



BLINN COLLEGE

Annual Financial Report

**Fiscal Years Ended
August 31, 2004 and 2003**

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

BLINN COLLEGE

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BLINN COLLEGE

Organizational Data
Year Ended August 31, 2004

Board of Trustees

Officers

Steve M. Westbrook, President
Atwood C. Kenjura, Vice-President
Norwood Lange, Secretary

Members

Term Expires
May 31,

L. J. Lacina, Jr.	Brenham, Texas	2006
Atwood C. Kenjura	Brenham, Texas	2006
Steve M. Westbrook	Brenham, Texas	2006
Norwood Lange	Brenham, Texas	2008
Leon B. Toubin	Brenham, Texas	2008
Henry J. Boehm, Jr., M.D.	Brenham, Texas	2010
Don Jones	Brenham, Texas	2010

Key Administrators

Donald E. Voelter, Ph.D., President
John D. Barkman, Executive Vice President
John M. Robertson, III, VP Business Services
Ronald L. Johnston, Ed.D., VP Academic Affairs
John Harris, Ed.D., VP Student Services
Barbara Pearson, Ph.D., VP Brazos County Campuses

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Blinn College:

We have audited the accompanying basic financial statements of Blinn College (the College) as of and for the years ended August 31, 2004 and 2003, 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 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 Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

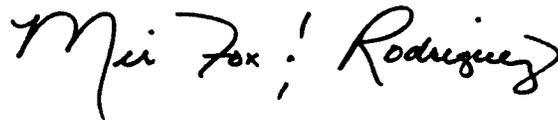
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the College as of August 31, 2004 and 2003, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2004 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 on pages 4 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our 2004 audit was performed for the purpose of forming an opinion on the August 31, 2004 basic financial statements of the College, taken as a whole. The supplemental schedules (schedules A through D and G) 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 and G have been subjected to the auditing procedures applied in our audits 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 by us in our audits of the basic financial statements and, accordingly, we express no opinion on them.

Our 2004 audit was conducted for the purpose of forming an opinion on the August 31, 2004 basic financial statements. The accompanying schedule of Expenditures of Federal Awards (Schedule E) and Expenditures of State Awards (Schedule F) as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations* and the *State of Texas Single Audit Circular*, respectively, are presented for purpose of additional analysis and are not a part of the August 31, 2004 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2004 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2004 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.

November 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Blinn College's (the College) annual financial statements provides an overview of the College's financial performance for the fiscal years ended August 31, 2004 and 2003. Management's discussion and analysis is based on management's knowledge of current activities, resultant changes and known facts; therefore, it should be read in conjunction with the accompanying basic financial statements and the associated notes. The basic financial statements, notes and this discussion are the responsibility of management.

Financial Highlights and Significant Activities for 2004

The following significant financial events and activities occurred during the fiscal year ended August 31, 2004:

- Net assets increased by \$1.6 million
- State allocations decreased by \$446,000
- Tuition and fee revenue increased by \$2.5 million
- Unrestricted net assets increased by \$1.3 million
- The sixth building on the Bryan campus was completed
- The Bryan campus library renovation and expansion was completed

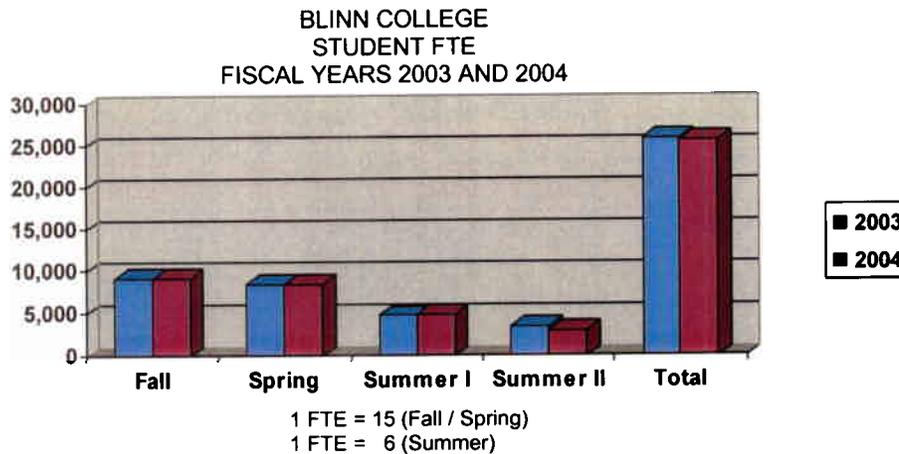
The College's overall net assets increased approximately \$1.6 million, or 3%, which reflects the continued commitment of the Board of Trustees to invest in capital improvements. The State Legislature has again reduced funding to all public community colleges in the current biennium. In fiscal year 2004, the first year of the biennium, the Legislature decreased the College's State allocation by approximately \$446,000. To counter the effects of the reduction in State funding and to maintain the quality of education for the students that the College serves, the College's Board of Trustees raised tuition and fees accordingly. Students who are legal residents of Washington County (in-district) saw a \$2 per semester credit hour increase in their tuition rates. Students who live outside of Washington County (out-of-district) saw a \$5 per semester credit hour increase on their tuition rates. These actions led to an increase in total tuition and fee revenue of approximately \$2.5 million, or 14.7%.

Total operating revenues increased approximately \$3.2 million, or 4.2%. Utilizing strict cost containment measures, the College's administration was able to limit the increase in operating expenses to approximately \$1.4 million, or 2.6%. The final net operating income of the College was approximately \$2.1 million, a \$925,000 increase over fiscal year 2003. This increase in the net operating income is due to tuition increases implemented by the College.

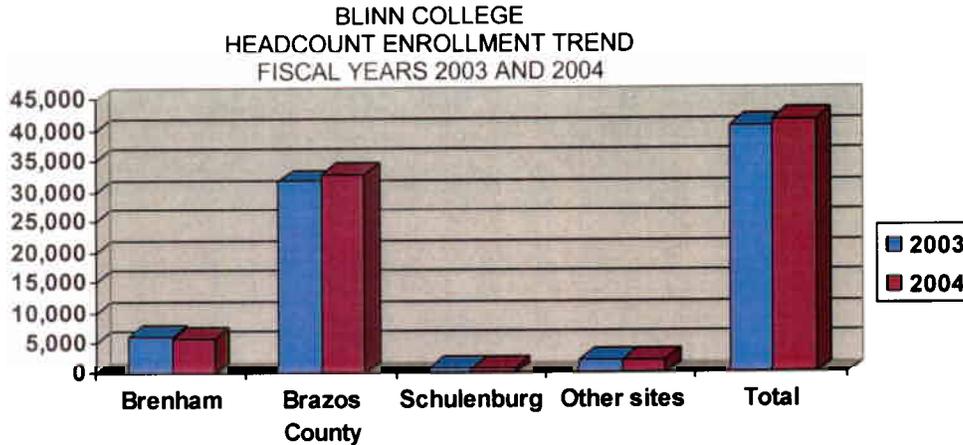
In January 2004, the sixth building on the Bryan campus was opened for use. The 55,000 square foot building houses additional classrooms and science laboratories. The new two-story building also provided larger spaces for the campus bookstore, copy center, maintenance facilities and mailroom. The Bryan library completed a total renovation and 10,000 square foot expansion in August 2004. The new library space includes a dedicated classroom with thirty computer stations, group study rooms and additional individual study tables.

On average, 32% of the College's students transfer to and graduate from a four-year institution. The State average for transfers from all of the State's community colleges is 12%.

Below is a breakdown of the College's full time equivalency (FTE) enrollment by term for fiscal years 2003 and 2004:



Below is a two-year comparison for student enrollment by campus:



Overview of the Basic Financial Statements

The College qualifies as a special purpose government entity, which is engaged in business-type activities. The basic financial statements are prepared on that basis and their form mirrors the statements utilized by organizations in the private sector of the economy. The basic financial statements include a statement of net assets, statement of revenues, expenses, and changes in net assets, 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. The statement presents all assets and liabilities of the College, and the change in net assets as of the end of the fiscal year. The statement is prepared under 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, which is one indicator of the financial condition of the College when considered with other such factors such as changes in enrollment, contact hours, 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 vendors, bondholders and other entities at the end of the year.

The statement of revenues, expenses, and changes in net assets denotes the results of business activities as revenues earned and expenses incurred over the course of the fiscal year. The statement also provides information regarding how the net assets of the College changed during the year. The statement is divided into the operating results of the College as well as the non-operating revenues and expenses. Operating revenues are primarily those that result from instruction, the operation of the College's auxiliary services (student housing, cafeteria, athletics, etc.) and Federal, State and local grants. Also included in operating revenues are State allocations in accordance with the Texas Higher Education Coordinating Board. Property tax receipts and interest income, while budgeted for operations, are considered to be non-operating revenues. Depreciation is shown as an operating expense according to accounting principles generally accepted in the United States of America.

The statement of cash flows presents the information related to cash inflows and cash outflows summarized by operating, financing and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earning event. This information is crucial to determining the College's fiscal viability and its ability to meet financial obligations as they mature and helps users assess the College's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

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.

Statement of Net Assets

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets			
Current assets	\$ 21,041,000	21,828,000	29,455,000
Capital assets, net of depreciation	83,079,000	83,385,000	77,008,000
Non-current assets	<u>8,580,000</u>	<u>7,918,000</u>	<u>7,700,000</u>
Total assets	<u>112,700,000</u>	<u>113,131,000</u>	<u>114,163,000</u>
Liabilities			
Current liabilities	17,839,000	17,149,000	16,226,000
Non-current liabilities	<u>41,132,000</u>	<u>43,893,000</u>	<u>46,471,000</u>
Total liabilities	<u>58,971,000</u>	<u>61,042,000</u>	<u>62,697,000</u>
Net assets			
Investments in capital assets, net of related debt	40,318,000	40,513,000	38,334,000
Restricted	9,230,000	8,684,000	8,673,000
Unrestricted	<u>4,181,000</u>	<u>2,892,000</u>	<u>4,459,000</u>
Total net assets	<u>\$ 53,729,000</u>	<u>52,089,000</u>	<u>51,466,000</u>

At August 31, 2004, current assets include \$15 million of cash and cash equivalents, of which approximately \$1.1 million represents unspent bond proceeds, and \$5.4 million represents student receivables related to fiscal year 2005 fall semester. The decrease in current assets over the past two years is due to \$3.2 million and \$8 million spent on construction projects and capital improvements at the Bryan Campus in fiscal years 2004 and 2003, respectively. Student account receivables increased \$300,000 from August 31, 2003 and \$1.2 million from August 31, 2002 due to the higher tuition charges each year and student growth from 2002 to 2003.

Capital assets increased in 2003 as significant construction projects were completed on the Bryan campus. The overall net decrease in capital assets in 2004 is due to increasing annual depreciation expense from those completed projects over the past three years.

