



**GALVESTON COMMUNITY COLLEGE DISTRICT**

**Annual Financial Report**

**Fiscal Years Ended  
August 31, 2005 and 2004**

**Mir & Fox  
Rodriguez, P.C.**  
Certified Public Accountants

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Table of Contents

	<u>Page</u>	<u>Exhibit/ Schedule</u>
<b>Organizational Data</b>	3	
<b>Independent Auditors' Report</b>	4	
<b>Management's Discussion and Analysis</b>	6	
<b>Basic Financial Statements</b>		
Statements of Net Assets	14	Exhibit 1
Galveston College Foundation Statement of Assets, Liabilities, and Net Assets	15	Exhibit 1A
Statements of Revenues, Expenses, and Changes in Net Assets	16	Exhibit 2
Galveston College Foundation Statement of Revenues, Expenses, and Changes in Net Assets	17	Exhibit 2A
Statements of Cash Flows	18	Exhibit 3
Galveston College Foundation - Statement of Cash Flows	19	Exhibit 3A
Notes to Basic Financial Statements	20	
<b>Supplemental Schedules</b>		
Schedule of Detailed Operating Revenues	34	Schedule A
Schedule of Operating Expenses by Object	35	Schedule B
Schedule of Nonoperating Revenues and Expenses	36	Schedule C
Schedule of Net Assets by Source and Availability	37	Schedule D
<b>Single Audit Reports and Schedule of Expenditures of Federal Awards</b>		
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39	
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	40	
Schedule of Expenditures of Federal Awards	42	Schedule E
Notes to Schedule of Expenditures of Federal Awards	43	
Schedule of Findings and Questioned Costs	44	

GALVESTON COMMUNITY COLLEGE DISTRICT

Table of Contents, Continued

	<u>Page</u>	<u>Exhibit/ Schedule</u>
<b>Statistical Section (Unaudited)</b>		
Headcount Enrollments Trend	46	
Ad Valorem Rates Assessed	47	
Ad Valorem Rates Authorized	48	
Net Assessed Valuation	49	
Ad Valorem Taxes Collected	50	
Contact Hour Information	51	
State Appropriations per Full Time Student Equivalents	52	

# GALVESTON COMMUNITY COLLEGE DISTRICT

Organizational Data  
Year Ended August 31, 2005

## Board of Regents

### Officers

		Term Expires <u>May 31,</u>
Mr. Carl E. Kelly - Chairman	Galveston, Texas	2010
Mr. Florentino Gonzales - Secretary	Galveston, Texas	2006

### Members

Mr. Roland Bassett	Galveston, Texas	2006
Mr. George Black	Galveston, Texas	2010
Mr. Paul J. Cunningham	Galveston, Texas	2008
Ms. Phyllis H. Moore	Galveston, Texas	2008
Mr. F. A. ("Andy") Odom	Galveston, Texas	2010
Mr. John L. Sullivan	Galveston, Texas	2006
Mr. Carroll G. Sunseri	Galveston, Texas	2008

### Key Officers

Dr. Elva Concha Le Blanc, Ph.D.	President
Dr. Gaynelle Hayes, Ed.D.	Vice-President of Administration
Dr. Phyllis Mingus-Pepin Ph.D; Ed.D	Vice-President of Academic Affairs

INDEPENDENT AUDITORS' REPORT

**Board of Regents**  
**Galveston Community College District:**

We have audited the accompanying basic financial statements of Galveston Community College District (the College) as of and for the years ended August 31, 2005 and 2004, as listed in the table of contents. These basic financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We did not audit the financial statements of the Galveston College Foundation, a component unit, as of and for the year ended December 31, 2004. These statements were audited by other auditors whose report dated March 28, 2005 has been furnished to us, and our opinion, in so far as it relates to the amounts included for the College is based solely on the report of the other auditors.

We conducted our audits 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

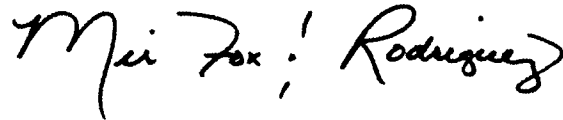
As discussed in note 2 to the basic financial statements, the College has changed its method of accounting for depreciation of library books.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 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 as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our 2005 audit was performed for the purpose of forming an opinion on the basic financial statements of the College, taken as a whole. The supplemental schedules (schedule A through D) and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental schedules A through D have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Our 2005 audit was conducted for the purpose of forming an opinion on the 2005 basic financial statements. The accompanying schedule of expenditures of Federal awards (Schedule E) as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* is presented for purposes of additional analysis and is not a part of the 2005 basic financial statements. This schedule is the responsibility of the management of the College. Such information has been subjected to the auditing procedures applied in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2005 basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mui Fox ; Rodriguez". The signature is written in a cursive, flowing style.

October 24, 2005

## Management's Discussion and Analysis

This section of the Galveston Community College District's (the College) Annual Financial Report presents management's discussion and analysis of the College's financial activity during the fiscal years ended August 31, 2005 and 2004. Since management's discussion and analysis is designed to focus on current activities, and currently known facts, please read this in conjunction with the College's basic financial statements and the notes thereto. Responsibility for the completeness and fairness of this information rests with the management of the College.

### Financial Highlights for 2005

- The College's net assets at August 31, 2005 are reported at \$11.6 million. This represents a 21% increase from prior year. The majority of the increase is due to a 6% increase in property tax revenues and a 3% decrease in expenses.
- The College's net assets increased \$2 million for fiscal year.
- Renovations totaling \$1.2 million were made to transform two areas of the campus. The David Glenn Hunt Memorial Library was transformed into a Learning Resource Center featuring a cyber café, group study rooms, tutoring, testing and assessment, audio, and print media. Space on the second floor was converted for use by the Health Sciences Programs. The new area includes new office space, classrooms, and laboratories.

### Financial Highlights for 2004

- The College's net assets at August 31, 2004 are reported at \$9.6 million. This represents a 8% increase from the prior year. The majority of this increase is the result of increased property tax revenues.
- The College's net assets increased \$1.1 million for the fiscal year.
- As the result of the refinancing of the 1994 Series Bonds, the College benefited as follows:
  - Net proceeds from refunding were \$682,235 after payment of \$168,285 in underwriting fees, insurance, and other issuance costs.
  - An additional \$680,437 of 1994 Series sinking fund monies was used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 2004 Series bonds.
  - The 1994 Series bonds are considered fully defeased and the liability for those bonds has been removed from the financial statements.
  - Advance refunding of the 1994 Series bonds reduced the College's debt service payments over the next 11 years by approximately \$1,116,000.
  - Economic gain totaled \$949,218, the difference between the net present value of the old and new debt service payments.
- The tax base grew by \$404,612,419 or 15% from 2002/2003 to 2003/2004. New construction continues in the district which provides a solid tax base in the future and offsets the reductions in State allocated funds.

### Overview of Financial Statements

The College qualifies as a special purpose government engaged in business-type activities and the basic financial statements are prepared on that basis. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, a statement of cash flows and notes to the basic financial statements.

The statement of net assets' focus is to report the total net resources available to finance future services. This statement presents all of the College's assets and liabilities, and net assets as of the end of the fiscal year. The statement is prepared on the accrual basis of accounting, in which revenues and assets are recognized when earned, and expenses and liabilities are recognized when incurred regardless of when cash is received or paid. The difference between total assets and total liabilities is net assets, and increases and decreases to net assets is one indicator of whether the overall financial condition has improved or deteriorated during the year when considered with other factors such as enrollment, contact hours of instruction, student retention and other non-financial information. The statement of net assets is useful in determining the assets available to continue operations as well as how much the College owes to vendors, bondholders, and other entities at the end of the year.

The statement of revenues, expenses, and changes in net assets focuses on the "bottom line results" of the College's operations. This approach summarizes and simplifies the user's analysis of the cost of various College services to its students and the burden to the public. The statement is divided into operating revenues and expenses and non-operating revenues and expenses. The College (like all other community colleges) is primarily dependent upon three sources of revenue: State appropriations, tuition and fees, and local property taxes. Since the Governmental Accounting Standards Board (GASB) requires State appropriation and property taxes to be classified as non-operating revenues, community colleges will generally display an operating deficit before taking into account other support. Essentially, this deficit represents the net costs of services to students that must be covered by local taxpayer support, the State and other sources of revenue.

The statement of cash flows reports the cash receipts and cash payments that occurred during the fiscal year. This statement helps users assess: 1) the entity's ability to generate future cash flows; 2) its ability to meet its obligations as they come due; and 3) its needs for external financing. The statement of cash flows presents information relative to cash inflows and outflows summarized by operating, financing, and investing activities.

The notes to the basic financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the College's accounting policies, significant account balances and activities, and contingencies.

Under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14.*, the Galveston College Foundation is considered a component unit of the College and is discretely presented in the College's financial statements. Complete financial statements of Galveston College Foundation can be obtained from their office.



## Financial Analysis

The following chart summarizes the College's assets, liabilities and net assets for the years ended August 31:

	<b>Net Assets</b> <b>(in thousands)</b>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Assets:</b>			
Current assets	\$ 5,876	8,179	7,241
Non-current assets:			
Capital assets, net of depreciation	9,722	9,032	9,783
Other	<u>3,908</u>	<u>783</u>	<u>148</u>
Total assets	<u>\$19,506</u>	<u>17,994</u>	<u>17,172</u>
<b>Liabilities:</b>			
Current liabilities	2,083	2,049	1,491
Non-current liabilities	<u>5,760</u>	<u>6,294</u>	<u>6,766</u>
Total liabilities	<u>\$ 7,843</u>	<u>8,343</u>	<u>8,257</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	3,652	2,438	2,988
Restricted for expendable	387	356	260
Unrestricted	<u>7,624</u>	<u>6,857</u>	<u>5,667</u>
Total net assets	<u>\$11,663</u>	<u>9,651</u>	<u>8,915</u>

The above schedule is prepared from the College's statements of net assets, which is presented using an accrual basis of accounting.

### Fiscal Year 2005 Compared to 2004

Current assets have decreased approximately \$2 million due to the College increasing its long term investments at the end of the year as interest rates continued to rise. At August 31, 2005, the College held \$3 million of Federal Home Loan Mortgage Corporation Notes, which mature in 2007. At August 31, 2004, the College held short term investments of \$4 million. See page 14 for the discussion of the change in capital assets.

Accounts payable and accrued liabilities decreased approximately \$43,000 as payments were made to vendors for goods and services by the end of the year. The \$54,000 increase in deferred revenue is due to approximately \$120,000 of grant funds received in late August 2005 for the 2005/2006 fiscal year and a decrease in deferred tuition of approximately \$68,000. There was a 5% decrease in enrollment for the 2005 fall semester. The change in non-current liabilities is the bond principal payment of \$525,000.

