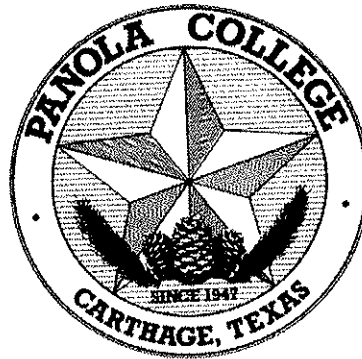


PANOLA COLLEGE
COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
AUGUST 31, 2004



PREPARED BY:
FISCAL SERVICES DEPARTMENT
PANOLA COLLEGE

**PANOLA COLLEGE
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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**PANOLA COLLEGE
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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INTRODUCTORY SECTION



November 10, 2004

To the taxpayers of Panola County and the citizens of the Panola College service area:

The comprehensive annual financial report of Panola County Junior College District (Panola College) for the fiscal year ended August 31, 2004, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with Panola College. To the best of our knowledge, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the College. All disclosures necessary to enable the reader to gain an understanding of the College's financial activities have been included.

The comprehensive annual financial report is presented in four sections: introductory, financial, statistical, and single audit. The introductory section includes this transmittal letter, the College's organizational chart, and a list of principal officials. The financial section includes the Management's Discussion and Analysis, financial statements, notes to the financial statements, and the independent auditor's report on the financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The College is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act as amended in 1996 and U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the schedule of expenditure of federal awards and auditor's reports on the internal control structure and compliance with applicable laws and regulations are included in this report.

Panola College is committed to offering quality educational programs and services for the people of the College's service area at a reasonable cost. The College provides a wide range of programs, including general academic, technical-vocational, student development services, continuing education, and community service.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to compliment MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

ORGANIZATION OF COLLEGE

Panola County Junior College District was established as a public junior college in an election held in Panola County, Texas, in 1947. The District operates as a junior college district under the laws of the State of Texas. An elected, seven-member Board of Trustees governs the District.

The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state, and federal sources, and must comply with the spending reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

Panola College's campus is located in Carthage, Panola County, Texas. Classes are offered at alternate sites in Shelby County, and Harrison County.

The Panola College Foundation, Inc. was created for the sole purpose of supporting the mission and vision of Panola College and to support its students. The Foundation is controlled by a separate board of directors that are ratified by the Panola College Board of Trustees and is included in the financial statements of the College as an affiliated organization.

ECONOMIC CONDITION AND OUTLOOK

Panola College's four-county service area borders Louisiana in Northeast Texas. The counties include Panola, Shelby, Marion, and Harrison. The largest cities in the service area are Carthage, Center, Jefferson and Marshall. These cities are also the county seats of their respective counties.

Panola County ranks as one of the leading natural gas producers in Texas. Continued lignite mining activities along with new natural gas wells contribute greatly to the area's wealth. Timber, poultry, and cattle production also continue to contribute to the local economy. All of these activities have a positive impact on employment and the county tax base. The price of crude oil and natural gas increased significantly during the year and as a result property values increased approximately 18% this year.

Community colleges in Texas receive state appropriations based upon a contact hour formula that was originally intended to cover the institutions instructional and administrative costs. The local taxpayers and tuition and fee revenues were to pay for facilities. To balance the State budget for the biennium being September 2003 it was necessary for additional reductions in appropriations. For the biennium the state appropriation is funding only 51.9% of the instructional and administrative costs. Panola College had a 5.0% increase in base year contact hours and a 9.8% reduction in appropriations. To help meet the reduction it was necessary to eliminate some programs, increase local taxes 3% and tuition and fees 5.5%.

MAJOR INITIATIVES

Students enrolled in Distance Learning course offerings via interactive television (ITV) and internet classes increased 21% this year.

To help meet the demand for nurses, the number of students admitted to our Associate Degree Nursing (ADN) program was expanded last year from 25 to 40. For the second consecutive year, 100% of Panola College ADN graduates passed state board examinations to become registered nurses.

Local support and gifts for a Rodeo Team made it possible for the College to start the new program. Construction began on a horse barn and a practice arena as a result of fund raising activities. The team will start competition in Fall 2004.

The Workforce and Continuing Education Department secured funds from the Texas Education Agency and Texas Workforce Commission in the form of Adult Basic Education, Self-Sufficiency, and Skills grants. These grants helped the college to provide needed programs for the service area.

FINANCIAL INFORMATION

The administration of the College is responsible for establishing and maintaining an internal control structure designed to provide reasonable, but not absolute, assurance that the assets of the College are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by administration.