Current liabilities at August 31, 2004 include approximately \$1.4 million in accounts payable, \$13 million in deferred revenues, which relate to the fall 2004 semester student enrollment and the current portion of bond and lease payments of approximately \$2.8 million. Deferred tuition and fees increased by \$643,000 from fiscal year 2003 and \$1.8 million from fiscal year 2002 due to an increase in tuition rates and enrollment growth. Non-current liabilities consist of future bond and lease payments, which decreased by \$2.8 million and \$2.2 million in fiscal year 2004 and 2003, respectively, due to scheduled debt retirement.

At August 31, 2004 and 2003, total net assets were \$54 million and \$52 million, respectively. Net assets have increased over the three year period. The College has an unrestricted net asset balance of approximately \$4.2 million, which the College maintains as a contingency reserve. Restricted net assets include endowment funds of \$6.6 million and required debt service reserves of approximately \$2.1 million. The College's financial position remains strong with adequate liquid assets and a reasonable level of unrestricted net assets.

Statement of Revenues, Expenses, and Changes in Net Assets:

The following chart summarizes the statements of revenue, expenses, and changes in net assets (rounded to the nearest thousand) for the fiscal years ended August 31:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total operating revenues	\$ 57,123,000	54,810,000	53,432,000
Total operating expenses	<u>(54,969,000)</u>	<u>(53,582,000)</u>	<u>(51,890,000)</u>
Net operating revenues	<u>2,154,000</u>	<u>1,228,000</u>	<u>1,542,000</u>
Total nonoperating revenues	1,387,000	1,310,000	1,360,000
Total nonoperating expenses	<u>(2,104,000)</u>	<u>(2,387,000)</u>	<u>(1,894,000)</u>
Net nonoperating expenses	<u>(717,000)</u>	<u>(1,077,000)</u>	<u>(534,000)</u>
Income before other revenues	1,437,000	151,000	1,008,000
Additions to endowments	<u>203,000</u>	<u>472,000</u>	<u>613,000</u>
Total increase in net assets	1,640,000	623,000	1,621,000
Net assets, beginning of year	<u>52,089,000</u>	<u>51,466,000</u>	<u>49,845,000</u>
Net assets, end of year	\$ <u>53,729,000</u>	<u>52,089,000</u>	<u>51,466,000</u>

For fiscal year 2004, operating revenues include approximately \$22 million in State allocations, \$20 million in tuition and fees, net of discounts, \$9.4 million in Federal, State and local grants and contracts, and \$5.3 million in auxiliary enterprises. Due to State funding constraints the State Legislature has decreased State allocations over the past two years by \$450,000 and \$1.2 million in 2004 and 2003, respectively. Federal financial aid to students has increased over the past two years by \$860,000 and \$1.2 million in 2004 and 2003, respectively. An increase in tuition rates over the past two years have contributed to the increase in tuition and fees of \$2.6 million and \$1.8 million in 2004 and 2003, respectively. The revenue from auxiliary enterprises consists of revenues from college-operated student housing and food services, leases on bookstore facilities, commissions on bookstore sales and vending machines, and rental of retail storefronts. The most significant sources of operating revenues for the College are tuition and fees and State allocations representing approximately 74% of total operating revenues annually.

Operating expenses consist mainly of personnel costs, which average 63% of total operating expenses annually. Below is a table of operating expenses for the fiscal years ended August 31 (rounded to the nearest thousand):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Instruction and general	\$ 31,320,000	31,478,000	29,649,000
Institutional support	5,622,000	4,984,000	5,896,000
Operation and maintenance of plant	4,249,000	3,894,000	4,284,000
Auxiliary enterprises	5,358,000	4,956,000	5,512,000
Depreciation	2,421,000	2,266,000	1,617,000
Scholarships and fellowships	<u>5,999,000</u>	<u>6,004,000</u>	<u>4,932,000</u>
Total operating expenses	\$ <u>54,969,000</u>	<u>53,582,000</u>	<u>51,890,000</u>

For fiscal year 2004, instruction and general expenses decreased slightly due to increased cost containment measures instituted by management. Institutional support increased \$638,000 due to increase in State retiree's insurance costs of \$95,000, bad debt expense of \$154,000 and property and liability insurance of \$143,000. Operation and maintenance of plant increased \$355,000 due to the increased costs of operating the new buildings brought into operations in late fiscal year 2003. Auxiliary enterprises expenses increased by \$402,000 due to increased costs of operating and maintaining campus housing of \$72,000 and \$230,000 spent on food service on the Bryan campus. Depreciation increased by \$155,000 due to the depreciation on the new buildings and equipment purchased in fiscal year 2004. Due to the reduced funding levels from the State, management chose not to increase the amount of scholarships in fiscal year 2004.

For fiscal year 2003, depreciation increased by 40% due to addition of depreciation for \$13.2 million of new buildings constructed and equipment purchased in fiscal year 2003. Scholarships increased by 22% due to student growth and increase in tuition and fees. Instruction and general increased by 4% due to increase in enrollment and institutional support and auxiliary enterprises decreased by 16% and by 10%, respectively, because of reduced spending as a result of State funding reductions.

Statement of Cash Flow

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash provided by (used in):			
Operating activities	\$ 4,945,000	2,894,000	5,557,000
Non-capital financing activities	1,313,000	1,399,000	1,493,000
Capital and related financing activities	(6,866,000)	(13,196,000)	(1,804,000)
Investing activities	<u>(5,817,000)</u>	<u>1,384,000</u>	<u>(578,000)</u>
Net (decrease) increase in cash and cash equivalents	(6,425,000)	(7,519,000)	4,668,000
Cash and cash equivalents - beginning of year	<u>23,869,000</u>	<u>31,388,000</u>	<u>26,720,000</u>
Cash and cash equivalents - end of year	\$ <u>17,444,000</u>	<u>23,869,000</u>	<u>31,388,000</u>

The College has provided positive cash flow from operating activities over the three year period. Cash inflows primarily consist of cash receipts from State allocations and tuition and fees while cash outflows primarily consist of cash disbursements for wages, benefits, supplies and scholarships.

The increase in cash flows from operations in 2004 is due to the increase in receipts from students related to tuition and fees. The decrease in cash flows from operations in 2003 was due to the 7% decrease in State funding and increase in cash outlays for wages and benefits and scholarships due to enrollment growth. The changes in net cash used by capital and related financing activities will fluctuate annually based on the College's issuance of long-term debt and capital acquisitions. In 2004, the College spent \$2 million in capital acquisitions and paid \$4.7 million in scheduled debt service payments. In 2003, the College issued \$4.5 million of refunding bonds, made scheduled debt service payments of \$4.5 million and spent \$8.7 million in construction and purchases of capital assets.

Capital Assets and Debt Administration

Over the past two fiscal years, the College has completed and occupied the sixth building on its Bryan Campus, a 55,000 square foot, two story building that added classrooms, science laboratories and a larger bookstore and copy center. The College added additional parking and renovated a theater complex into large, state-of-the-art classrooms in 2003.

The College issued \$4.5 million of revenue bonds in fiscal year 2003 to refund the 1993 Revenue Bonds at lower interest rates, saving \$230,000 over the remaining life of the bonds. Scheduled principal payments on the various bond issues and capital leases totaled \$2.7 million and \$2.4 million in 2004 and 2003, respectively.

Future Considerations

The College has increased tuition and fees to offset the reduction in State funding from fiscal year 2004. Since fiscal year 2005 is the second half of the funding biennium, there will be no increases in State allocations to the College. The Board of Trustees is committed to providing high levels of quality educational services either by raising local funds or by containing expenses, or through a combination of both methods. The outlook for additional funding in the next fiscal biennium (fiscal years 2006 and 2007) is promising as the State's economy is on the rebound.

The College will be adding a new classroom building on the Schulenburg campus during fiscal year 2005 as a result of existing enrollment growth and a demand for additional classes at that campus. The classroom building is being financed through the Schulenburg Economic Development Council (EDC), which sold bonds for \$1.2 million. The College will fund an additional \$300,000 of construction costs through its Blinn College Foundation or from College reserve funds.

The College will open a new campus in Sealy, Texas in January 2005 at the request of the City of Sealy and the Sealy school district. Approximately 7,000 square feet of leased retail space on Interstate Highway 10 will be converted to six classrooms, a library and offices. An assortment of academic and technical education courses will be offered. The College will fund the construction costs from College reserve funds.

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 any questions about this report or need additional information, contact the Business Services office at 902 College Avenue, Brenham, Texas 77833.

BLINN COLLEGE

Statements of Net Assets
August 31, 2004 and 2003

<u>Assets</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and cash equivalents	\$ 14,872,142	15,951,709
Accounts receivable	6,064,884	5,857,250
Interest receivable	69,428	
Inventories	20,909	13,526
Other assets	13,319	5,588
Total current assets	<u>21,040,682</u>	<u>21,828,073</u>
Noncurrent assets:		
Restricted endowment cash and cash equivalents	512,077	6,264,220
Restricted debt service cash and cash equivalents	2,060,392	1,653,504
Restricted endowment investments	6,006,995	
Capital assets, net:		
Not subject to depreciation	8,415,528	8,260,149
Subject to depreciation	74,663,853	75,125,407
Total noncurrent assets	<u>91,658,845</u>	<u>91,303,280</u>
Total assets	<u>112,699,527</u>	<u>113,131,353</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	1,425,158	1,372,956
Funds held for others	243,706	351,927
Deferred revenues	13,065,517	12,433,084
Deposits	343,180	327,930
Bonds payable - current portion	1,995,000	1,935,000
Capital leases - current portion	766,667	728,336
Total current liabilities	<u>17,839,228</u>	<u>17,149,233</u>
Noncurrent liabilities:		
Bonds payable	29,750,000	31,745,000
Capital leases	11,381,665	12,148,332
Total noncurrent liabilities	<u>41,131,665</u>	<u>43,893,332</u>
Total liabilities	<u>58,970,893</u>	<u>61,042,565</u>
Net assets:		
Invested in capital assets, net of related debt	40,317,841	40,513,216
Restricted for:		
Nonexpendable - endowments	5,644,467	5,328,538
Expendable:		
Endowments	944,033	935,682
Student aid	201,453	248,932
Debt service	2,060,392	1,653,504
Star of the Republic Museum	379,568	517,094
Unrestricted	4,180,880	2,891,822
Total net assets	<u>\$ 53,728,634</u>	<u>52,088,788</u>

See accompanying notes to basic financial statements.

