higher Education Coordinating Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LONG CHILTON, LLP

Certified Public Accountants

McAllen, Texas
December 2, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH STATE MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

Board of Trustees
South Texas College

Compliance

We have audited the compliance of South Texas College with the types of compliance requirements described in the Texas Governor's Office of Budget and Planning, the State of Texas Single Audit Circular that are applicable to each of its major state programs for the year ended August 31, 2005. South Texas College's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of Texas Single Audit Circular. Those standards and the State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, South Texas College complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended August 31, 2005.

Internal Control Over Compliance

The management of South Texas College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the State of Texas Single Audit Circular.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the finance committee, management, the Texas Higher Education Coordinating Board and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Long Chilton, LLP
LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
December 2, 2005

SOUTH TEXAS COLLEGE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AND STATE
 For the Year Ended August 31, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
17.258	Workforce Investment Act Cluster
17.259	Adult Programs
17.260	Youth Activities
	Dislocated Workers
84.007	Student Financial Aid Cluster
84.033	FSEOG
84.063	Federal College Workstudy
	Pell Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 1,107,201

Auditee qualified as low-risk auditee? yes no

SOUTH TEXAS COLLEGE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AND STATE
 (CONTINUED)
 For the Year Ended August 31, 2005

State Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of State Single Audit Circular? _____ yes X no

Identification of major programs:

<u>Identifying Number(s)</u>	<u>Name of State Program or Cluster</u>
None	Texas Higher Education Coordinating Board
None	Texas Grant I – Initial Year 2005
	Texas Grant I – Renewal Year 2005

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II - Financial Statement Findings

None.

SOUTH TEXAS COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AND STATE
(CONTINUED)
For the Year Ended August 31, 2005

Section III – Federal Award Findings and Questioned Costs

None.

Section IV – State Award Findings and Questioned Costs

None.

SOUTH TEXAS COLLEGE
SCHEDULE OF PRIOR YEAR FINDINGS- FEDERAL AND STATE
For the Year Ended August 31, 2005

Schedule of Status of Prior Year Findings - Federal

No prior year findings

Schedule of Status of Prior Year Findings - State

No prior year findings

SOUTH TEXAS COLLEGE
CORRECTIVE ACTION PLAN
For the Year Ended August 31, 2005

FEDERAL

Not Applicable.

STATE

Not Applicable.



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