SINGLE AUDIT

As a recipient of federal and state financial assistance, the College also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by administration and the independent auditors of the College.

As a part of the College's single audit, described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the College has complied with applicable laws and regulations. The results of the College's single audit for the fiscal year ended August 31, 2004, provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

BUDGETING CONTROLS

In addition, the College maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the College's Board of Trustees. Activities of the unrestricted current fund, auxiliary enterprises fund, and retirement of indebtedness fund are included in the annual appropriated budget. The College also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, encumbrances are appropriated as part of the next year's budget.

As demonstrated by the statements and schedules included in the financial section of this report, the College continues to meet its responsibility for sound financial management.

CASH MANAGEMENT

Cash temporarily idle during the year was invested in demand deposits, repurchase agreements, certificates of deposit, and the Lone Star Investment Pool. The Lone Star Investment Pool is a public funds investment pool administered by the Texas Association of School Boards. The average yield on investments at August 31, 2004 was 2.8%. The College earned \$ 270,168 in interest on all investments for the year.

The College's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. A financial institution's trust department in the College's name held all collateral on deposits. The Lone Star Investment Pool invests solely in obligations issued or secured by the U. S. Government and its agencies and instrumentalities. All of the investments held by the College during the year and on August 31, 2004, are classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board.

RISK MANAGEMENT

The College has developed a complete insurance program to protect against the risk inherent with the operation of a college and a public entity. This includes various policies protecting public officials, administrators, instructional personnel, law enforcement personnel, automobile liability, building and content liability, umbrella liability, and other policies. These policies are underwritten by nationally known and rated insurers. Efforts are routinely made to make all employees aware of policies, regulations, and matters related to safety to help minimize exposure to the risks associated with College operations.

INDEPENDENT AUDIT

State statutes require an annual audit by independent certified public accountants. The accounting firm of Robinson & Williams, P.L.L.C. was selected by the College's Board of Trustees. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act and related OMB Circular A-133.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (CAFR) for the fiscal year ended August 31, 2003 to Panola College for its comprehensive annual financial report. This was the tenth consecutive year that the college has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a college must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGMENTS

The preparation of the comprehensive annual financial report on a timely basis was made possible by the hard work and diligence of many College employees. Each employee who contributed to this report has our sincere appreciation. We would also like to thank the accounting firm of Robinson & Williams, P.L.L.C. for their assistance and timely completion of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Louis A. Johnagin". The signature is written in a cursive style with a large initial "L" and "J".

Louis A. Johnagin
Vice President of Fiscal Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Panola College
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2003

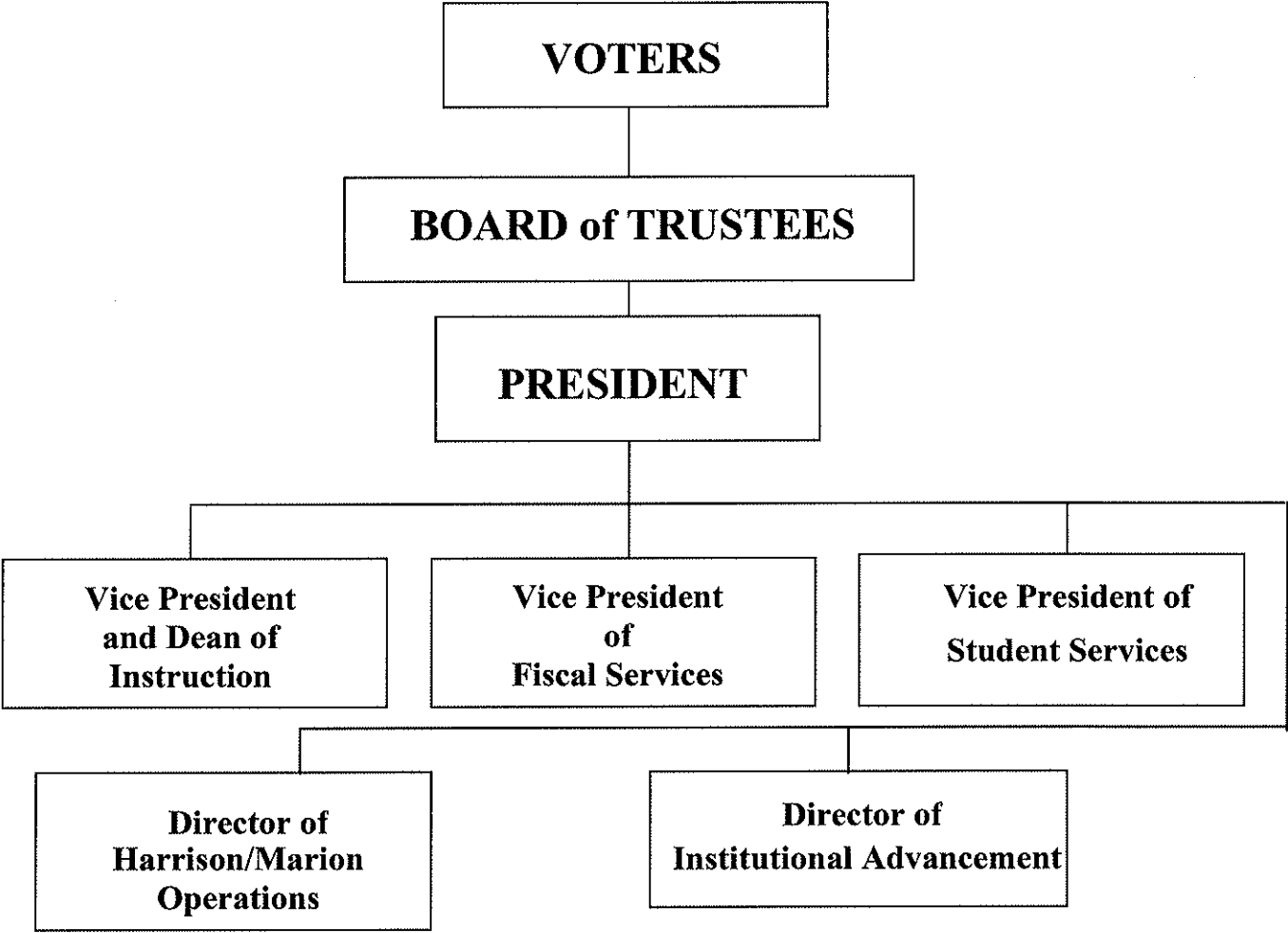
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