BLINN COLLEGE

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Revenues:		
Operating revenues:		
State allocations	\$ 22,096,878	22,543,586
Student tuition and fees, net of discounts of \$3,672,158 for 2004 and \$3,064,086 for 2003	19,991,640	17,424,538
Federal grants and contracts	8,674,921	7,930,698
State and local grants and contracts	710,497	1,115,994
Sales and services of educational activities	158,606	309,340
Auxiliary enterprises, net of discounts of \$450,807 for 2004 and \$440,914 for 2003	5,346,524	5,174,707
Other operating revenues	<u>144,078</u>	<u>311,132</u>
Total operating revenues (Schedule A)	<u>57,123,144</u>	<u>54,809,995</u>
Expenses:		
Operating expenses:		
Instruction	23,621,981	23,430,205
Public service	1,356,159	628,849
Academic support	2,929,841	4,098,388
Student services	3,411,862	3,320,096
Institutional support	5,622,553	4,984,109
Operation and maintenance of plant	4,248,992	3,894,228
Scholarships and fellowships	5,999,123	6,004,057
Auxiliary enterprises	5,357,865	4,955,687
Depreciation	<u>2,420,851</u>	<u>2,266,045</u>
Total operating expenses (Schedule B)	<u>54,969,227</u>	<u>53,581,664</u>
Operating income	<u>2,153,917</u>	<u>1,228,331</u>
Nonoperating revenues (expenses):		
Property tax revenue	990,170	933,866
Interest on capital related debt	(2,081,482)	(2,165,663)
Bond issuance costs		(152,233)
Federal grant related to capital debt	16,094	16,094
Unrealized gain on investments	4,660	
Investment income	376,200	360,082
Loss on disposal of capital assets	<u>(22,709)</u>	<u>(68,947)</u>
Total nonoperating expenses, net (Schedule C)	<u>(717,067)</u>	<u>(1,076,801)</u>
Income before other revenue	1,436,850	151,530
Other revenue - additions to permanent endowments	<u>202,996</u>	<u>471,624</u>
Increase in net assets	1,639,846	623,154
Net assets, beginning of year	<u>52,088,788</u>	<u>51,465,634</u>
Net assets, end of year	<u>\$ 53,728,634</u>	<u>52,088,788</u>

See accompanying notes to basic financial statements.

BLINN COLLEGE
Statements of Cash Flows
Years Ended August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Receipts from students and other customers	\$ 25,738,493	23,535,344
Receipts of appropriations, grants and contracts	28,953,249	28,806,984
Payments to or on behalf of employees	(32,301,675)	(31,021,392)
Payments to suppliers for goods or services	(11,589,486)	(12,733,724)
Payments of scholarships	(5,999,123)	(6,004,057)
Other cash receipts	<u>144,078</u>	<u>311,132</u>
Net cash provided by operating activities	<u>4,945,536</u>	<u>2,894,287</u>
Cash flows from noncapital financing activities:		
Property tax revenues	988,318	927,251
Additions to permanent endowments	<u>324,280</u>	<u>471,624</u>
Net cash provided by noncapital financing activities	<u>1,312,598</u>	<u>1,398,875</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of capital debt		4,475,000
Purchases of capital assets	(2,121,291)	(8,717,364)
Payments on capital debt and leases	(4,744,818)	(8,822,329)
Bond issue costs paid on new debt issue		(152,233)
Other		<u>21,196</u>
Net cash used by capital and related financing activities	<u>(6,866,109)</u>	<u>(13,195,730)</u>
Cash flows from investing activities:		
Purchase of investments	(10,006,995)	
Sales of investments	4,004,660	1,011,880
Investment income	<u>185,488</u>	<u>372,251</u>
Net cash (used) provided by investing activities	<u>(5,816,847)</u>	<u>1,384,131</u>
Decrease in cash and cash equivalents	(6,424,822)	(7,518,437)
Cash and cash equivalents - beginning of year	<u>23,869,433</u>	<u>31,387,870</u>
Cash and cash equivalents - end of year	<u>\$ 17,444,611</u>	<u>23,869,433</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,153,917	1,228,331
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,420,851	2,266,045
Change in operating assets and liabilities:		
Receivables	(205,782)	(1,135,306)
Inventories	(7,383)	(7,020)
Other assets	(7,731)	15,642
Accounts payable	52,202	(1,316,945)
Funds held for others	(108,221)	(27,268)
Deferred revenues - tuition and fees	643,131	1,820,908
Deferred revenues - grants and contracts	(10,698)	(5,925)
Deposits	<u>15,250</u>	<u>55,825</u>
Net cash provided by operating activities	<u>\$ 4,945,536</u>	<u>2,894,287</u>

See accompanying notes to basic financial statements.

BLINN COLLEGE

Notes to Basic Financial Statements August 31, 2004 and 2003

1. Reporting Entity

Blinn College (the College) was established in 1883, in accordance with the laws of the State of Texas, to serve the educational needs of Washington County and the thirteen counties in the service area. The College operates campuses in the cities of Brenham, Bryan and Schulenburg. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. While the College receives funding from local, State of Texas (the 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.

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 no component unit information is required to be included.

The Blinn College Foundation (the Foundation) is a legally separate not-for-profit organization with the sole purpose of supporting the educational and other activities of the College. The College does not appoint any of the Foundation's Board members nor does it fund or is it obligated to pay debt related to the Foundation. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The College furnished certain services, such as office space, supplies and staff assistance to the Foundation amounting to approximately \$237,000 and \$304,000 for the years ended August 31, 2004 and 2003, respectively. The costs of these services were not significant to the College. The financial position of the Foundation is not significant to the College, therefore, it should not be included in the College's basic financial statements.

2. Summary of Significant Accounting Policies

Reporting guidelines

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 Standard Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The College has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The College is reported as a special-purpose government engaged in business-type activities. The College complies with the financial statement presentation required by the Texas Higher Education Coordinating Board (THECB). It is their requirement that revenue from State allocations be classified as operating revenues and the College has conformed with this requirement.

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

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 §56.033). 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 Act (HEA) Program Funds - Certain Title IV HEA Program funds are received by the College to pass through to the student. These funds are initially received by the College and recorded as restricted revenue. When the 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 students who qualify. 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.

Restricted net assets - nonexpendable: Restricted nonexpendable net assets are subject to externally imposed provisions that they be maintained permanently by the College. The corpus of the College's endowments are included in nonexpendable net assets.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, State allocations, 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 Board of Trustees 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.

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

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 restricted resources, and then towards unrestricted resources.

Budgetary data

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Trustees adopts the budget, 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 Board of Trustees 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. The fair value of Lone Star Investment Pool, TexPool and TexStar are based on quoted market values of the underlying investments of the pool and/or fund. 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.

Inventories

Inventories consist of consumable office and physical plant supplies and bookstore stock. Inventories are valued at cost under the first-in first-out method and are charged to expense as consumed.

Capital assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The College's capitalization policies include real or business personal property with a value equal to or greater than \$5,000 and an estimated useful life in excess of one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful live 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. The College reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

Buildings	50 years
Land improvements	20 years
Furniture, equipment and vehicles	5-10 years
Computer systems	5 years

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

Library books

Library books are capitalized but not depreciated. Library books will be written off as the books are removed from service.

Collections

In accordance with guidance issued by the Texas Comptroller of Public Accounts, collections located at the Star of the Republic Museum held for public exhibition are capitalized but not depreciated. Collections are valued at their historical cost or estimated fair value at date of donation.

Deferred revenues

Deferred revenues primarily consisting of tuition, fees and housing charges, relate to academic terms in the next fiscal year and as such, have been deferred.

Operating and non-operating revenue and expense policy

The College distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees, sales and services of educational enterprises, and Federal, State and local grants and contracts. The operation of the bookstore is not performed by the College. The College also recognizes as operating revenue allocations from the State as required by THECB's *Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*.

State allocations are classified as operating revenue because the College is a separate primary government and is not included as part of the Texas state-wide Comprehensive Annual Financial Report. In addition, State allocations are program specific for instruction services provided on behalf of the State and are affected by performance through a formula funding process based on contact hours of instruction provided.

Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34 such as property taxes and investment income.

Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Non-operating expenses consist of interest on capital related debt.

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.

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

Income taxes

The College is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc., Organizations*. The College had no unrelated business income tax liability for the years ended August 31, 2004 or 2003.

Reclassifications

Certain 2003 amounts have been reclassified to conform to current year presentation.

3. **Authorized Investments**

The Board of Trustees 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 Trustees' investment policy and the Public Funds Investment Act. The College is authorized to invest in obligations and instruments as follows: (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 deposits and (5) other instruments and obligations authorized by statute.

4. **Deposits and Investments**

At August 31, 2004 and 2003, the carrying amount of the College's deposits was \$6,909,954 and \$5,335,646, respectively, and total bank balances equaled \$6,944,525 and \$5,349,705, respectively. Bank balances of \$200,000 are covered by federal depository insurance. Bank balances totaling \$6,506,882 and \$5,149,705 as of August 31, 2004 and 2003, respectively, were collateralized with securities held by the pledging financial institution's agent in the College's name (category 2). Bank balances totaling \$237,643 were uncollateralized (category 3) at August 31, 2004. On September 1, 2004, the College's bank balances were fully collateralized. Cash and cash equivalents reported on the statement of net assets consist of the items reported below at August 31:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents:		
Demand deposits	\$ 6,909,954	5,335,646
Investment pools:		
Lone Star Investment Pool	4,899,385	4,183,834
TexPool	4,374,302	10,329,699
TexSTAR	1,252,729	4,012,113
Petty cash	<u>8,241</u>	<u>8,141</u>
Cash and cash equivalents	<u>\$ 17,444,611</u>	<u>23,869,433</u>

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

Lone Star Investment Pool (Lone Star)

The Lone Star Investment Pool (Lone Star) is a public funds investment pool established in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. Lone Star is governed by an eleven member board of trustees made up of active participants in Lone Star. The board of trustees for Lone Star has the responsibility of adopting and monitoring compliance with investment policy, appointing investment officers, overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. Lone Star's Liquidity Plus Fund is rated AAAM by Standard & Poor and rated monthly. The fair value of Lone Star's Liquidity Plus Fund is valued at market.

TexPool

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the Office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the portion in TexPool is the same as the value of TexPool shares.

TexSTAR

Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool created under the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is administered by First Southwest Asset Management, Inc. and JPMorgan Chase Asset Management, Inc. TexSTAR is governed by a five member board of trustees made up of participants and representatives designated by the co-administrators. The fund is rated AAAM by Standard & Poors and maintains a weighted average maturity of 60 days or less, with a maximum weighted average maturity of 13 months for any individual security. All TexSTAR securities are valued at market.

The investments in Lone Star Investment Pool, TexPool and TexSTAR and any accrued interest may be redeemed at the College's discretion.

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

Investments

To comply with the reporting requirements of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the College's investments are categorized under "Investment Categories" to give an indication of credit risk assumed by the College at year end. Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

- Category 1: Investments that are insured or registered or for which the securities are held by the institution or its agent in the institution's name.
- Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the institution's name.
- Category 3: Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the institution's name.

Categories for the investments were as follows at August 31, 2004:

<u>Type of Security</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Federal Home Loan Mortgage Discount Notes	\$ 5,004,660			5,004,660	5,004,660
FNMA Unsecured Discount note	<u>1,002,335</u>	_____	_____	<u>1,002,335</u>	<u>1,002,335</u>
Total	<u>\$ 6,006,995</u>	<u>-</u>	<u>-</u>	<u>6,006,995</u>	<u>6,006,995</u>

As of August 31, 2003 the College had no investments to be categorized.