The College's financial position improved in fiscal year 2005 by approximately \$2 million primarily, due to an increase in property tax revenue of approximately \$360,000 and decrease in operating expenses of \$330,000. Unrestricted net assets are not subjected to externally imposed stipulations; however, the College has designated \$1,510,408 of unrestricted net assets for various projects.

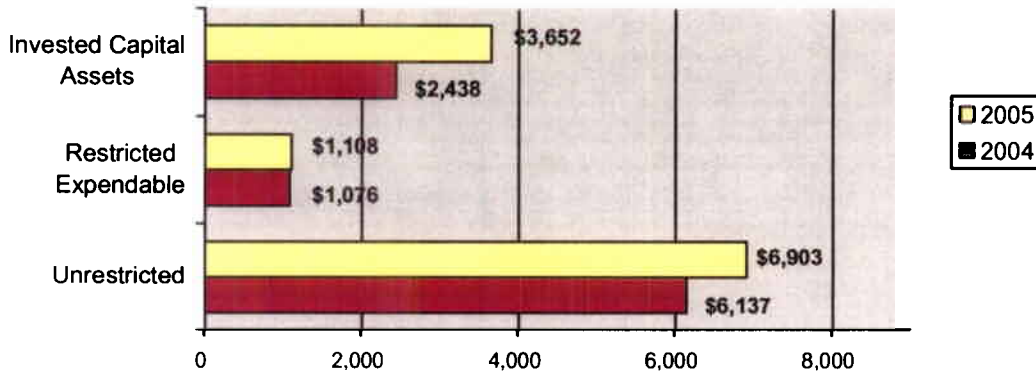
### Fiscal Year 2004 Compared to 2003

Overall, current assets increased 13%. Cash and investments increased \$1.3 million from last year due to the increase in Fall 2003 tuition rates and increase in tax dollars collected. The change in capital assets is a result of \$289,000 of additions, \$45,000 of retirements and \$557,000 of depreciation expense. Increase in other non-current assets is due to the change in the College's reserve requirements due to refinancing of the Series 1994 bonds.

Current liabilities increased by \$558,000 due to an increase in deferred tuition revenue of \$256,000 due to increase in enrollment. Changes in accounts payable and accrued liabilities are due to the timing of payments to vendors. Notably, there was a decrease in the amount of bonds payable over the previous fiscal year. The 3% decrease can be tied directly to the refinancing of the Series 1994 bonds.

Overall the College's financial position improved in fiscal year 2004. At August 31, 2004, the difference in assets and liabilities was \$9.6 million. The net assets increase of \$1.1 million or 13% is primarily due to the increase in revenue. Unrestricted net assets are not subjected to externally imposed stipulations; however, the College has designated \$603,000 of unrestricted net assets for various projects.

The following is a graphic illustration of the breakdown of net assets (in thousands) for the years ended August 31, 2005, and 2004.



**Operating Results for the Years Ended  
August 31  
(in Thousands)**

	2005	2004	Increase (Decrease) 2005-2004	2003	Increase (Decrease) 2004-2003
Operating Revenue	\$ 5,394	5,308	86	4,241	1,067
Less Operating Expenses	15,602	15,932	(330)	14,843	1,089
Net Operating Loss	(10,208)	(10,624)	416	(10,602)	(22)
Nonoperating Revenue and Expense	12,220	11,767	453	11,282	515
Increase in Net Assets	2,012	1,143	869	650	(493)
Net Assets Beginning of Year	9,651	8,508	1,143	8,265	243
<b>Net Assets End of Year</b>	<b>\$ 11,663</b>	<b>9,651</b>	<b>2,012</b>	<b>8,915</b>	<b>736</b>

The above schedule was prepared from the College's statements of revenues, expenses and changes in net assets. Ending net assets for 2003 have not been adjusted for the College changing its method of accounting for library books. Approximately \$407,000 of library book accumulative depreciation was recorded effective September 1, 2004.

### Fiscal Year 2005 Compared to 2004

Gross tuition increased over 10%. However, there was less than a 1% increase in credit hours in 2005. For students who receive financial aid, tuition is discounted. As more students qualify for financial aid, the discount amount increases. Approximately 400 more students received financial aid in 2005 and accordingly, the scholarship allowance increased approximately \$600,000.

The \$300,000 increase in grants and contracts was attributable to increase in Pell awards. The College also, received several private grants including one grant for \$30,000 to fund a Hall Professor in Nursing and Allied Sciences.

The slight decrease in State appropriations is due to a decrease in the amount of the State retirement match. Maintenance ad valorem taxes increased \$360,000 or 6% over 2004. This increase continues to be due to the increases in assessed valuation. For the 2005 year, the College experienced a 6% increase in net assessed valuation. Investment income increased approximately \$50,000 as interest rates increased throughout the year. The College's cash deposits and investments started the year earning a little over 1% interest and ended the year earning over 3%.

### Fiscal Year 2004 Compared to 2003

Operating revenues total \$5.3 million and \$4.2 million for the year ended August 31, 2004 and 2003, respectively. Major sources of operating revenue are tuition and various grants and contracts. Tuition revenue is reported net of allowances for Title IV Higher Education Administration Programs and scholarships. Additionally, State mandated or locally approved remissions and exemptions are reported as discounts against tuition.

There was a 22% increase in gross tuition revenue in 2004. Student enrollments increased a total of 6% for both the fall 2003 and spring 2004 semesters over the previous fall and spring semesters. Many students qualified for assistance through financial aid. The increase in financial aid recipients has been almost 23% over the same period. A consequence of the increase in financial aid students is an increased allowance for scholarships netted against tuition. As a result, tuition income appears to be lower than expected despite a record number of students and a \$30 per credit hour increase in tuition that started in the fall semester of 2003. Discounts overall increased a total of 56%.

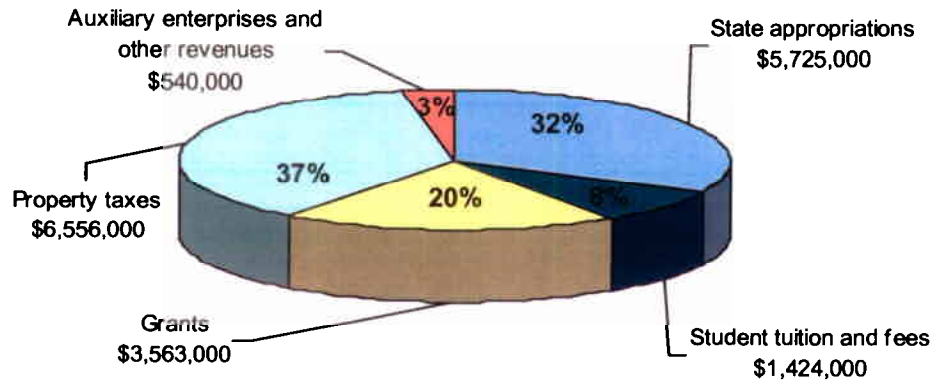
State appropriations and ad valorem taxes collected are reported as non-operating revenue. In early spring of 2003, the State of Texas recognized a budget deficit in State revenue and remedied that in part through a 7% reduction of general State appropriations to community colleges. Due to various adjustments and portions of State allocations that were not affected by the reduction, the actual decrease in State appropriations as a whole to the College for 2004 was \$237,000 or approximately 4%.

Maintenance ad valorem tax revenue increased \$613,000 or 10%. Since the tax rate stayed the same in 2004 as it was in 2003, the increase is attributable to the College's net assessed valuation increase of \$405 million. Varying the College's investment portfolio to include additional short term investments contributed to a slight increase in investment income. Overall net nonoperating revenues increased \$339,000 or 3%. Also, included in nonoperating revenues and expense are interest payments on capital debt amounting to \$252,000 and \$428,000 for 2004 and 2003. The decrease is due to the bond refunding in 2004.

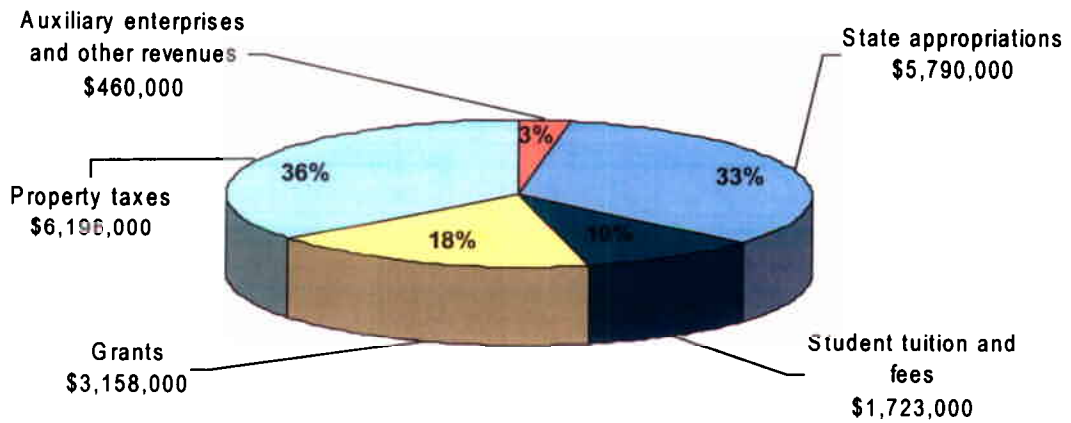
Following is a graphic illustration of revenues by source for the years ended August 31, 2005 and 2004.

**Revenues by Source and Percentage  
(in thousands)**

**Year Ended August 31, 2005**



**Year Ended August 31, 2004**



Below is a schedule of operating expenses for the years ended August 31:

**Operating Expenses  
(in thousands)**

	2005	2004	Increase (Decrease) 2005-2004	2003	Increase (Decrease) 2004-2003
Operating expenses:					
Instruction	\$ 5,863	5,499	364	5,727	(228)
Public service	25	149	(124)	92	57
Academic support	1,468	1,702	(234)	1,523	179
Student services	1,393	1,401	(8)	1,068	333
Institutional support	3,647	3,454	193	3,378	76
Operation and maintenance of plant	1,099	1,534	(435)	1,492	42
Scholarships and fellowships	1,343	1,447	(104)	804	643
Auxiliary enterprises	141	158	(17)	231	(73)
Depreciation	623	588	35	528	60
<b>Total</b>	<b>\$ 15,602</b>	<b>15,932</b>	<b>(330)</b>	<b>14,843</b>	<b>1,089</b>

Fiscal Year 2005 Compared to 2004

In 2005, the College had a conservative spending policy which resulted in actual expenses being under budget and \$330,000 less than 2004 total expenses. Several administrative positions were vacant during the year. The decrease in public service expense is a direct result of vacant positions and the decision to use resources for continuing education programs.