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

Receivables consist of the following at August 31:

	<u>2004</u>	<u>2003</u>
Student tuition and fees	\$ 5,449,458	5,141,022
Ad valorem taxes	85,279	83,427
Federal grants	365,829	394,804
State grants	75,108	133,115
Other receivables	<u>89,210</u>	<u>104,882</u>
Total	<u>\$ 6,064,884</u>	<u>5,857,250</u>

The College uses the direct write-off method for uncollectible student tuition and fees and accordingly no allowance has been established as of August 31, 2004 and 2003.

Payables consist of the following at August 31:

	<u>2004</u>	<u>2003</u>
Vendors payable	\$ 1,089,111	1,197,789
Benefits payable	<u>336,047</u>	<u>175,167</u>
Total	<u>\$ 1,425,158</u>	<u>1,372,956</u>

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

6. Capital Assets

Capital assets' activities for the years ended August 31:

	2004			Balance August 31, 2004
	Balance September 1, 2003	Increase	Decrease	
Capital assets not subject to depreciation:				
Land	\$ 4,692,848			4,692,848
Library books	2,949,999	153,050		3,103,049
Collections	<u>617,302</u>	<u>2,329</u>		<u>619,631</u>
Total not depreciated	<u>8,260,149</u>	<u>155,379</u>	<u>-</u>	<u>8,415,528</u>
Capital assets subject to depreciation:				
Buildings	82,383,972	1,860,521	(5,000)	84,239,493
Land improvements	3,401,900			3,401,900
Furniture, equipment and vehicles	3,531,641	58,446	(30,431)	3,559,656
Computer equipment	<u>2,509,663</u>	<u>62,345</u>		<u>2,572,008</u>
Total depreciated	<u>91,827,176</u>	<u>1,981,312</u>	<u>(35,431)</u>	<u>93,773,057</u>
Less accumulated depreciation:				
Buildings	11,628,230	1,477,773	(2,340)	13,103,663
Land improvements	2,574,326	37,255		2,611,581
Furniture, equipment and vehicles	1,078,663	567,301	(11,076)	1,634,888
Computer equipment	<u>1,420,550</u>	<u>338,522</u>		<u>1,759,072</u>
Total accumulated depreciation	<u>16,701,769</u>	<u>2,420,851</u>	<u>(13,416)</u>	<u>19,109,204</u>
Net capital assets	\$ <u>83,385,556</u>	<u>(284,160)</u>	<u>(22,015)</u>	<u>83,079,381</u>

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

	2003			Balance August 31, 2003
	Balance September 1, 2002	Increase	Decrease	
Capital assets not subject to depreciation:				
Land	\$ 4,556,425	136,423		4,692,848
Library books	2,830,770	153,118	(33,889)	2,949,999
Collections	609,186	8,116		617,302
Total not depreciated	<u>7,996,381</u>	<u>297,657</u>	<u>(33,889)</u>	<u>8,260,149</u>
Capital assets subject to depreciation:				
Buildings	74,757,130	7,626,842		82,383,972
Land improvements	3,256,970	144,930		3,401,900
Furniture, equipment and vehicles	3,496,419	114,317	(79,094)	3,531,642
Computer equipment	<u>1,987,445</u>	<u>533,618</u>	<u>(11,400)</u>	<u>2,509,663</u>
Total depreciated	<u>83,497,964</u>	<u>8,419,707</u>	<u>(90,494)</u>	<u>91,827,177</u>
Less accumulated depreciation:				
Buildings	10,296,139	1,332,091		11,628,230
Land improvements	2,543,592	30,733		2,574,325
Furniture, equipment and vehicles	496,785	616,006	(34,127)	1,078,664
Computer equipment	<u>1,149,543</u>	<u>287,215</u>	<u>(16,207)</u>	<u>1,420,551</u>
Total accumulated depreciation	<u>14,486,059</u>	<u>2,266,045</u>	<u>(50,334)</u>	<u>16,701,770</u>
Net capital assets	\$ <u>77,008,286</u>	<u>6,451,319</u>	<u>(74,049)</u>	<u>83,385,556</u>

7. **Noncurrent Liabilities**

Noncurrent liabilities activities for the years ended August 31:

	2004				
	Balance September 1, 2003	Additions	Payments	Balance August 31, 2004	Current Portion
Bonds payable	\$ 33,680,000		(1,935,000)	31,745,000	1,995,000
Capital leases	<u>12,876,668</u>		<u>(728,336)</u>	<u>12,148,332</u>	<u>766,667</u>
Total	\$ <u>46,556,668</u>	<u>-</u>	<u>(2,663,336)</u>	<u>43,893,332</u>	<u>2,761,667</u>

	2003				
	Balance September 1, 2002	Additions	Payments	Balance August 31, 2003	Current Portion
Bonds payable	\$ 35,170,000	4,475,000	(5,965,000)	33,680,000	1,935,000
Capital leases	<u>13,568,334</u>		<u>(691,666)</u>	<u>12,876,668</u>	<u>728,336</u>
Total	\$ <u>48,738,334</u>	<u>4,475,000</u>	<u>(6,656,666)</u>	<u>46,556,668</u>	<u>2,663,336</u>

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

8. Bonds Payable

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

Combined Fee Revenue Refunding Bonds, Series 2003

- Washington County Junior College District Combined Fee Revenue Refunding Bonds, Series 2003
- To refund \$4,300,000 of Combined Fee and Revenue Bonds, Series 1993
- Issued January 1, 2003
- \$4,475,000, all authorized bonds have been issued
- Interest rates range from 3% to 4.3%
- Source of revenue for debt service - designated portion of tuition and registration charges, other fee charges and designated revenues
- Outstanding bonds payable at August 31, 2004 and 2003 of \$3,915,000 and \$4,385,000, respectively
- Net proceeds from refunding bonds \$4,406,739; after payment of \$94,344 in underwriting fees, insurance, and other issuance costs
- The 1993 Series bond are considered fully defeased and the liability for those bonds has been removed from the financial statements
- Advanced refunding of the 1993 Series bonds reduced the Colleges debt service payments over the next 15 years by approximately \$230,000
- Economic gain of approximately \$170,000 is a difference between the net present value of the old and new debt service payments

Combined Fee Revenue Bonds, Series 2002

- Washington County Junior College District Combined Fee Revenue Bonds, Series 2002
- To construct and equip student apartment housing and construct, renovate and equip academic buildings and parking lots
- Issued May 1, 2002
- \$15,355,000, all authorized bonds have been issued
- Interest rates range from 2.5% to 5.125%
- Source of revenue for debt service – designated portion of tuition and registration charges, other fee charges and designated revenues
- Outstanding bonds payable at August 31, 2004 and 2003 of \$14,135,000 and \$14,910,000, respectively
- Approximately \$1.1 million of bonds proceeds remain to be spent at August 31, 2004

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

Combined Fee Revenue Bonds, Series 1999

- Washington County Junior College District Combined Fee Revenue Bonds, Series 1999
- To construct new academic and student service facilities and student apartment housing
- Issued December 1, 1998
- \$6,110,000, all authorized bonds have been issued
- Interest rates range from 4.2% to 4.85%
- Source of revenue for debt service – designated portion of tuition and registration charges, building use fees, other fee charges and designated auxiliary revenues
- Outstanding bonds payable at August 31, 2004 and 2003 of \$4,835,000 and \$5,175,000, respectively

Combined Fee Revenue Bonds, Series 1998

- Washington County Junior College District Combined Fee Revenue Bonds, Series 1998
- To construct new academic and student service facilities and student apartment housing
- Issued November 15, 1998
- \$9,870,000, all authorized bonds have been issued
- Interest rates range from 4% to 4.75%
- Source of revenue for debt service – designated portion of tuition and registration charges, building use fees, other fee charges and designated auxiliary revenues
- Outstanding bonds payable at August 31, 2004 and 2003 of \$8,860,000 and \$9,210,000, respectively

Under each bond issue, the College is to maintain a reserve account equal to the maximum annual principal and interest requirements on all bonds. The College has 60 months to establish this reserve fund. The reserve account balance at August 31, 2004 is \$2,060,392, which meets the full reserve requirement. The Series 2002 and 2003 bonds require the College to maintain adequate insurance coverage. All premiums have been paid.

Combined bond debt service requirements

Combined debt service requirements of the bonds for the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,995,000	1,324,949	3,319,949
2006	2,075,000	1,252,067	3,327,067
2007	2,150,000	1,176,198	3,326,198
2008	2,235,000	1,095,324	3,330,324
2009	2,025,000	1,008,486	3,033,486
2010-2014	9,180,000	3,790,939	12,970,939
2015-2019	7,540,000	2,050,254	9,590,254
2020-2023	<u>4,545,000</u>	<u>379,534</u>	<u>4,924,534</u>
Total	\$ <u>31,745,000</u>	<u>12,077,751</u>	<u>43,822,751</u>

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

9. Capital Leases

The College leases a campus located in Bryan, Texas from the City of Bryan under a lease agreement dated December 14, 1995. The agreement obligates the College to pay rent equal to the debt service requirements on the bonds issued by the City of Bryan, the proceeds of which were used to construct the new campus. The payment of these obligations are secured by a pledge of substantially all registration fees, tuition fees and building use fees of all enrolled students and the net revenues and other pledged fees as defined in the lease agreement.

The original capitalized cost of all property capitalized under this lease was \$15,225,000. This amount was based on the present value of future minimum lease payments using a discount rate of 5%. The first payment was due on December 14, 1995, with the final payment being due on October 1, 2016.

The College may purchase the buildings at any time for an amount sufficient to retire all outstanding bonds, the original balance of which was \$15,225,000. If no bonds are outstanding, the College may purchase the buildings for \$1.00.

In addition to the \$15,225,000 payment, additional amounts are due under the lease designated as "land rent" under the lease dated May 1, 1994. The first of these payments became due on July 1, 2002. The land is being capitalized by discounting all future land rent payments using a discount rate of approximately 6%. This results in a value of \$1,593,749 classified as an addition to land. The final payment is due on July 1, 2014.

Combined debt service requirements of the capital leases for the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 766,667	634,972	1,401,639
2006	808,333	595,374	1,403,707
2007	850,000	552,783	1,402,783
2008	896,666	507,228	1,403,894
2009	943,334	458,500	1,401,834
2010-2014	5,563,332	1,435,347	6,998,679
2015-2016	<u>2,320,000</u>	<u>124,550</u>	<u>2,444,550</u>
Total	<u>\$ 12,148,332</u>	<u>4,308,754</u>	<u>16,457,086</u>

10. Unrestricted Net Assets

The College designates a portion of unrestricted net assets to indicate management's tentative plans for future use of financial resources. At August 31, 2004 and 2003, \$30,462 and \$30,976 of unrestricted net assets were designated for future capital projects, respectively.

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

11. Employees' Retirement Plans

The 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's annual financial report.

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 of employment. Since these are individual contracts, the State has no additional or unfunded liability for this program.

The retirement expense to the State for the College was \$1,262,475 and \$1,227,662 for the years ended August 31, 2004 and 2003, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for all College employees was \$27,628,935 and \$27,117,582 for the fiscal years ended August 31, 2004 and 2003, respectively. The total payroll of employees covered by the TRS was \$11,098,447 and \$10,458,039, and the total payroll of employees covered by ORP was \$10,049,789 and \$10,218,218 for the fiscal years ended August 31, 2004 and 2003, respectively.