The College continues to offer many different types of financial aid which include loans, grants, scholarships and College employment. The increase in Pell awards expense of approximately \$300,000 is offset in the financial statement by the increase in student discounts and scholarships

Fiscal Year 2004 Compared to 2003

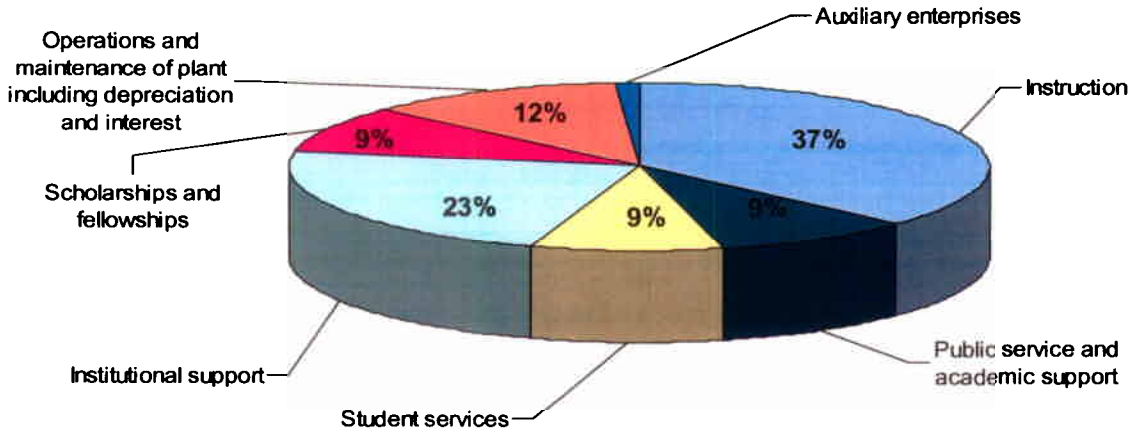
Considering the increase in enrollment over the fiscal year 2003, the increase in operating expenses is somewhat modest. Operating expenses at August 31, 2004 were \$15.9 million compared to \$14.8 million for the year ended August 31, 2003 or an increase of 7%. The increase in institutional and academic support costs accounts for approximately 24% of the increase in operating expenses. Another 61% of the increase is attributable to the increase in scholarships related to the influx of financial aid recipients previously mentioned.

The bulk of operating expenses are for instruction in both fiscal year 2004 and 2003 at \$5.5 million and \$5.7 million, respectively. Instruction expenses decreased \$228,000 or 3.9% compared to an overall increase in operating expenses of \$1.1 million or 7.2% over fiscal 2003. The most significant increase in operating expenses occurs in the Federal grants and contracts category. This \$2.8 million increase is 23.4% above last year and largely represents the funding increases in this category by the Federal Pell awards. In general, the increased expenses in all categories with the exception of scholarships and fellowships are due to increases in salaries and benefits.

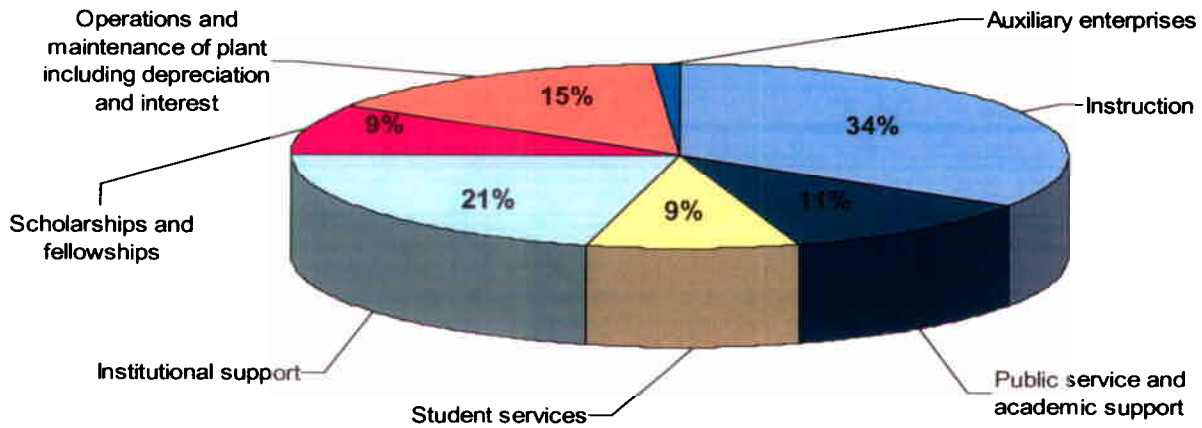
The following is a graphic illustration of operating expenses by function, in millions, for fiscal years 2005, and 2004.

**Operating Expenses by Function and Percentage  
(in thousands)**

**Year Ended August 31, 2005**



**Year Ended August 31, 2004**





**Cash Flow Activity**

The following chart summarizes the statements of cash flows (rounded to the nearest thousand) for the fiscal years ended August 31:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided by (used in):			
Operating activities	\$ (9,765)	(9,397)	(4,391)
Non-capital financing activities	12,297	11,977	5,584
Capital and related financing activities	(2,032)	(742)	(1,207)
Investing activities	<u>1,136</u>	<u>(3,932)</u>	<u>4,557</u>
Net increase (decrease) in cash and cash equivalents	1,636	(2,094)	4,543
Cash and cash equivalents - beginning of year	<u>3,480</u>	<u>5,574</u>	<u>1,031</u>
Cash and cash equivalents - end of year	\$ <u>5,116</u>	<u>3,480</u>	<u>5,574</u>

The College's operations will always be a use of cash as the College relies heavily on State appropriations and property tax revenue to fund operations. The increase in cash from non-capital financing activities is a result of continued increases in property tax revenues. Changes in cash flow from investing activities are due to the College purchasing or selling investments. The College held \$3 million of investments at August 31, 2005 versus \$4 million of certificates of deposit at August 31, 2004.

**Capital Asset and Non-Current Debt Activity**

The increase in capital assets was due to \$1.2 million in renovations to the learning resource center and health service area. As part of the transformation of the library to the learning resource center approximately 9,024 circulation and reference books totaling \$171,000 were disposed of. Also, effective September 1, 2004, the College began depreciating library books over 15 years. Approximately \$430,000 of accumulated library book depreciation was recorded,

The following table summarizes the breakdown of capital assets by fiscal year.

	<b>Capital Assets, Net (in thousands)</b>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital assets:			
Land and improvements	\$ 1,810	1,791	1,791
Buildings	11,136	9,780	9,780
Equipment, furniture, and software	1,974	1,913	1,941
Library books	676	830	806
Construction in progress	<u>          </u>	<u>182</u>	<u>          </u>
Total	15,596	14,496	14,318
Less accumulated depreciation	<u>(5,874)</u>	<u>(5,464)</u>	<u>(4,535)</u>
Net capital assets	\$ <u>9,722</u>	<u>9,032</u>	<u>9,783</u>

The College issued \$6,595,000 of revenue bonds in fiscal year 2004 to refund the 1994 Revenue bonds at lower interest rates, saving approximately \$1.1 million over the remaining life of the bonds. The bonds pay off totaled \$6,795,000. Scheduled principal payments totaled \$525,000 in 2005

### **Currently Known Facts, Decisions and Conditions**

Since enrollment is expected to continue to grow in the coming years, the College is developing plans to meet growth needs both in terms of added instructional and support staff and in facility expansion. As part of the support for this growth, the College has undertaken the development of additional parking areas along Avenue Q<sup>1/2</sup> and 39<sup>th</sup> Street and the development of a median on 39<sup>th</sup> Street in partnership with the City of Galveston. Architectural services have also been secured to undertake the development of Beacon Square, Galveston's College's new "front door." The square will include a south jetty lighthouse cupola at the corner of 39<sup>th</sup> Street and Avenue Q which symbolizes Galveston College's vision –"A Beacon of Light Guiding Lifelong Learning."

In September 2005, the College was awarded a \$2.3 million Department of Education Title V grant. The funds will be spent over five years. The 2005/2006 award totals \$479,000. The grant will be used to develop programs to increase student success and institutional effectiveness, especially for the Hispanic student population.

### **Contacting the College's Financial Management**

This financial report is designed to provide the College's citizens, taxpayers, students, investors, and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Affairs office at 4015 Avenue Q, Galveston, Texas 77550.



## GALVESTON COMMUNITY COLLEGE DISTRICT

Statements of Net Assets  
August 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 4,208,733	2,697,667
Short-term investments		4,000,000
Accounts receivable	229,348	242,580
Property tax receivable, net	614,149	630,904
Student receivables, net	793,623	589,331
Other assets	30,815	18,561
Total current assets	<u>5,876,668</u>	<u>8,179,043</u>
Noncurrent assets:		
Restricted cash and cash equivalents	891,822	767,486
Restricted agency funds cash and cash equivalents	15,165	15,165
Long term investments	3,000,000	
Capital assets, net:		
Not subjected to depreciation	1,676,743	1,859,220
Subjected to depreciation	8,045,625	7,173,259
Total noncurrent assets	<u>13,629,355</u>	<u>9,815,130</u>
Total assets	<u>19,506,023</u>	<u>17,994,173</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	79,533	165,327
Accrued liabilities	201,632	158,564
Funds held for others - agency	15,165	15,165
Deferred revenues	1,213,624	1,159,751
Deposits	8,090	5,075
Compensated absences - current portion	25,000	20,000
Bonds payable-current portion	540,000	525,000
Total current liabilities	<u>2,083,044</u>	<u>2,048,882</u>
Noncurrent liabilities:		
Compensated absences	229,680	224,103
Bonds payable	5,530,000	6,070,000
Total noncurrent liabilities	<u>5,759,680</u>	<u>6,294,103</u>
Total liabilities	<u>7,842,724</u>	<u>8,342,985</u>
Net assets:		
Invested in capital assets, net of related debt	3,652,368	2,437,479
Restricted for - expendable:		
Student aid	224,277	210,936
Loans	162,917	145,525
Debt service	721,240	719,365
Unrestricted	6,902,497	6,137,883
Total net assets, as restated for 2004	<u>\$ 11,663,299</u>	<u>9,651,188</u>

See accompanying notes to basic financial statements.