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 those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State's contribution per full-time employee was \$258 or \$300 per month for the year ended August 31, 2004 and \$285 or \$309 per month for the year ended August 31, 2003, depending on the coverage elected. The State's contribution totaled \$2,226,637 and \$2,247,905, for the years ended August 31, 2004 and 2003, respectively. The cost of providing those benefits for retirees is not separable from the cost of providing benefits for active employees.

13. 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 609.001. This plan is essentially an unfunded promise to pay by the employer to each of the plan participants. At August 31, 2004 and 2003, the College had no employees electing to defer compensation.

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

14. Compensated Absences

Non-faculty employees are entitled to compensated vacation days. The amount of days is determined annually, based on their length of employment, as stipulated with official policy adopted by the College. The current policy allows a maximum of six accrued unused vacation days to be carried over; however, the carry over days are not payable upon termination. Any accrued unused days in excess of the carry over days expire at the end of each year. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*, no liability is recorded for these non-vesting rights.

Sick leave can be accumulated subject to certain limitations. It is paid to an employee who misses work because of illness. The College does not allow conversion of unpaid sick leave for terminated employees. The College's policy is to recognize the cost of sick leave when paid. The liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.

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. Funds received but not expended during the reporting period are deferred until earned. Revenues are recognized on the statements of revenues, expenses, and changes in net assets as funds are actually expended. For contracts and grant awards, funds expended but not collected are reported as receivables on the statements of net assets. Contract and grant awards that are not yet funded and for which the College has not yet performed services are not included in the financial statements. Contract and grant award funds already committed, e.g. multi-year awards, or funds awarded during fiscal year ended August 31, 2004 for which monies have not been received nor funds expended totaled approximately \$580,000. Of these amounts, approximately \$234,000 were from Federal contract and grant awards; \$45,000 were from State contract and grant awards; and \$301,000 were from private contract and grant awards for the fiscal year ended August 31, 2004.

16. 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. Property taxes are recorded on an accrual basis of accounting. At August 31:

	<u>2004</u>	<u>2003</u>
Assessed valuation of the College	\$ 1,784,754,268	1,743,970,560
Less exemptions	<u>(42,102,236)</u>	<u>(39,004,298)</u>
Net assessed valuation of the College	\$ <u>1,742,652,032</u>	<u>1,704,966,262</u>

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

	2004		
	Current Operations	Debt Service	Total
Tax rate per \$100 valuation for authorized	\$ 0.05670	-	0.05670
Tax rate per \$100 valuation assessed	0.05670	-	0.05670
	2003		
	Current Operations	Debt Service	Total
Tax rate per \$100 valuation for authorized	\$ 0.05444	-	0.05444
Tax rate per \$100 valuation assessed	0.05444	-	0.05444

Tax levied for the years ended August 31, 2004 and 2003 is \$988,552 and \$936,067, respectively (which includes any penalty and interest assessed if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Under GASB Statement No. 33, *Accounting and Financial Reporting for Non Exchange Transactions*, ad valorem taxes are imposed non-exchange revenue. Asset 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 at August 31</u>	<u>2004</u>	<u>2003</u>
Current	\$ 939,800	899,948
Delinquent	27,848	20,316
Penalties and interest	<u>22,522</u>	<u>13,602</u>
Total collections	\$ <u>990,170</u>	<u>933,866</u>

Tax collections for the year ended August 31, 2004 and 2003 were 97% 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.

17. Operating Leases

The College leases two facilities related to the Bryan Campus and several copiers under non-cancellable leases expiring through August 2006. Rental expense was approximately \$73,000 and \$79,000 for the years ended August 31, 2004 and 2003, respectively. The future minimum payments as of August 31, 2004 under the agreements are as follows:

2005	\$ 63,229
2006	<u>59,054</u>
	\$ <u>122,283</u>

Continued

BLINN COLLEGE

Notes to Basic Financial Statements, Continued

The College leases retail space to various tenants expiring through November 2011 for property near the Bryan campus. These leases were assumed by the College with the purchase of the property. Future minimum rental income as of August 31, 2004 under the agreements are as follows:

2005	\$ 96,900
2006	96,900
2007	92,921
2008	39,525
2009	37,800
Thereafter	<u>85,050</u>
	\$ <u>449,096</u>

Rental income was approximately \$95,000 and \$98,000 for the years ended August 31, 2004 and 2003, respectively.

18. Contingent Liabilities

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.

19. Commitments

The College has entered into contracts for the planning and construction of new facilities, as well as for the renovations and repair of existing campuses. Commitments remaining under such contracts as of August 31, 2004 are approximately \$745,000.

20. Self-Insured Plan

Effective September 1, 2003, the College was self-insured for workers' compensation. The workers' compensation plan is on a pay-as-you-go basis in which no assets are set aside. Future payments for incurred claims are charged to current operations. The maximum amount of potential claims exposure in the future as of August 31, 2004 is \$285,030.

21. Recent Accounting Pronouncements

In March 2003, the GASB released Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement will modify the disclosure requirements related to investment risks. The College is required to implement these changes for the fiscal year ending August 31, 2005. The College has not completed the analyses required to estimate the financial statement impact of this new statement.

BLINN COLLEGE

Schedule of Operating Revenues
Year Ended August 31, 2004
(With Memorandum Totals for the Year Ended August 31, 2003)

	2004				2003 Total	
	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises		Total
State allocations:						
Education and general state support	\$ 18,275,656		18,275,656		18,275,656	18,747,124
State group insurance		2,226,637	2,226,637		2,226,637	2,247,905
State retirement matching		1,262,475	1,262,475		1,262,475	1,227,662
Other	332,110		332,110		332,110	320,895
Total State allocations	<u>18,607,766</u>	<u>3,489,112</u>	<u>22,096,878</u>	-	<u>22,096,878</u>	<u>22,543,586</u>
Tuition:						
State funded courses:						
In-district resident tuition	290,166		290,166		290,166	345,204
Out-of-district resident tuition	10,922,124		10,922,124		10,922,124	4,787,364
TPEG (set aside) *	712,703		712,703		712,703	579,530
Non-resident tuition	1,043,528		1,043,528		1,043,528	931,566
State funded continuing education	211,510		211,510		211,510	391,467
Non-state funded continuing education	219,780		219,780		219,780	381,968
Total tuition	<u>13,399,811</u>	-	<u>13,399,811</u>	-	<u>13,399,811</u>	<u>7,417,099</u>
Fees:						
General fee	7,547,493		7,547,493	1,331,910	8,879,403	7,928,549
Out-of-district fees						3,610,456
Laboratory fees	467,641		467,641		467,641	318,942
Vehicle registration fees	538,627		538,627		538,627	601,556
Incidental fees	324,214		324,214		324,214	509,581
Other fees	54,102		54,102		54,102	102,441
Total fees	<u>8,932,077</u>	-	<u>8,932,077</u>	<u>1,331,910</u>	<u>10,263,987</u>	<u>13,071,525</u>
Scholarships allowances and discounts:						
Scholarship allowances	(622,382)		(622,382)		(622,382)	(525,766)
Remissions and exemptions	(319,735)		(319,735)		(319,735)	(240,000)
TPEG allowances	(698,661)		(698,661)		(698,661)	(699,639)
Federal and State grants to students	(1,958,209)		(1,958,209)		(1,958,209)	(1,506,106)
Other	(73,171)		(73,171)		(73,171)	(82,575)
Total scholarships allowances and discounts	<u>(3,672,158)</u>	-	<u>(3,672,158)</u>	-	<u>(3,672,158)</u>	<u>(3,064,086)</u>
Total net tuition and fees	<u>18,659,730</u>	-	<u>18,659,730</u>	<u>1,331,910</u>	<u>19,991,640</u>	<u>17,424,538</u>
Other operating revenues:						
Federal grants and contracts		8,674,921	8,674,921		8,674,921	7,930,698
State and local grants and contracts		710,497	710,497		710,497	1,115,994
Sales and services of educational activities	158,606		158,606		158,606	309,340
Other operating revenues	141,259	2,819	144,078		144,078	311,132
Total other operating revenues	<u>299,865</u>	<u>9,388,237</u>	<u>9,688,102</u>	-	<u>9,688,102</u>	<u>9,667,164</u>
Auxiliary enterprises:						
Residential life				2,267,693	2,267,693	2,179,493
Scholarships allowances and discounts				(162,098)	(162,098)	(156,487)
Net residential life	-	-	-	<u>2,105,595</u>	<u>2,105,595</u>	<u>2,023,006</u>
Cafeteria				2,202,216	2,202,216	2,050,131
Scholarship allowances and discounts				(192,929)	(192,929)	(175,683)
Net cafeteria	-	-	-	<u>2,009,287</u>	<u>2,009,287</u>	<u>1,874,448</u>
Bookstore				647,936	647,936	639,192
Scholarship allowances and discounts				(95,780)	(95,780)	(108,744)
Net bookstore	-	-	-	<u>552,156</u>	<u>552,156</u>	<u>530,448</u>
Other auxiliary				679,486	679,486	746,805
Total net auxiliary enterprises	-	-	-	<u>5,346,524</u>	<u>5,346,524</u>	<u>5,174,707</u>
Total operating revenues	<u>\$ 37,567,361</u>	<u>12,877,349</u>	<u>50,444,710</u>	<u>6,678,434</u>	<u>57,123,144</u>	<u>54,809,995</u>

(Exhibit 2)

(Exhibit 2)

* In accordance with Education Code §56.033, \$712,703 and \$579,530 for the years ended August 31, 2004 and 2003, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

BLINN COLLEGE

Schedule of Operating Expenses By Object
 Year Ended August 31, 2004
 (With Memorandum Totals for the Year Ended August 31, 2003)

	2004				Total	2003 Total
	Operating Expenses					
	Salaries and Wages	Benefits				
	State	Local				
Unrestricted - educational activities:						
Instruction	\$ 17,159,767		1,600,608	1,867,584	20,627,959	22,059,066
Public service	228,137		23,003	233,955	485,095	464,427
Academic support	1,960,654		180,220	500,661	2,641,535	3,859,132
Student services	2,389,957		206,346	373,257	2,969,560	3,320,096
Institutional support	2,707,891		582,715	1,744,726	5,035,332	4,984,109
Operation and maintenance of plant	1,020,709		353,829	2,874,454	4,248,992	3,894,228
Scholarship and fellowships				3,898,412	3,898,412	4,497,951
Total unrestricted educational activities	<u>25,467,115</u>	<u>-</u>	<u>2,946,721</u>	<u>11,493,049</u>	<u>39,906,885</u>	<u>43,079,009</u>
Restricted - educational activities:						
Instruction	341,998	2,135,898	71,558	444,568	2,994,022	1,369,918
Public service	364,666	37,256	75,501	393,641	871,064	164,422
Academic support		288,306			288,306	239,256
Student services		442,302			442,302	
Institutional support		585,350		1,871	587,221	1,221
Scholarship and fellowships				2,100,711	2,100,711	1,506,106
Total restricted - educational activities	<u>706,664</u>	<u>3,489,112</u>	<u>147,059</u>	<u>2,940,791</u>	<u>7,283,626</u>	<u>3,280,923</u>
Total educational activities	<u>26,173,779</u>	<u>3,489,112</u>	<u>3,093,780</u>	<u>14,433,840</u>	<u>47,190,511</u>	<u>46,359,932</u>
Auxiliary enterprises	1,455,156		710,852	3,191,857	5,357,865	4,955,687
Depreciation expense - buildings and other real estate improvements				1,515,028	1,515,028	1,362,824
Depreciation expense - equipment and furniture				905,823	905,823	903,221
Total operating expenses	<u>\$ 27,628,935</u>	<u>3,489,112</u>	<u>3,804,632</u>	<u>20,046,548</u>	<u>54,969,227</u>	<u>53,581,664</u>
				(Exhibit 2)		(Exhibit 2)

BLINN COLLEGE

Schedule of Nonoperating Revenues and Expenses
 Year Ended August 31, 2004
 (With Memorandum Totals for the Year Ended August 31, 2003)

	2004			2003 Total
	Unrestricted	Restricted	Auxiliary Enterprises	
Nonoperating revenues:				
Property tax revenue	\$ 990,170			933,866
Investment income	198,767	177,433		360,082
Federal grant related to capital debt		16,094		16,094
Unrealized gain on investments		4,660		4,660
Total nonoperating revenues	<u>1,188,937</u>	<u>198,187</u>	<u>-</u>	<u>1,310,042</u>
Nonoperating expenses:				
Loss on disposal of capital assets	22,709			68,947
Bond issuance costs				152,233
Interest on capital related debt	<u>2,081,482</u>			<u>2,165,663</u>
Total nonoperating expenses	<u>2,104,191</u>	<u>-</u>	<u>-</u>	<u>2,386,843</u>
Total nonoperating revenues	<u>\$ (915,254)</u>	<u>198,187</u>	<u>-</u>	<u>(1,076,801)</u>
			(Exhibit 2)	(Exhibit 2)

BLINN COLLEGE

Schedule of Net Assets by Source and Availability
 Year Ended August 31, 2004
 (With Memorandum Totals for the Year Ended August 31, 2003)

	Detail by Source					Total	Available for Current Operations	
	Unrestricted	Restricted		Non-Expendable	Capital Assets Net of Depreciation and Related Debt		Yes	No
		Expendable	Non-Expendable					
Current:								
Unrestricted	\$ 3,142,951					3,142,951		
Board designated	30,462					30,462		30,462
Restricted		201,453				201,453		
Star of Republic Museum		379,568				379,568		
Auxiliary enterprises	1,007,467					1,007,467		
Endowment:								
Expendable		944,033				944,033		
Non-expendable			5,644,467			5,644,467		5,644,467
Plant:								
Debt service		2,060,392				2,060,392		2,060,392
Investment in plant				40,317,841		40,317,841		40,317,841
Total net assets, August 31, 2004	4,180,880	3,585,446	5,644,467	40,317,841		53,728,634	5,675,472	48,053,162
Total net assets, August 31, 2003	2,891,822	3,355,212	5,328,538	40,513,216		52,088,788	4,563,068	47,525,720
Net increase (decrease) in net assets	\$ 1,289,058	230,234	315,929	(195,375)		1,639,846	1,112,404	527,442

BLINN COLLEGE

Schedule of Bonds Payable and Debt Service Requirements
Year Ended August 31, 2004

Bonds Payable

Description	Bonds Issued to Date	Range of Interest Rates	Bonds Outstanding September 1, 2003	Bonds Issued After September 1, 2003	Bonds Matured or Retired	Bonds Outstanding August 31, 2004	First Year	Maturities Last Year	First Call Date
Combined Fee Revenue Bonds, Series 1998	\$ 9,870,000	4.0% - 4.75%	9,210,000	(350,000)	8,860,000	2001	2020	10/1/2008	
Combined Fee Revenue Bonds, Series 1999	6,110,000	4.2% - 4.85%	5,175,000	(340,000)	4,835,000	2000	2019	10/1/2008	
Combined Fee Revenue Bonds, Series 2002	15,355,000	2.5% - 5.125%	14,910,000	(775,000)	14,135,000	2003	2023	10/1/2011	
Combined Fee Revenue Bonds, Series 2003	4,475,000	3.00% - 4.30%	4,385,000	(470,000)	3,915,000	2003	2018	4/1/2013	
Total	\$ 35,810,000		\$ 33,680,000	(1,935,000)	31,745,000				

Debt Service Requirements

Description	Year Ending August 31,					Total
	2005	2006	2007	2008	2009	
Combined Fee Revenue Bonds, Series 1998	\$ 745,843	745,943	745,442	744,240	747,122	3,727,380
Combined Fee Revenue Bonds, Series 1999	552,135	557,015	556,160	554,675	557,455	2,127,710
Combined Fee Revenue Bonds, Series 2002	1,415,881	1,412,269	1,417,606	1,414,569	1,417,969	5,844,769
Combined Fee Revenue Bonds, Series 2003	606,090	611,840	606,990	616,840	310,940	1,271,080
Total	\$ 3,319,949	3,327,067	3,326,198	3,330,324	3,033,486	12,970,939

**OMB CIRCULAR A-133
AND STATE OF TEXAS AUDIT CIRCULAR
SUPPLEMENTAL FINANCIAL
AND COMPLIANCE REPORT**

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 GOVERNMENT AUDITING STANDARDS

Board of Trustees
Blinn College:

We have audited the financial statements of Blinn College (the College) as of and for the year ended August 31, 2004, and have issued our report thereon dated November 2, 2004. 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 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 November 2, 2004.

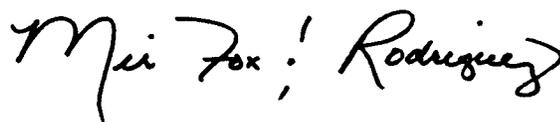
Compliance and Other Matters

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 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, 2004, the results of our tests disclosed no instances of noncompliance with the Texas Public Funds Investment Act.

This report is intended solely for the information and use of the Board of Trustees, the College's management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



November 2, 2004

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

Board of Trustees
Blinn College:

Compliance

We have audited the compliance of Blinn College (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 and state programs for the year ended August 31, 2004. The College's major federal and major state 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 and major state programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

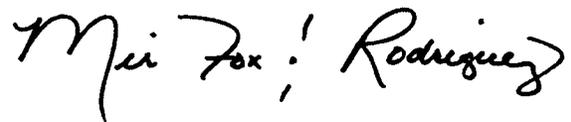
In our opinion, Blinn College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal or major state programs for the year ended August 31, 2004.

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 and state programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal or major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*.

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

This report is intended solely for the information and use of the Board of Trustees, the College's management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

November 2, 2004

BLINN COLLEGE

Schedule of Expenditures of Federal Awards
Year Ended August 31, 2004

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
<u>U.S. Department of Education</u>			
Direct Programs:			
Federal Supplemental Education Opportunity Grant	84.007		\$ 217,945
Federal Family Education Loans	84.032		11,105,480
Federal Pell Grant	84.063		7,225,347
Pass-Through From:			
Texas Higher Education Coordinating Board:			
Carl Perkins Vocational Education	84.048		337,602
Carl Perkins Tech-Prep Education	84.243		224,026
Quality Teaching for the Improvement of Math & Science (QTMS)	84.367	305	26,173
Catalyst 8th Grade Science	84.367	TQG003549-001-2004	25,961
			<u>52,134</u>
Pass-Through From:			
Texas A&M Research Foundation			
Texas 2+2 Project	84.000		26,839
Total U.S. Department of Education			<u>19,189,373</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs -			
Federal Interest Subsidy	14.864		16,094
Total U.S. Department of Housing and Urban Development			<u>16,094</u>
<u>U.S. Department of Labor</u>			
Pass-Through from:			
Brazos Valley Development Council:			
Workforce Investment Act - Adult	17.258		24,788
Workforce Investment Act - Dislocated Worker	17.260		61,739
Total U.S. Department of Labor			<u>86,527</u>
<u>U.S. Small Business Administration</u>			
Pass-Through from:			
University of Houston:			
Small Business Development Center	59.037	3-603001-Z-0047-19	10,358
Small Business Development Center	59.037	4-603001-Z-0047-19	71,041
Total U.S. Small Business Administration			<u>81,399</u>
<u>U.S. Department of Health and Human Services</u>			
Pass-Through from:			
Brazos Valley Development Council:			
Temporary Assistance for Needy Families - Opportunities/Choices	93.558		200,218
Temporary Assistance for Needy Families - Food Stamp Employment and Training	93.558		37,070
Temporary Assistance for Needy Families - Rider 23	93.558		30,300
Temporary Assistance for Needy Families - Self-Sufficiency Workers Achievement Training (SWAT)	93.558	1604SSF000	155,514
Total U.S. Department of Health and Human Services			<u>423,102</u>
Total expenditures of federal awards			<u>\$ 19,796,495</u>

See accompanying notes to schedule of expenditures of federal and state awards.

BLINN COLLEGE

Schedule of Expenditures of State Awards
Year Ended August 31, 2004

Grantor Agency Program Title	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
Texas Workforce Commission - Skills Development Fund-Blue Bell	1603SDF001	\$ 119,612
Texas Comptroller of Public Accounts - Law Enforcement Officer Standards & Education (LEOSE)	9P040558	1,607
Texas Higher Education Coordinating Board:		
Texas Grant Program		419,100
Public State Incentive Program (PSIG)		12,577
Leveraging Educational Assistance (LEAP)		8,035
Go Center		264
Nursing Innovation Grant Programs:		
Expansion of the Student Retention Program	BCS10	22,565
Growing Our Own: Faculty Recruitment and Retention Project	BCF5	14,543
Helping Hand Program	ACS6	13,927
Total expenditures of state awards		<u>\$ 612,230</u>

See accompanying notes to schedule of expenditures of federal and state awards.

BLINN COLLEGE

Notes to Schedules of Expenditures of Federal and State Awards Year Ended August 31, 2004

1. Relationship to Financial Statements

	<u>Federal</u>	<u>State</u>
Total revenue - per Exhibit 2	\$ 8,674,921	710,497
Loans	11,105,480	
Federal interest subsidy	16,094	
Local grants	<u> </u>	<u>(98,267)</u>
Total per Schedule of Expenditures of Federal and State Awards	<u>\$ 19,796,495</u>	<u>612,230</u>

2. Significant Accounting Policies Used in Preparing the Schedule

The schedules present the activity of all federal and state programs of the College for the year ended August 31, 2004. 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. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts recorded in the schedule may differ from the amounts used in the preparation of the basic financial statements. 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 and State Financial Reports

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

4. Amounts Passed-Through by the College

The following amounts were passed-through to the listed subrecipients by the College. These amounts were from the Carl Perkins Tech-Prep Education program, CFDA 84.243, from the U.S. Department of Education through the Texas Higher Education Coordinating Board.