## GALVESTON COLLEGE COMMUNITY FOUNDATION

Statement of Assets, Liabilities, and Net Assets  
December 31, 2004

	<u>Universal Access</u>	<u>Galveston College Scholarships</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>				
Cash	\$ 500	818	(519)	799
Investments (at fair value)	4,208,824	517,180	282,816	5,008,820
Promises to give	36,429			36,429
Interfund receivable			7,299	7,299
Total assets	<u>\$ 4,245,753</u>	<u>517,998</u>	<u>289,596</u>	<u>5,053,347</u>
<u>Liabilities and Net Assets</u>				
Liabilities:				
Accrued expenses	50,048	20,193	1,496	71,737
Interfund payable	156	5,106	2,037	7,299
Agency transactions due to others			2,757	2,757
Total liabilities	<u>50,204</u>	<u>25,299</u>	<u>6,290</u>	<u>81,793</u>
Net assets:				
Unrestricted	1,030,737		216,468	1,247,205
Temporarily restricted		371,699	66,838	438,537
Permanently restricted	3,164,812	121,000		3,285,812
Total net assets	<u>4,195,549</u>	<u>492,699</u>	<u>283,306</u>	<u>4,971,554</u>
Total liabilities and net assets	<u>\$ 4,245,753</u>	<u>517,998</u>	<u>289,596</u>	<u>5,053,347</u>

## GALVESTON COMMUNITY COLLEGE DISTRICT

Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended August 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowance of \$1,458,998 for 2005 and \$858,982 for 2004	\$ 1,424,513	1,722,926
Federal grants and contracts	3,219,479	2,830,441
State and local grants and contracts	92,001	190,798
Private grants and scholarships	251,909	137,019
Sales and services of educational activities	23,062	16,116
Auxiliary enterprises net of scholarship allowance of \$52,679 for 2005 and \$49,219 for 2004	145,697	129,002
Other operating revenues	236,896	281,589
Total operating revenues (Schedule A)	<u>5,393,557</u>	<u>5,307,891</u>
Operating expenses:		
Instruction	5,863,405	5,499,370
Public service	24,593	149,542
Academic support	1,468,222	1,701,575
Student services	1,392,952	1,401,010
Institutional support	3,646,767	3,453,626
Operation and maintenance of plant	1,099,230	1,534,399
Scholarships and fellowships	1,342,710	1,447,019
Auxiliary enterprises	140,787	158,235
Depreciation	623,269	587,218
Total operating expenses (Schedule B)	<u>15,601,935</u>	<u>15,931,994</u>
Operating loss	<u>(10,208,378)</u>	<u>(10,624,103)</u>
Nonoperating revenue (expenses):		
State appropriations	5,724,768	5,790,433
Property taxes	6,555,487	6,195,865
Investment income	134,599	78,464
Loss on disposal of capital assets		(45,257)
Interest on capital related debt	(194,365)	(252,058)
Total nonoperating revenues, net (Schedule C)	<u>12,220,489</u>	<u>11,767,447</u>
Increase in net assets, as restated for 2004	2,012,111	1,143,344
Net assets, beginning of year, as restated for 2004	9,651,188	8,507,844
Net assets, end of year, as restated for 2004	<u>\$ 11,663,299</u>	<u>9,651,188</u>

See accompanying notes to basic financial statements.

## GALVESTON COLLEGE COMMUNITY FOUNDATION

Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended December 31, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions and grants	\$ 133,715	39,269	65,000	237,984
Sales	4,975			4,975
Cost of sales	(1,589)			(1,589)
Other revenue	10,406	4,738		15,144
Donated facilities and services	62,799			62,799
Interest and dividends	122,424	13,376		135,800
Realized gains on investments, net	118,625	18,777		137,402
Unrealized appreciation on investments	141,241	20,954		162,195
Net assets released from retraction	93,527	(93,527)		-
Total support and revenue	<u>686,123</u>	<u>3,587</u>	<u>65,000</u>	<u>754,710</u>
Expenses:				
Donated facilities and services	62,799			62,799
Investment fees	35,781			35,781
Foreign taxes	278			278
Fundraising	2,022			2,022
Program expenses paid:				
Galveston College Grant administrative	50,000			50,000
Galveston College Scholarships	110,551			110,551
Universal Access Scholarships	95,185			95,185
Lecture series	17,978			17,978
Miscellaneous	6,474			6,474
Total expenses	<u>381,068</u>	<u>-</u>	<u>-</u>	<u>381,068</u>
Increase in net assets	305,055	3,587	65,000	373,642
Net assets, beginning of year	941,581	555,950	3,049,812	4,547,343
Reclass from temporarily restricted to permanently restricted		(121,000)	121,000	-
Prior period adjustment	7,158		50,000	57,158
Transfer of net assets to other entities	(6,589)			(6,589)
Net assets, end of year	<u>\$ 1,247,205</u>	<u>438,537</u>	<u>3,285,812</u>	<u>4,971,554</u>

## GALVESTON COMMUNITY COLLEGE DISTRICT

Statements of Cash Flows  
Years Ended August 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from students and other customers	\$ 1,176,453	1,950,205
Receipts from grants and contracts	3,698,465	3,482,295
Payments to or on behalf of employees	9,144,135	(9,096,508)
Payments to suppliers for goods or services	(3,531,818)	(3,686,458)
Payments for scholarships	(1,342,710)	(1,447,019)
Other cash receipts	<u>382,593</u>	<u>420,671</u>
Net cash used by operating activities	<u>(8,761,152)</u>	<u>(8,376,814)</u>
Cash flows from non-capital financing activities:		
Proceeds from state appropriations	4,720,362	4,770,517
Proceeds from property taxes	<u>6,572,242</u>	<u>6,186,404</u>
Net cash provided by non-capital financing activities	<u>11,292,604</u>	<u>10,956,921</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of bonds		6,595,000
Purchases of capital assets	(1,313,158)	(289,676)
Principal paid on capital debt	(525,000)	(6,795,000)
Payment of interest on capital debt	<u>(194,365)</u>	<u>(252,058)</u>
Net cash used by capital and related financing activities	<u>(2,032,523)</u>	<u>(741,734)</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	4,000,000	
Purchases of investments	(3,000,000)	(4,000,000)
Investment income	<u>136,473</u>	<u>68,410</u>
Net cash provided (used) by investing activities	<u>1,136,473</u>	<u>(3,931,590)</u>
Increase (decrease) in cash and cash equivalents	1,635,402	(2,093,217)
Cash and cash equivalents, beginning of year	<u>3,480,318</u>	<u>5,573,535</u>
Cash and cash equivalents, end of year	<u>\$ 5,115,720</u>	<u>3,480,318</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	(10,208,378)	(10,624,103)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	623,269	587,218
Group insurance paid by State	630,911	630,916
Retirement match paid by State	373,495	389,000
Changes in assets and liabilities:		
Receivables, net	(192,934)	289,210
Other assets	(12,254)	64,643
Accounts payable and accrued liabilities	(42,726)	176,662
Deferred revenues	53,873	256,515
Deposits	3,015	(445)
Compensated absences	<u>10,577</u>	<u>(146,430)</u>
Net cash used by operating activities	<u>\$ (8,761,152)</u>	<u>(8,376,814)</u>

See accompanying notes to basic financial statements.

## GALVESTON COMMUNITY COLLEGE FOUNDATION

Statement of Cash Flows  
For the Year Ended December 31, 2004

Change in net assets	\$ 373,643
Cash flows from operating activities:	
Unrealized appreciation on investments	(162,195)
Realized gains on investments	(132,598)
Changes in assets and liabilities:	
Promises to give	(36,429)
Accrued expenses	71,738
Agency - transactions due to others	(2,470)
Transfer of net assets to other entities	(6,589)
Prior period adjustment	57,158
Net cash provided by operating activities	<u>162,258</u>
Cash flows from investing activities:	
Purchases of investment securities	(1,592,350)
Sales of investment securities	1,419,030
Net cash used by investing activities	<u>(173,320)</u>
Decrease in cash and cash equivalents	(11,062)
Cash and cash equivalents, beginning of year	<u>11,861</u>
Cash and cash equivalents, end of year	<u>\$ 799</u>

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements August 31, 2005 and 2004

### 1. Reporting Entity

Galveston Community College District (the College) was established in 1967, in accordance with the laws of the State of Texas, to serve the educational needs of the City of Galveston and the surrounding communities. The College is considered to be a special purpose, primary government. 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.

Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*, gives guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. It requires reporting as a component unit if the organization raises and holds economic resources for the direct benefit of the governmental unit and the component unit is significant compared to the primary government. GASB Statement No. 39 has been applied as required in the preparation of these financial statements and accordingly, the Galveston College Foundation (the Foundation) is considered a component unit of the College. The Foundation is reported in separate financial statements because of the difference in its reporting model, as further discussed below.

The Foundation is a separate nonprofit organization, with the sole purpose of supporting the educational and other activities of the College. The Foundation reports its financial results under Financial Accounting Standards Board (FASB) Statements. Most significant to the Foundation's operations and reporting model are FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made* and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. The College furnished certain services, such as office space, supplies and staff assistance to the Foundation amounting to approximately \$45,000 and \$109,000 for the years ended August 31, 2005 and 2004, respectively. The costs of these services were not significant to the College. Complete financial statements for the Foundation can be obtained from their offices.

### 2. Summary of Significant Accounting Policies

#### Reporting guidelines

The basic financial statements of the College are presented in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*. The College is reported as a special government engagement in business type activities. The basic financial statement presentation provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. The basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Continued

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements, Continued

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

### Tuition discounting

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

*Title IV Higher Education Authority Program Funds* - Certain Title IV 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 student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount. If the amount is disbursed 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 qualifying students. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

### Basis of accounting

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

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 resources in accordance with restrictions imposed by external third parties.

Continued



# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements, Continued

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. 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. These resources also include auxiliary enterprises which are substantially self-supporting activities that provide services for students, faculty and staff.

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, and then towards restricted resources.

### Accounting principle change

Effective September 1, 2004, the College changed its method of accounting for library books based on the recommendations from the Texas Higher Education Coordinating Board. Library books will be depreciated over 15 years. The following adjustment has been made to reflect the cumulative effect of the accounting change:

Net assets - invested in capital assets, net of related debt:	
Balance, as previously reported at August 31, 2004	\$ 2,874,713
Less accumulated depreciation library books	(407,654)
Less library book depreciation	<u>(29,580)</u>
Balance, as restated at August 31, 2004	\$ <u>2,437,479</u>

### 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 Regents adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1.

### 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. The governing board has designated public funds investment pools to be cash equivalents, as the investments are redeemable on demand.

### 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.

Continued

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements, Continued

### Capital assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovation of \$100,000 to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings	45 years
Land improvements	20 years
Library books	15 years
Furniture, equipment and vehicles	5-10 years
Computer systems	5 years

### Deferred revenues

Deferred revenues, primarily consisting of tuition and fees, relate to academic terms in the next fiscal year and as such, have been deferred. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

### Classification of revenues and expenses

The College defines operating activities, for purposes of reporting on the Statement of Revenues, Expenses, and Changes in Net Assets, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods or services received. With the exception of interest expense on long-term indebtedness, substantially all College expenses are considered to be operating expenses. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, property tax, and investment income.

### Management estimates

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

### Income taxes

Galveston Community College District is exempt from Federal income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to Federal income taxes under Internal Revenue Code Section 511 (a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc., Organizations*. The College had no unrelated business income tax liability for the years ended August 31, 2005 and 2004.

Continued

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements, Continued

### Reclassifications

Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

### 3. **Authorized Investments**

The Board of Regents of the College has adopted a written investment policy regarding the investments of its funds as defined in the Public Funds Investment Act (Chapter 2256.001 Texas Government Code). The investments of the College are in compliance with the Board of Regents' investment policy and the Public Funds Investment Act. Such investments include (1) obligations of the United States and its agencies, (2) directed obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit and, (5) other instruments and obligations authorized by statute.

### 4. **Deposits and Investments**

Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the College's deposits may not be returned to it. The College's investment policy requires pledging of collateral for all bank balances in excess of Federal depository insurance. The following table presents the cash and cash equivalents included in Exhibit 1 Statement of Net Assets as of August 31:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents:		
Petty cash	\$ 1,456	1,456
Demand deposits	1,296,221	457,563
Investment pools:		
Lone Star Investment Pool	1,196,086	2,455,753
Vanguard Admiral Treasury Money Market Fund	573,746	560,879
Local Government Investment Cooperative	<u>2,048,211</u>	<u>4,667</u>
Cash and cash equivalents	<u>\$ 5,115,720</u>	<u>3,480,318</u>

In accordance with its investment policy, the College limits its exposure to interest risk by structuring its portfolio to provide for liquidity for operating funds and maximizing yields for funds not needed within a two year period. The investment policy limits the maximum maturity length of obligations of the United States government, its agencies and instrumentalities and government sponsoring enterprises to two years.

The College limits its exposure to credit risk, the risk that the issuer of the debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government or securities issued by agencies of the United States Government that are explicitly guaranteed by the United States Government.

Concentration of credit risk - At August 31, 2005, the College had 100% of its investment portfolio in Federal Home Loan Mortgage Corporation Notes, which mature in 2007. With the exception of United States Government obligations, instrumentalities and government sponsored enterprises and authorized local government investment pools, no more than fifty percent (50%) of the total investment portfolio can be invested in any one security or with a single financial institution.

Continued

**GALVESTON COMMUNITY COLLEGE DISTRICT**

**Notes to Basic Financial Statements, Continued**

**5. Disaggregation of Receivables and Payables Balances**

Receivables consist of the following at August 31:

	<u>2005</u>	<u>2004</u>
Tuition and fee receivables, net	\$ 793,623	589,331
Federal receivables	75,491	88,106
Interest receivables	8,611	10,485
Other receivables	<u>145,246</u>	<u>143,989</u>
<b>Total</b>	<b>\$ <u>1,022,971</u></b>	<b><u>831,911</u></b>
Property tax receivable	\$ 651,838	673,866
Less allowance for doubtful accounts	<u>(37,689)</u>	<u>(42,962)</u>
	<b>\$ <u>614,149</u></b>	<b><u>630,904</u></b>

Payables consist of the following at August 31:

Vendors payable	\$ 267,276	303,755
Benefits payable	<u>13,889</u>	<u>20,136</u>
	<b>\$ <u>281,165</u></b>	<b><u>323,891</u></b>

**6. Capital Assets**

Capital assets activities for the years ended August 31:

	<u>2005</u>			<u>Balance August 31 2005</u>
	<u>Balance September 1 2004, as restated</u>	<u>Increase</u>	<u>Decrease</u>	
<b>Not depreciated:</b>				
Land	\$ 1,676,743			1,676,743
Construction in progress	<u>182,477</u>		<u>182,477</u>	<u>-</u>
<b>Total not depreciated</b>	<b><u>1,859,220</u></b>	<b><u>-</u></b>	<b><u>182,477</u></b>	<b><u>1,676,743</u></b>
<b>Other capital assets:</b>				
Buildings	9,779,856	1,355,683		11,135,539
Land improvements	114,300	19,027		133,327
Furniture, equipment and vehicles	695,567	103,691	41,800	757,458
Computer system	1,216,786			1,216,786
Library books	<u>829,847</u>	<u>17,234</u>	<u>171,005</u>	<u>676,076</u>
<b>Total depreciated</b>	<b><u>12,636,356</u></b>	<b><u>1,495,635</u></b>	<b><u>212,805</u></b>	<b><u>13,919,186</u></b>
<b>Less accumulated depreciation:</b>				
Buildings	3,700,349	257,328		3,957,677
Land improvements	99,000	1,793		100,793
Furniture, equipment and vehicles	472,660	96,373	41,800	527,233
Computer system	753,854	237,046		990,900
Library books	<u>437,234</u>	<u>30,729</u>	<u>171,005</u>	<u>296,958</u>
<b>Total accumulated depreciation</b>	<b><u>5,463,097</u></b>	<b><u>623,269</u></b>	<b><u>212,805</u></b>	<b><u>5,873,561</u></b>
<b>Net capital assets</b>	<b>\$ <u>9,032,479</u></b>	<b><u>872,366</u></b>	<b><u>182,477</u></b>	<b><u>9,722,368</u></b>

Continued

**GALVESTON COMMUNITY COLLEGE DISTRICT**

**Notes to Basic Financial Statements, Continued**

	2004			Balance August 31, 2004, as restated
	Balance September 1, 2003	Increase	Decrease	
<b>Not depreciated:</b>				
Land	\$ 1,676,743			1,676,743
Construction in progress		<u>182,477</u>		<u>182,477</u>
<b>Total not depreciated</b>	<u><b>1,676,743</b></u>	<u><b>182,477</b></u>	<u><b>-</b></u>	<u><b>1,859,220</b></u>
<b>Other capital assets:</b>				
Buildings	9,779,856			9,779,856
Land improvements	114,300			114,300
Furniture, equipment and vehicles	755,815	51,852	112,100	695,567
Computer system	1,185,230	31,556		1,216,786
Library books	<u>806,056</u>	<u>23,791</u>		<u>829,847</u>
<b>Total depreciated</b>	<u><b>12,641,257</b></u>	<u><b>107,199</b></u>	<u><b>112,100</b></u>	<u><b>12,636,356</b></u>
<b>Less accumulated depreciation:</b>				
Buildings	3,475,368	224,981		3,700,349
Land improvements	98,150	850		99,000
Furniture, equipment and vehicles	444,742	94,761	66,843	472,660
Computer system	516,808	237,046		753,854
Library books	<u>407,654</u>	<u>29,580</u>		<u>437,234</u>
<b>Total accumulated depreciation</b>	<u><b>4,942,722</b></u>	<u><b>587,218</b></u>	<u><b>66,843</b></u>	<u><b>5,463,097</b></u>
<b>Net capital assets</b>	<b>\$ <u>9,375,278</u></b>	<b><u>(297,542)</u></b>	<b><u>(45,257)</u></b>	<b><u>9,032,479</u></b>

**7. Noncurrent Liabilities**

	2005				
	Balance September 1, 2004	Additions	Payments	Balance August 31, 2005	Current Portion
Combined Fee Revenue Bonds Series 2004	\$ 6,595,000		525,000	6,070,000	540,000
Other liabilities - compensated absences	<u>244,103</u>	<u>42,377</u>	<u>31,800</u>	<u>254,680</u>	<u>25,000</u>
<b>Total</b>	<b>\$ <u>6,839,103</u></b>	<b><u>42,377</u></b>	<b><u>556,800</u></b>	<b><u>6,324,680</u></b>	<b><u>565,000</u></b>

Continued

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements, Continued

Noncurrent liabilities activities for the years ended August 31:

	2004				
	Balance September 1, 2003	Additions	Payments	Balance August 31, 2004	Current Portion
Combined Fee Revenue Refunding Bonds Series 1994	\$ 6,795,000		(6,795,000)		
Combined Fee Revenue Refunding Bonds Series 2004	<u>                    </u>	<u>6,595,000</u>	<u>                    </u>	<u>6,595,000</u>	<u>525,000</u>
Total bonds	6,795,000	6,595,000	(6,795,000)	6,595,000	525,000
Other liabilities - compensated absences	<u>390,533</u>	<u>                    </u>	<u>(146,430)</u>	<u>244,103</u>	<u>20,000</u>
Total	<u>\$ 7,185,533</u>	<u>6,595,000</u>	<u>(6,941,430)</u>	<u>6,839,103</u>	<u>545,000</u>

### 8. Bonds Payable

Bonds payable consist of Combined Fee Revenue and Refunding Bonds, Series 2004. General information related to bonds payable is summarized below:

- Refunded the 1994 Combined Fee Revenue Bonds, and paid cost of issuing the new bonds.
- Issued March 1, 2004.
- \$6,595,000, all authorized bonds have been issued.
- Interest rates range from 5.5% to 6.2%.
- Net proceeds from Refunding Series - \$682,235 after payment of \$168,285 in underwriting fees, insurance and other issuance costs.
- Additional \$680,437 of 1994 Series sinking fund monies was used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 2004 Series bonds.
- The 1994 Combined Fee Revenue Bonds are considered fully defeased and the liability for those bonds has been removed from the basic financial statements.
- Advanced refunding of the 1994 Series bonds reduced the College debt service payment over the next 11 years by approximately \$1,116,000.
- Economic gain - \$949,218 difference between the net present value of the old and new debt service payments.

Continued

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements, Continued

The College is to maintain a reserve account equal to the maximum annual principal and interest requirements. The reserve balance at August 31, 2005 is \$721,240, which meets the full reserve requirement.

The principal and interest expense requirements for the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 540,000	181,240	721,240
2007	550,000	167,740	717,740
2008	570,000	153,990	723,990
2009	580,000	139,740	719,740
2010	595,000	125,240	720,240
2011-2015	<u>3,235,000</u>	<u>360,595</u>	<u>3,595,595</u>
Total	\$ <u>6,070,000</u>	<u>1,128,545</u>	<u>7,198,545</u>

### 9. Unrestricted Net Assets

The College designates a portion of unrestricted net assets to indicate management's tentative plans for future use of financial resources. Designations of unrestricted net assets were as follows at August 31:

	<u>2005</u>	<u>2004</u>
Worker's compensation	\$ 25,000	25,000
Learning Resource Center	850,408	
Parking lot/Beacon Square	370,000	
Imaging equipment		18,974
Landscaping		73,619
Deferred maintenance	205,000	68,000
Technology	<u>60,000</u>	<u>417,557</u>
	\$ <u>1,510,408</u>	<u>603,150</u>

### 10. Employee Retirement Plans

The State of Texas (State) has joint contributory retirement plans for almost all of its employees. One of the primary plans in which the College participates is administered by the Teacher Retirement System of Texas (TRS). The percentages of participant salaries currently contributed by the State and by each participant are 6.0% and 6.4%, respectively, of annual compensation.

TRS does not separately account for each of its component government agencies, because it bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in the TRS annual financial report.

Continued

## GALVESTON COMMUNITY COLLEGE DISTRICT

### Notes to Basic Financial Statements, Continued

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 TRS. 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. Benefits fully vest after one year plus one day or employment. Since these are individual contracts, the State has no additional or unfunded liability for this program.

The total payroll for all College employees was \$8,043,871 and \$7,892,451 for fiscal years ended August 31, 2005 and 2004, respectively. The total payroll of employees covered by TRS was \$3,751,677 and \$3,418,163, and the total payroll of employees covered by ORP was \$2,466,729 and \$3,067,056 for fiscal years August 31, 2005 and 2004, respectively.