Anderson-Shiro ISD	\$ 1,539	Hearne ISD	2,273
Bremond ISD	2,300	Mumford ISD	2,300
Brenham ISD	9,004	Navasota ISD	6,051
Bryan ISD	26,536	Normangee ISD	2,299
Buffalo ISD	2,300	North Zulch ISD	2,300
Burton ISD	2,280	Snook ISD	2,300
Caldwell ISD	4,076	Somerville ISD	<u>2,300</u>
Calvert ISD	2,157	Total	<u>\$ 89,918</u>
Centerville ISD	2,300		
College Station ISD	10,703		
Franklin ISD	2,300		
Iola ISD	2,300		
Madisonville ISD	2,300		

BLINN COLLEGE
Schedule of Findings and Questioned Costs
Year Ended August 31, 2004

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 and State 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 Section 510(a) of OMB Circular A-133? | No |
| 4. Identification of major programs: | |
| <u>Federal CFDA Number</u> | <u>Name of Federal Program</u> |
| 84.007 | Student Financial Aid Cluster |
| 84.032 | Federal Supplemental Education Opportunity Grant |
| 84.063 | Federal Family Education Loans |
| | Federal Pell Grant |
| 93.558 | Temporary Assistance for Needy Families |
| <u>State – Contractor Number</u> | <u>Name of State Program</u> |
| N/A | Texas Grant Program |
| 5. Dollar threshold used to distinguish between Type A and Type B programs | |
| Federal | \$ 300,000 |
| State | \$ 300,000 |
| 6. Auditee qualified as a low-risk auditee | |
| Federal | Yes |
| State | Yes |

Section 2

Financial Statement Findings

(None reported)

Section 3

Federal and State Award Findings and Questioned Costs

(None reported)

Section 4

Schedule of Prior Year Findings

The audit of federal and state awards disclosed no findings that were required to be reported for the year ended August 31, 2003.

STATISTICAL SECTION

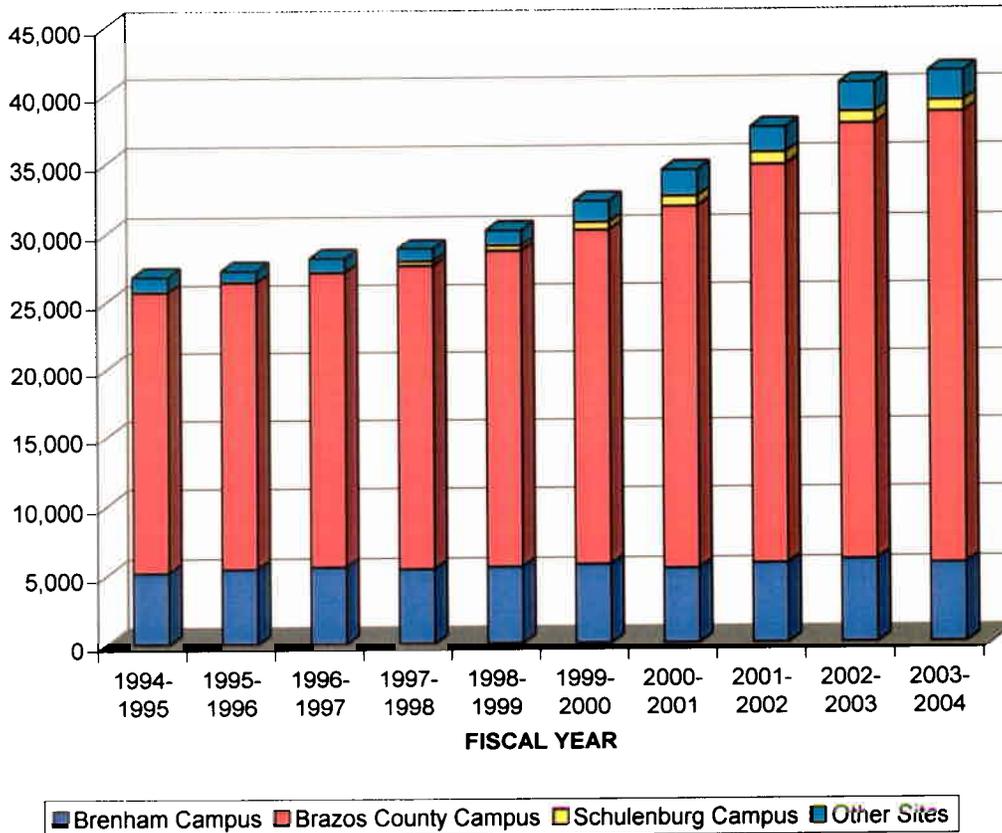
These statistical tables provide selected financial and demographic information.
The statistical tables are for informational purposes only and are not audited.

**BLINN COLLEGE
HEADCOUNT ENROLLMENT TREND
LAST TEN FISCAL YEARS BY CAMPUS
(Unaudited)**

FISCAL YEAR	Brenham	Brazos County	Schulenburg	Other Sites	Total
1994-1995	5,137	20,555	-	1,098	26,790
1995-1996	5,403	20,987	-	831	27,221
1996-1997	5,525	21,556	-	1,031	28,112
1997-1998	5,370	22,162	360	918	28,810
1998-1999	5,512	23,102	392	1,139	30,145
1999-2000	5,666	24,471	572	1,513	32,222
2000-2001	5,360	26,438	758	1,822	34,378
2001-2002	5,720	29,006	876	1,825	37,427
2002-2003	5,961	31,682	865	2,127	40,635
2003-2004	5,667	32,787	837	2,205	41,496

Source: Campus Information from Blinn College Data
Totals are from THECB certified data

**BLINN COLLEGE
HEADCOUNT ENROLLMENT TREND
LAST TEN FISCAL YEARS BY CAMPUS
(Unaudited)**



**BLINN COLLEGE
TAX RATES AUTHORIZED AND ASSESSED
LAST TEN FISCAL YEARS
(Unaudited)**

FISCAL YEAR	TAX RATES AUTHORIZED AND ASSESSED		
	CURRENT OPERATIONS	DEBT SERVICE	TOTAL RATE
1994-95	\$ 0.0443	\$ -	\$ 0.0443
1995-96	\$ 0.0452	\$ -	\$ 0.0452
1996-97	\$ 0.0428	\$ -	\$ 0.0428
1997-98	\$ 0.0406	\$ -	\$ 0.0406
1998-99	\$ 0.0611	\$ -	\$ 0.0611
1999-00	\$ 0.0598	\$ -	\$ 0.0598
2000-01	\$ 0.0576	\$ -	\$ 0.0576
2001-02	\$ 0.0544	\$ -	\$ 0.0544
2002-03	\$ 0.0544	\$ -	\$ 0.0544
2003-04	\$ 0.0567	\$ -	\$ 0.0567

Source: Washington County Appraisal District

**BLINN COLLEGE
NET ASSESSED VALUATION
LAST TEN FISCAL YEARS
(Unaudited)**

FISCAL YEAR	ASSESSED VALUATIONS	LESS EXEMPTIONS	NET ASSESSED VALUATIONS
1994-95	\$ 933,974,187	-	933,974,187
1995-96	\$ 963,676,337	-	963,676,337
1996-97	\$ 1,131,073,724	(20,592,416)	1,110,481,308
1997-98	\$ 1,306,712,891	(37,742,184)	1,268,970,707
1998-99	\$ 1,341,157,048	(36,709,913)	1,304,447,135
1999-00	\$ 1,368,646,512	(36,267,332)	1,332,379,180
2000-01	\$ 1,497,359,679	(39,169,325)	1,458,190,354
2001-02	\$ 1,674,212,144	(39,423,638)	1,634,788,506
2002-03	\$ 1,743,970,560	(39,004,298)	1,704,966,262
2003-04	\$ 1,784,754,268	(42,102,236)	1,742,652,032

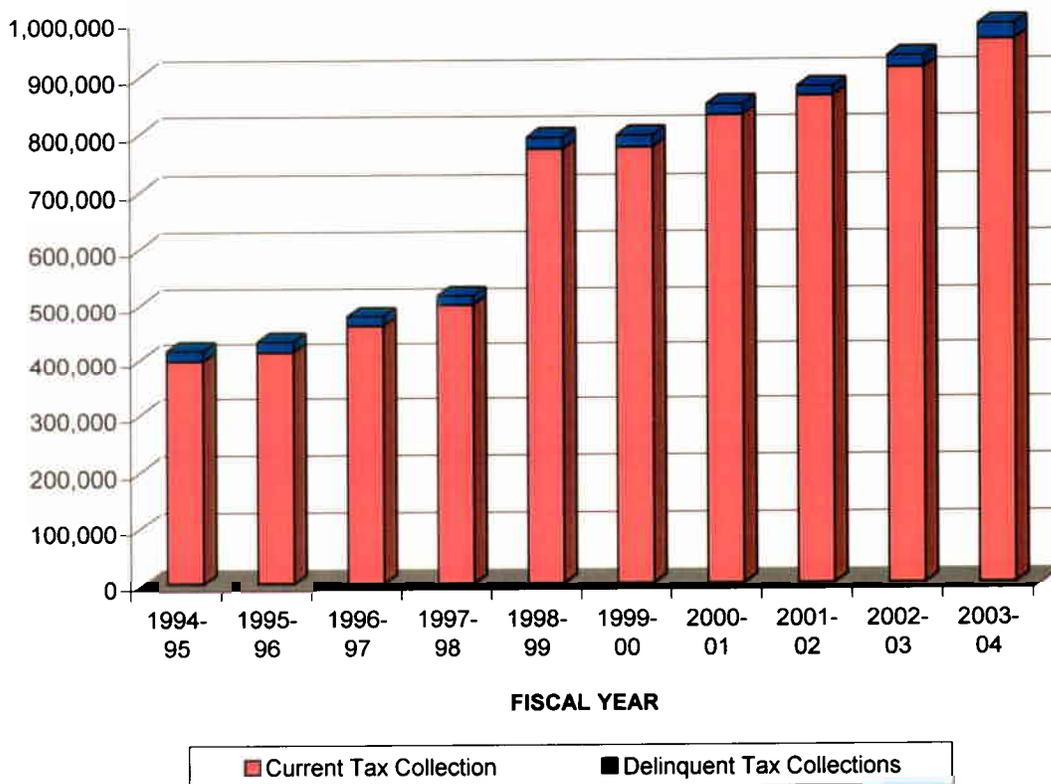
Source: Washington County Appraisal District

**BLINN COLLEGE
PROPERTY TAXES COLLECTED
LAST TEN FISCAL YEARS
(Unaudited)**

FISCAL YEAR	CURRENT TAX COLLECTIONS	DELINQUENT TAX COLLECTIONS	TOTAL TAX COLLECTIONS
1994-95	\$ 397,143	18,522	415,665
1995-96	\$ 412,940	19,002	431,942
1996-97	\$ 460,510	18,268	478,778
1997-98	\$ 499,620	15,936	515,556
1998-99	\$ 773,402	18,801	792,203
1999-00	\$ 775,919	19,855	795,774
2000-01	\$ 830,532	19,505	850,037
2001-02	\$ 864,584	15,949	880,533
2002-03	\$ 913,550	20,316	933,866
2003-04	\$ 962,322	27,848	990,170