The retirement expense to the State for the College was \$373,495 and \$389,000 for the fiscal years ended August 31, 2005 and 2004, respectively. This amount represents the portion of expended appropriations made by the State Legislative on behalf of the College.

#### **11. Deferred Compensation Program**

The College's employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code Section 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants. As of August 31, 2005, the College has 43 employees participating in the program and a total of \$224,028 in contributions were invested in the plan during the fiscal year. As of August 31, 2004, the College had 50 employees participating in the program and a total of \$166,614 in contributions were invested in the plan during the fiscal year.

#### **12. Post Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for these benefits if they reach normal retirement age while working for the State. These and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State's contribution per full-time employee was \$316 to \$616 per month depending on the coverage elected for the years ended August 31, 2005 and 2004 and totaled \$630,911 and \$630,916, respectively. The cost of providing those benefits for retirees was \$292,474 and \$249,751 for August 31, 2005 and 2004, respectively.

Continued



# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements, Continued

### 13. Compensated Absences

The College has three ways in which compensated absences can be earned.

#### Sick leave

All full-time employees earn sick leave at the rate of one day per month. Sick leave can accumulate to a maximum of 60 days for the purpose of carry-over from year to year. Unused accrued sick leave is forfeited upon termination of employment with the College with one exception. Sick leave which was accrued prior to September 1, 1989, is compensated at the rate of one-half the accrued amount up to a maximum of 60 days based on the employee's salary at separation of service. The College's policy is to recognize sick leave when paid. The liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.

#### Vacation

Classified and administrative full-time employees are eligible for vacation benefits at a rate of one day per full month of employment; and may accrue and carry forward from one year to the next a maximum of 30 vacation days. Upon termination of employment, not more than 30 vacation days shall be compensated. The College has recognized an accrued liability for unpaid vacation leave in the amount of \$254,680 and \$244,103 for August 31, 2005 and 2004, respectively.

Faculty employees are not eligible to earn vacation benefits.

#### Compensatory time

For nonexempt employees, it is the policy of the College to compensate overtime hours worked with compensatory time calculated at the rate of 1.5 times for each hour worked over 40 hours per week. All compensatory hours should be used by the end of the month following that in which it was earned; however, a maximum of 40 hours may be accrued and carried forward from year to year. The liability is not shown in the financial statements since experience indicates the expenditure of compensatory time to be minimal.

### 14. Property Tax

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, business/land personal property located in the tax area of the College. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

At August 31:	<u>2005</u>	<u>2004</u>	
Assessed valuation of the College	\$ 3,581,392,948	3,371,244,982	
Less exemptions	<u>(276,882,930)</u>	<u>(266,107,177)</u>	
Net assessed valuation of the College	\$ <u>3,304,510,018</u>	<u>3,105,137,805</u>	
	<u>Current</u>	<u>Debt</u>	
	<u>Operations</u>	<u>Service</u>	<u>Total</u>
Tax rate per \$100 valuation for authorized	\$ .2700	-	.2700
Tax rate per \$100 valuation assessed	.1952	-	.1952

Continued

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements, Continued

Taxes levied for the years ended August 31, 2005 and 2004 were \$6,450,404 and \$6,211,747, respectively (which includes any penalty and interest assessed if applicable). Galveston County Tax Assessor and Collection is the collecting agency for the levy and remits the collections to the College, net of a collection fee.

Under GASB Statement No. 33, *Accounting and Financial Reporting for Non Exchange Transactions*, ad valorem taxes are imposed non-exchange revenue. Assets from imposed non-exchange transactions are recorded when the entity has an enforceable legal claim to the assets or when the entity receives resources, whichever comes first. The enforceable legal claim date for ad valorem taxes is the assessment date. The College has recognized all assessed taxes in the current year and recorded a receivable for uncollected taxes.

<u>Taxes Collected for August 31</u>	<u>2005</u>	<u>2004</u>
Current taxes collected	\$ 6,242,726	5,793,121
Delinquent taxes collected	240,502	242,837
Penalties and interest collected	<u>89,014</u>	<u>150,446</u>
Total collections	<u>\$ 6,572,242</u>	<u>6,186,404</u>

Tax collections for the years ended August 31, 2005 and 2004 were 97% and 93% respectively of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

### 15. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with accounting principles generally accepted in the United States of America. Grant funds are recognized as funds are actually expended. For Federal contracts and grant awards, funds expended by not collected are reported as receivables. Funds received but not expended during the reporting period are deferred until earned. As of August 31, 2005 and 2004, \$170,582 and \$48,121, respectively of grant funds have been received in advance.

### 16. Contingent Liabilities

#### Pending lawsuits and claims

As of August 31, 2005, the College is involved in various lawsuits. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, College management believes that this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

#### State and Federally assisted programs

The College participates in a number of State and Federally assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the College's compliance with applicable grant requirements will be finally determined at some future date. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the College expects such amounts, if any, to be immaterial.

Continued

## GALVESTON COMMUNITY COLLEGE DISTRICT

### Notes to Basic Financial Statements, Continued

#### 17. Recent Accounting Pronouncements

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. The provisions of this statement are effective for periods beginning after December 31, 2004.

In April 2004, GASB issued Statements No. 43, *Financial Reporting for Postemployment Benefits Other than Pension Plans*. The standards in this Statement apply for trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of other post employment benefit (OPEB) plans or the public employee retirement systems, or other third parties, that administer them. The provisions of this statement are effective for periods beginning after December 15, 2005.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This Statement is effective for periods beginning after December 15, 2006.

University management has not yet determined the impact that implementation of GASB Statements No. 42, 43, and 45 will have on the College's basic financial statements.

## **Supplemental Schedules**

## GALVESTON COMMUNITY COLLEGE DISTRICT

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

	2005				2004 Total	
	Educational Activity		Educational	Auxiliary		Total
	Unrestricted	Restricted	Activity	Enterprises		
<b>Tuition:</b>						
State funded courses:						
In-district resident tuition	1,394,193		1,394,193		1,224,601	
TPEG (set aside) *	88,684		88,684		84,102	
Non-resident tuition	139,510		139,510		135,020	
Non-state funded continuing education	<u>342,574</u>		<u>342,574</u>		<u>299,758</u>	
Total tuition	<u>1,964,961</u>	-	<u>1,964,961</u>	-	<u>1,743,481</u>	
<b>Fees:</b>						
Student service fee				73,408	67,555	
Laboratory fee	126,495		126,495		115,625	
Building use	593,397		593,397		537,402	
Registration fee	<u>125,250</u>		<u>125,250</u>		<u>117,845</u>	
Total fees	<u>845,142</u>	-	<u>845,142</u>	<u>73,408</u>	<u>838,427</u>	
<b>Scholarship allowances and discounts:</b>						
Scholarship allowances	(142,909)		(142,909)		(148,446)	
Remissions and exemption - state	(20,333)		(20,333)		(19,825)	
Remissions and exemption - local	(9,569)		(9,569)		(9,329)	
Title IV Federal grants to students	<u>(1,286,187)</u>		<u>(1,286,187)</u>		<u>(681,382)</u>	
Total scholarship allowances and discounts	<u>(1,458,998)</u>	-	<u>(1,458,998)</u>	-	<u>(858,982)</u>	
Total net tuition and fees	<u>1,351,105</u>	-	<u>1,351,105</u>	<u>73,408</u>	<u>1,722,926</u>	
<b>Other operating revenues:</b>						
Federal grants and contracts	48,963	3,170,516	3,219,479		2,830,441	
State grants and contracts	1,500	90,501	92,001		190,798	
Private grants and scholarships		251,909	251,909		137,019	
Sales and services of educational activities	23,062		23,062		16,116	
Other operating revenues	<u>236,896</u>		<u>236,896</u>		<u>281,589</u>	
Total other operating revenues	<u>310,421</u>	<u>3,512,926</u>	<u>3,823,347</u>	-	<u>3,455,963</u>	
<b>Auxiliary enterprises:</b>						
Residential life			-	55,462	55,255	
Less scholarship allowance and discounts			-	(52,679)	(49,219)	
Bookstore commission			-	58,588	51,015	
Vending commissions			-	14,255	13,473	
Other auxiliary revenue			-	<u>70,071</u>	<u>58,478</u>	
Total auxiliary enterprises	-	-	-	<u>145,697</u>	<u>129,002</u>	
Total operating revenues	<u>1,661,526</u>	<u>3,512,926</u>	<u>5,174,452</u>	<u>219,105</u>	<u>5,307,891</u>	
				(Exhibit 2)	(Exhibit 2)	

\* In accordance with Education Code 56.033, \$88,684 and \$84,102 for years August 31, 2005 and 2004, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

GALVESTON COMMUNITY COLLEGE DISTRICT

Schedule of Operating Expenses by Object  
 Year Ended August 31, 2005  
 (With Memorandum Totals for the Year Ended August 31, 2004)

	2005				2004 Total
	Salaries and Wages	State	Benefits Local	Other Expenses	
<b>Unrestricted - educational activities:</b>					
Instruction	\$ 4,021,964		603,292	568,056	4,893,371
Public service				13,950	143,988
Academic support	1,016,029		143,171	178,449	1,548,588
Student services	601,307		88,106	45,149	670,280
Institutional support	1,495,836		209,250	1,656,743	3,189,181
Operation and maintenance of plant	426,800		57,497	614,933	1,534,399
<b>Total unrestricted educational activities</b>	<b>7,561,936</b>	<b>-</b>	<b>1,101,316</b>	<b>3,077,280</b>	<b>11,740,532</b>
<b>Restricted - educational activities:</b>					
Instruction		602,644		67,449	670,093
Public service				10,643	5,554
Academic support		130,573			130,573
Student services	434,399	80,352		143,639	730,730
Institutional support		190,837		94,101	264,445
Scholarships and fellowships				1,342,710	1,447,019
<b>Total restricted educational activities</b>	<b>434,399</b>	<b>1,004,406</b>	<b>-</b>	<b>1,658,542</b>	<b>3,206,734</b>
<b>Total educational activities</b>	<b>7,996,335</b>	<b>1,004,406</b>	<b>1,101,316</b>	<b>4,735,822</b>	<b>15,186,541</b>
Auxiliary enterprises	47,536		9,525	83,726	158,235
Depreciation expense - buildings and other real estate improvements				259,121	224,979
Depreciation expense - equipment, furniture and library books				364,148	362,236
<b>Total operating expenses</b>	<b>\$ 8,043,871</b>	<b>1,004,406</b>	<b>1,110,841</b>	<b>5,442,817</b>	<b>15,931,991</b> (Exhibit 2)

## GALVESTON COMMUNITY COLLEGE DISTRICT

Schedule of Nonoperating Revenues and Expenses  
Year Ended August 31, 2005

(With Memorandum Totals for the Year Ended August 31, 2004)

	2005			2004 Total
	Unrestricted	Restricted	Auxiliary Enterprises	
Nonoperating revenues:				
State appropriations:				
Education and general state support	\$ 4,720,362			4,720,440
State group insurance		630,911		630,916
State retirement match		373,495		389,000
Enrollment growth				50,077
Total state appropriations	<u>4,720,362</u>	<u>1,004,406</u>	<u>-</u>	<u>5,790,433</u>
Property taxes	6,555,487			6,195,865
Investment income	<u>134,599</u>			<u>78,464</u>
Total nonoperating revenues	<u>6,690,086</u>	<u>-</u>	<u>-</u>	<u>6,274,329</u>
Nonoperating expenses:				
Interest on capital related debt	194,365			252,058
Loss on disposal of capital assets				45,257
Total nonoperating expenses	<u>194,365</u>	<u>-</u>	<u>-</u>	<u>297,315</u>
Net nonoperating revenues, net	<u>\$ 11,216,083</u>	<u>1,004,406</u>	<u>-</u>	<u>11,767,447</u>
			(Exhibit 2)	(Exhibit 2)

GALVESTON COMMUNITY COLLEGE DISTRICT

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

	Detail by Source					Capital Assets Net of Depreciation and Related Debt	Total	Available for Current Operations	
	Unrestricted	Restricted		Non-Expendable				Yes	No
		Expendable	Non-Expendable						
Current:									
Unrestricted	\$ 3,182,782					3,182,782	3,182,782		1,510,408
Board designated	1,510,408					1,510,408	1,510,408		
Auxiliary	628,351					628,351	628,351		
Scholarships		224,277				224,277	224,277		
Loans		162,917				162,917	162,917		
Plant:									
Unexpended	189,270					189,270	189,270		
Debt service	1,391,586			721,240		2,112,826	1,391,586		721,240
Investment in plant						3,652,368	3,652,368		3,652,368
Total net assets, August 31, 2005	6,902,397	1,108,434	-			11,663,199	5,779,183		5,884,016
Total net assets, August 31, 2004	6,137,883	1,075,826	-			9,651,188	5,891,193		3,759,995
Net increase (decrease) in net assets	\$ 764,514	32,608	-			2,012,111	(112,010)		2,124,021
						(Exhibit 2)			



**SINGLE AUDIT REPORTS  
AND SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

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

Board of Regents  
Galveston Community College District:

We have audited the basic financial statements of Galveston Community College District (the College) as of and for the year ended August 31, 2005, and have issued our report thereon dated October 24, 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 over financial reporting 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. However, we noted other matters involving internal control over financial reporting, which we have reported to management of the College in a separate letter dated October 24, 2005.

**Compliance and Other Matters**

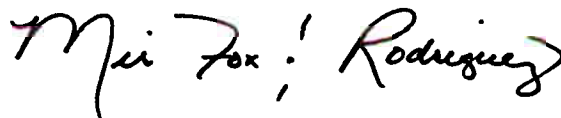
As part of obtaining reasonable assurance about whether the College's basic financial statements are free of material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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*.

**Texas Public Funds Investment Act**

We have performed tests designed to verify the College's compliance with the requirements of the Texas Public Funds Investment Act. During the year ended August 31, 2005, the results of our tests disclosed no instances of noncompliance with the Act. However, providing an opinion on compliance with the Act was not an objective of our audit and accordingly, we do not express an opinion.

This report is intended solely for the information and use of the Board of Regents, the College's management, 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.

October 24, 2005  
One Riverway, Suite 1900  
Houston, TX 77056  
Off. (713) 622-1120  
Fax (713) 961-0625



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

Board of Regents  
Galveston Community College District:

**Compliance**

We have audited the compliance of Galveston Community College District (the 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. The College's major Federal programs are identified in the summary of auditors' 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.

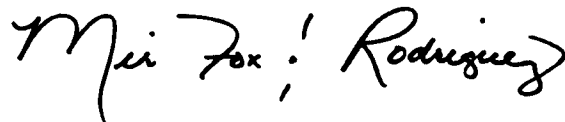
In our opinion, Galveston Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended August 31, 2005.

**Internal Control over Compliance**

The management of the College is responsible for establishing and maintaining effective internal control over compliance with 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 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 the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Regents, the College's management, 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.

A handwritten signature in black ink that reads "Mui Fox ; Rodriguez". The signature is written in a cursive, flowing style.

October 24, 2005

## GALVESTON COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards  
Year Ended August 31, 2005

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures and Pass-through Disbursements</u>
<u>U.S. Department of Education</u>			
Direct Programs:			
Federal Supplemental Educational Opportunity Grants	84.007	P007A034027	\$ 78,822
Subsidized loans	84.032	N/A	569,398
Unsubsidized loans	84.032	N/A	409,430
PLUS loans	84.032	N/A	23,332
Federal Work-Study Program	84.033	P033A044027	83,059
TRIO - Student Support Services	84.042	P042A011200	220,470
TRIO - Upward Bound	84.047	P047A031035	210,408
Federal Pell Grant Program	84.063	P063P042585	<u>2,337,742</u>
Total Direct Programs			<u>3,932,661</u>
Passed-Through Programs:			
Texas Higher Education Coordinating Board:			
Carl Perkins Annual Application	84.048	54218	183,476
Carl Perkins Leadership Allowance and Academy	84.048	51103	<u>94,101</u>
Total Carl Perkins			<u>277,577</u>
Leveraging Educational Assistance Partnership	84.069	N/A	<u>1,401</u>
Total Passed-Through Programs			<u>278,978</u>
Total U.S. Department of Education			<u>4,211,639</u>
<u>U.S. Department of Labor</u>			
Passed-Through Program -			
Texas Higher Education Coordinating Board - WIA Incentive Grants	17.267	N/A	<u>10,000</u>
Total U.S. Department of Labor			<u>10,000</u>
Total expenditures of Federal awards			<u>\$ 4,221,639</u>

See accompanying notes to schedule of expenditures of Federal awards.

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Notes to Schedule of Expenditures of Federal Awards Year Ended August 31, 2005

### 1. Federal Assistance Reconciliation

Federal revenues:	
Restricted Federal grants and contracts - (Schedule A)	\$ 3,170,516
Federal Family Education Loans	1,002,160
Indirect/Administrative Costs	<u>48,963</u>
Total expenditures of Federal awards	\$ <u>4,221,639</u>

### 2. Significant Accounting Policies Used in Preparing the Schedule

The schedule of expenditures of Federal awards presents the activity of Federal financial assistance programs of the College for the year ended August 31, 2005. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the College for the purposes of the award and may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The College has followed all applicable guidelines issued by various entities in the preparation of the schedule.

### 3. Relationship to Federal Reports

Differences between amounts reflected in the financial reports filed with grantor agencies for the programs and in the schedule of expenditures of Federal awards are due to different program year ends and accruals that will be reflected in the next report filed with the agencies.

# GALVESTON COMMUNITY COLLEGE DISTRICT

## Schedule of Findings and Questioned Costs Year Ended August 31, 2005

Section 1

Summary of Auditors' Results

Financial Statements

- |   |               |
|---|---------------|
| 1. Type of auditors' report issued:   | Unqualified   |
| 2. Internal control over financial reporting:                                 |               |
| a. Material weaknesses identified?  | No            |
| b. Reportable conditions identified not considered to be material weaknesses? | None reported |
| c. Noncompliance material to the financial statements noted?                  | No            |

Federal Awards

- |   |               |
|---|---------------|
| 1. Internal control over major programs:  |               |
| a. Material weaknesses identified?  | No            |
| b. Reportable conditions identified not considered to be material weaknesses?   | None reported |
| 2. Type of auditors' report issued on compliance for major programs:  | Unqualified   |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)? | No            |
| 4. Identification of major programs:  |               |

CFDA Number

Name of Federal Program

84.007  
84.032  
84.033  
84.063

Student Financial Aid Cluster  
Federal Supplemental Educational Opportunity Grants  
Federal Family Education Loans  
Federal Work-Study Program  
Federal Pell Grant Program

84.048  
84.048

Carl Perkins Basic  
Carl Perkins Leadership Allowance  
and Academy Grant

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee?                                 | Yes       |

Section 2

Financial Statement Findings

(None reported)

Section 3

Federal Award Findings and Questioned Costs

(None reported)

Section 4

Schedule of Prior Year Findings

The audit of Federal awards disclosed no findings that were required to be reported for the year ended August 31, 2004.

## **STATISTICAL SECTION**

These statistical tables provide selected financial and demographic information.  
The statistical tables are for informational purposes only and are not audited.

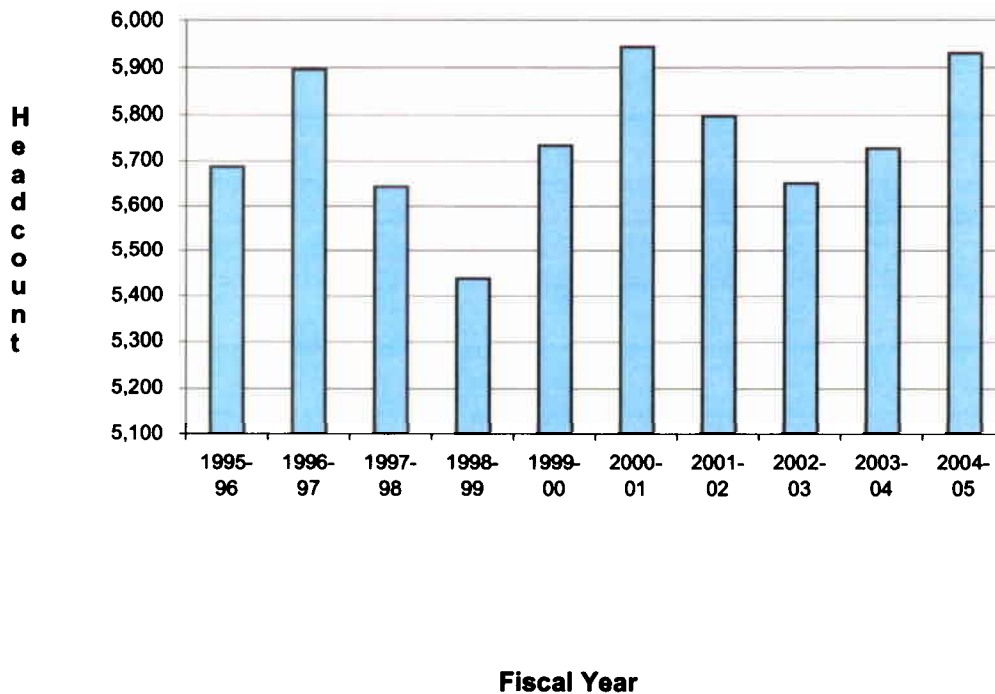


**Galveston Community College District  
Headcount Enrollments Trend  
Last 10 Fiscal Years (Unaudited)**

Fiscal Year	State Funded
1995-96	5,688
1996-97	5,896
1997-98	5,645
1998-99	5,438
1999-00	5,734
2000-01	5,943
2001-02	5,798
2002-03	5,653
2003-04	5,728
2004-05	5,930