Source: Washington County Appraisal District

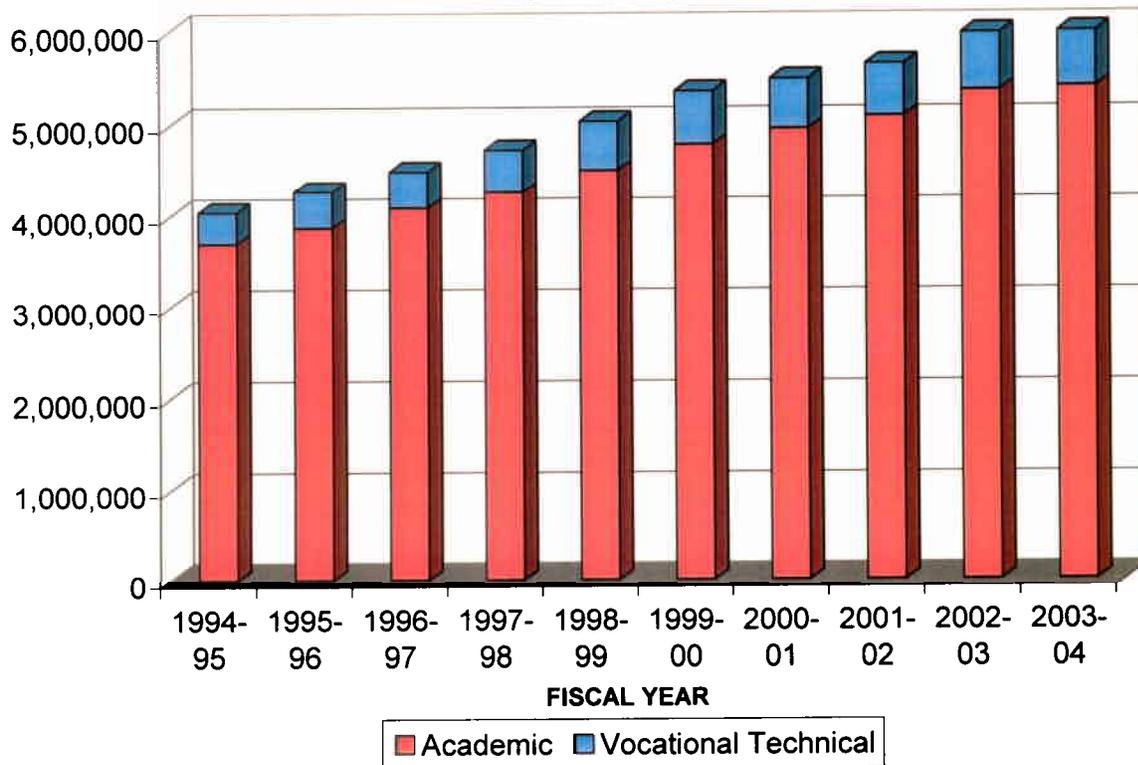
**BLINN COLLEGE
PROPERTY TAXES COLLECTED
LAST TEN FISCAL YEARS
(Unaudited)**



**BLINN COLLEGE
CONTACT HOUR HISTORY
LAST TEN FISCAL YEARS
(Unaudited)**

FISCAL YEAR	ACADEMIC	VOCATIONAL TECHNICAL	TOTAL CONTACT HOURS
1994-95	3,690,564	346,110	4,036,674
1995-96	3,867,677	396,377	4,264,054
1996-97	4,084,871	399,752	4,484,623
1997-98	4,252,535	469,493	4,722,028
1998-99	4,500,466	530,096	5,030,562
1999-00	4,780,497	574,804	5,355,301
2000-01	4,950,487	532,224	5,482,711
2001-02	5,083,209	556,076	5,639,285
2002-03	5,354,443	612,816	5,967,259
2003-04	5,392,137	588,784	5,980,921

**BLINN COLLEGE
CONTACT HOUR HISTORY
LAST TEN FISCAL YEARS
(Unaudited)**



**BLINN COLLEGE
FULL TIME STUDENT EQUIVALENTS (FTSE)
LAST TEN FISCAL YEARS
(Unaudited)**

FISCAL YEAR	FALL*	SPRING*	SUMMER 1**	SUMMER 2**	TOTAL***
1994-95	6,102	5,685	3,560	2,772	18,119
1995-96	6,331	5,998	3,544	2,762	18,635
1996-97	6,632	6,181	3,838	2,800	19,451
1997-98	7,061	6,527	3,828	2,827	20,243
1998-99	7,374	7,040	4,021	2,800	21,235
1999-00	7,921	7,567	4,137	2,905	22,530
2000-01	8,289	7,611	4,451	3,110	23,461
2001-02	8,554	7,975	4,416	3,289	24,234
2002-03	9,158	8,360	4,780	3,497	25,795
2003-04	9,265	8,501	4,829	3,077	25,672

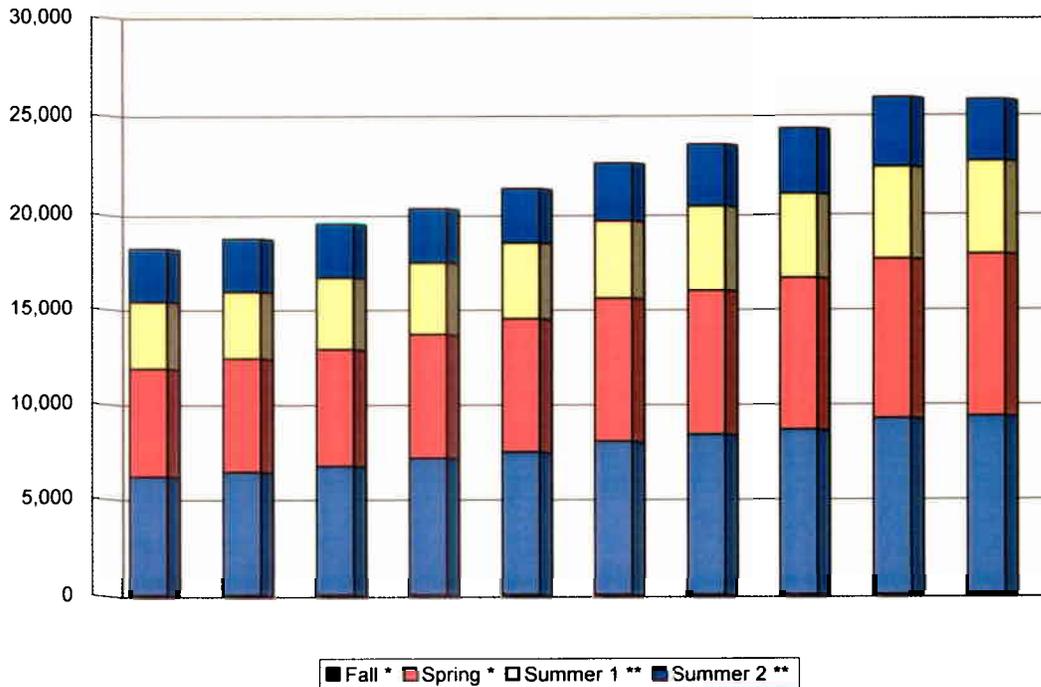
Source: Blinn College Database
THECB/Prep-Online

* 1 FTE = 15 Semester Hours

** 1 FTE = 6 Semester Hours

***Duplicated FTE Count

**BLINN COLLEGE
FULL TIME STUDENT EQUIVALENTS (FTSE)
LAST TEN FISCAL YEARS
(Unaudited)**



**BLINN COLLEGE
REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Unaudited)**

FISCAL YEAR	STATE ALLOCATIONS	NET TUITION AND FEES	GRANTS AND CONTRACTS	AUXILIARY ENTERPRISES	PROPERTY TAXES	INVESTMENT INCOME	OTHER REVENUES	TOTAL REVENUES
1994-95	13,569,771	9,014,595	2,390,682	4,804,291	407,403	547,172	521,607	31,255,521
1995-96	14,458,015	10,158,850	3,641,587	4,664,134	424,358	618,917	373,064	34,338,925
1996-97	15,424,337	10,077,719	2,694,354	4,658,971	469,552	547,527	1,188,429	35,060,889
1997-98	17,500,580	11,436,410	3,515,203	4,139,218	502,166	860,177	357,230	38,310,984
1998-99	18,222,453	12,463,052	5,357,094	3,992,178	792,233	1,108,086	217,138	42,152,234
1999-00	20,949,119	14,611,070	4,725,808	4,796,821	795,774	1,147,383	339,549	47,365,524
2000-01	21,592,146	17,318,327	5,205,103	5,200,312	836,993	1,186,479	275,272	51,614,632
2001-02	23,694,536	16,509,293	8,170,998	4,894,402	880,533	446,032	196,344	54,792,138
2002-03	22,543,586	17,424,538	9,046,692	5,174,707	933,866	360,082	636,566	56,120,037
2003-04	22,096,878	19,991,640	9,385,418	5,346,524	990,170	376,200	323,438	58,510,268

Source: Annual Financial Reports

**BLINN COLLEGE
EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS
(Unaudited)**

FISCAL YEAR	INSTRUCTION	PUBLIC SERVICE	ACADEMIC SUPPORT	STUDENT SERVICES	INSTITUTIONAL SUPPORT	OPERATION AND MAINTENANCE OF PLANT	SCHOLARSHIPS AND FELLOWSHIPS	AUXILIARY ENTERPRISES	DEPRECIATION	TOTAL EXPENSES
1994-95	12,649,813	636,426	1,620,765	2,145,921	1,621,347	2,300,402	2,371,944	4,988,225		28,534,843
1995-96	13,048,316	833,093	2,190,067	2,165,810	1,530,598	2,434,333	2,385,146	5,118,565		29,705,948
1996-97	15,020,244	844,116	1,554,032	2,467,420	1,731,935	2,466,276	2,819,739	4,679,673		31,583,435
1997-98	15,507,502	559,331	1,857,494	2,201,336	3,108,940	2,481,949	3,476,788	4,512,728		33,706,068
1998-99	18,640,325	1,122,150	2,282,589	2,303,550	3,266,342	2,794,596	3,872,568	4,541,280		36,823,400
1999-00	18,002,022	1,031,408	2,484,354	2,625,552	4,442,004	3,004,131	4,227,759	4,667,128		40,484,358
2000-01	20,071,733	775,320	2,860,452	2,913,148	4,012,875	3,263,928	4,806,358	5,579,669		44,283,483
2001-02	22,812,980	783,649	3,036,365	3,016,312	5,896,383	4,284,287	4,931,416	5,511,879	1,616,685	51,889,956
2002-03	23,430,205	628,849	4,098,388	3,320,096	4,984,109	3,894,228	6,004,057	4,955,687	2,266,045	53,581,664
2003-04	23,621,981	1,356,159	2,929,841	3,411,862	5,622,553	4,248,992	5,999,123	5,357,865	2,420,851	54,969,227

Source: Annual Financial Reports