**Note:**  
2004-05, uncertified figures (Spring '05, Summer -1 '05, Summer-2 '05)

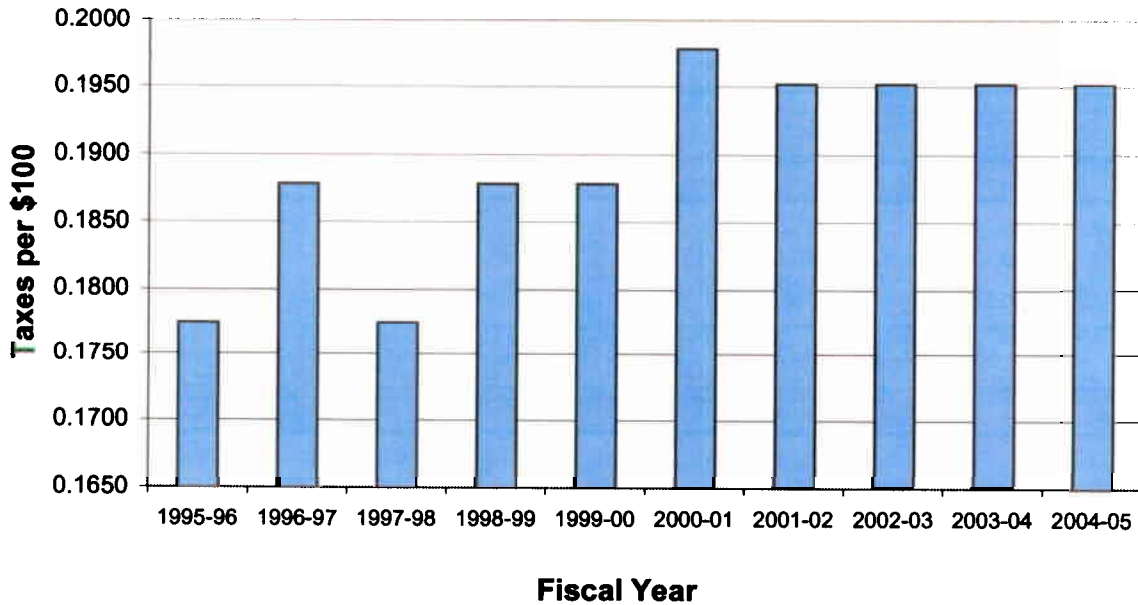
**Galveston Community College District  
Headcount Enrollment (Unaudited)**



**Galveston Community College District  
Ad Valorem Rates Assessed  
Last 10 Fiscal Years (Unaudited)**

Fiscal Year	Current Operations	Debt Service	Total
1995-96	0.1775	0.0000	0.1775
1996-97	0.1878	0.0000	0.1878
1997-98	0.1775	0.0000	0.1775
1998-99	0.1878	0.0000	0.1878
1999-00	0.1878	0.0000	0.1878
2000-01	0.1978	0.0000	0.1978
2001-02	0.1952	0.0000	0.1952
2002-03	0.1952	0.0000	0.1952
2003-04	0.1952	0.0000	0.1952
2004-05	0.1952	0.0000	0.1952

**Galveston Community College District  
Ad Valorem Rates Assessed (Unaudited)**



**Galveston Community College District  
Ad Valorem Rates Authorized  
Last 10 Fiscal Years (Unaudited)**

Fiscal Year	Current Operations	Debt Service	Total
1995-96	*	*	0.270000
1996-97	*	*	0.270000
1997-98	*	*	0.270000
1998-99	*	*	0.270000
1999-00	*	*	0.270000
2000-01	*	*	0.270000
2001-02	*	*	0.270000
2002-03	*	*	0.270000
2003-04	*	*	0.270000
2004-05	*	*	0.270000

\* The maximum combined authorized tax rate approved by voters in the College district is \$0.27. No limit is imposed on the tax rate specifically for current operations or debt service. However, pursuant to Texas Education Code Section 130.122 Junior College Districts - Tax Bonds and Maintenance Tax, the debt service portion of the combined tax rate may not exceed \$0.50.

Each year, the maximum authorized tax rate for current operations is the difference between the maximum combined authorized rate and the assessed debt service rate.

**Galveston Community College District  
Net Assessed Valuation  
Last 10 Fiscal Years (Unaudited)**

Fiscal Year	Assessed Valuation	Less: Exemptions	Net Assessed Valuation
1994-95	\$ 2,033,699,792		2,033,699,792
1995-96	\$ 2,051,329,607		2,051,329,607
1996-97	\$ 2,302,497,305	174,822,279	2,127,675,026
1997-98	\$ 2,381,428,827	183,996,907	2,197,431,920
1998-99	\$ 2,401,473,927	187,264,444	2,214,209,483
1999-00	\$ 2,498,992,762	196,848,547	2,302,144,215
2000-01	\$ 2,652,096,883	213,230,983	2,438,865,900
2001-02	\$ 2,881,049,453	236,163,380	2,644,886,073
2002-03	\$ 2,929,689,550	229,164,164	2,700,525,386
2003-04	\$ 3,371,244,982	266,107,177	3,105,137,805
2004-05	\$ 3,581,392,948	276,882,930	3,304,510,018

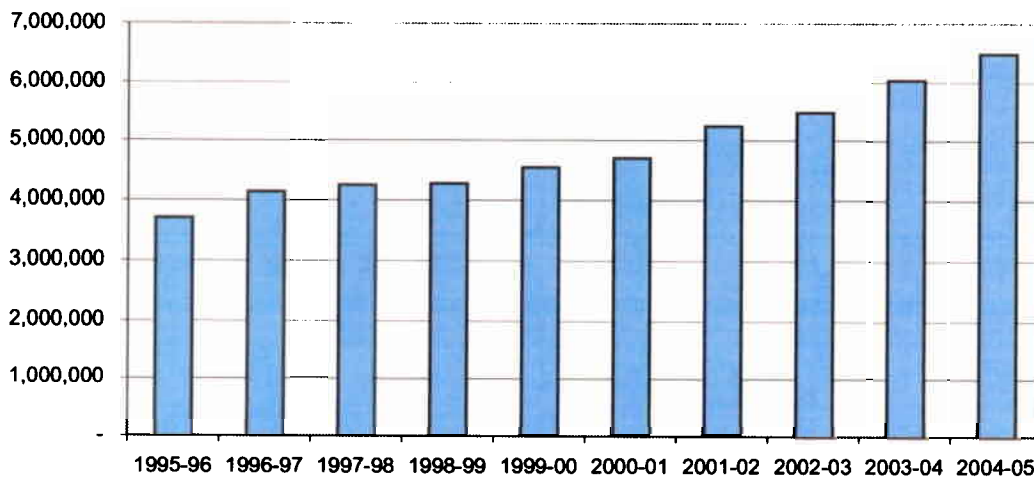
Source: Galveston County Appraisal District

**Galveston Community College District  
Ad Valorem Taxes Collected  
Last 10 Fiscal Years (Unaudited)**

Fiscal Year	Current Tax Collections	Delinquent Tax Collections	Total Tax Collections
1995-96	\$ 3,481,893	226,527	3,708,420
1996-97	\$ 3,828,791	312,012	4,140,803
1997-98	\$ 3,996,531	251,570	4,248,101
1998-99	\$ 3,977,324	295,628	4,272,952
1999-00	\$ 4,344,141	198,675	4,542,816
2000-01	\$ 4,592,157	108,235	4,700,392
2001-02	\$ 5,028,667	209,241	5,237,908
2002-03	\$ 5,259,003	209,124	5,468,127
2003-04	\$ 5,793,121	242,837	6,035,958
2004-05	\$ 6,242,726	240,502	6,483,228

Source: Galveston County Appraisal District

**Galveston Community College District  
Ad Valorem Taxes Collected (Unaudited)**

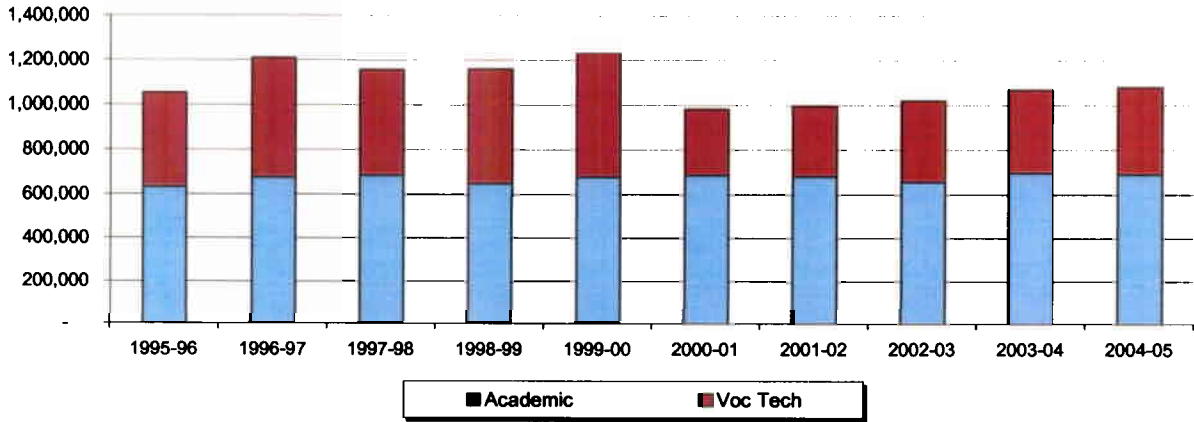


**Galveston Community College District  
Contact Hour Information  
Last 10 Fiscal Years (Unaudited)**

Fiscal Year	Contact Hours		
	Academic	Voc Tech	Total
1995-96	633,216	419,665	1,052,881
1996-97	675,904	532,619	1,208,523
1997-98	686,640	468,967	1,155,607
1998-99	649,392	508,959	1,158,351
1999-00	679,472	552,136	1,231,608
2000-01	687,904	294,120	982,024
2001-02	681,312	314,176	995,488
2002-03	657,760	361,826	1,019,586
2003-04	697,500	371,528	1,069,028
2004-05	692,511	387,921	1,080,432

Note:  
2004-05, uncertified figures (Spring '05, Summer-1 '05, and Summer-2 '05)

**Galveston Community College District  
Contact Hour Information (Unaudited)**



**Galveston Community College District  
State Appropriations per FTSE  
Last 10 Fiscal Years (Unaudited)**

Fiscal Year	Allocations per FTSE
1995-96	2,420
1996-97	2,193
1997-98	2,710
1998-99	2,798
1999-00	2,614
2000-01	3,106
2001-02	4,016
2002-03	3,608
2003-04	3,026
2004-05	2,967

**Galveston Community College District  
State Appropriations per FTSE (Unaudited)**