ORGANIZATIONAL CHART
PANOLA COLLEGE
Carthage, Texas



PANOLA COLLEGE
PRINCIPAL OFFICIALS
AUGUST 31, 2004

BOARD OF TRUSTEES

OFFICERS

Mr. William Goolsby
Mr. Hal Palmer
Mrs. Evelyn Sharp

Chair
Vice-Chair
Secretary

MEMBERS

Mrs. Evelyn Sharp
Mr. Richard Thomas
Mr. Hal Palmer
Mrs. Glendell Chadwick
Dr. Dennis Golden
Mr. William Goolsby
Mr. Bobby Phillips

Term Expires
May 31

2006
2006
2008
2008
2010
2010
2010

ADMINISTRATION

Dr. Gregory Powell

President

Dr. Lillian Cook

Vice President and Dean of
Instruction

Mr. Louis Johnagin, CPA

Vice President of Fiscal Services

Dr. G. Erik Zoellner

Vice President of Student
Services

Mr. Van Patterson

Director of Institutional
Advancement

Dr. Jeanne Scott

Director of Harrison/Marion
Operations

FINANCIAL SECTION

ROBINSON & WILLIAMS, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
410 WEST PANOLA
CARTHAGE, TEXAS 75633

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
TELEPHONE
(903) 693-5822

**Board of Trustees
Panola College
1109 West Panola
Carthage, TX 75633**

INDEPENDENT AUDITOR'S REPORT

Members of the Board:

We have audited the accompanying statement of net assets, statement of financial position – affiliated organization and the related statement of revenues, expenses, and changes in net assets, and statement of activities – affiliated organization and statement of cash flows of Panola College and the affiliated organization as of and for the years ended August 31, 2004 and 2003, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statements referred to above present fairly, in all material respects, the financial position of Panola College as of August 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 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, contract and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional financial information presented as supplementary schedules A through D are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Panola College's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Schedule E) is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Expenditures of State Awards (Schedule F) is also presented for purposes of additional analysis as required by the State of Texas Single Audit Circular. These statements are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, the statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statistical section on pages 49 to 71 is presented for purposes of additional analysis and is not a required part of the financial statements. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such data.



Robinson & Williams, P.L.L.C.
Certified Public Accountants

November 5, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Panola County Junior College District (Panola College), we offer readers of the College's financial statement this narrative overview and analysis of the financial activities of College for the year ended August 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at the front of this report and the College's financial statements and notes to the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the College exceeded its liabilities at August 31, 2004 by \$11,467,742 (net assets). Of this amount \$5,193,657 (unrestricted net assets) may be used to meet the College's ongoing obligations.
- Revenue exceeded expenses by \$432,767 or 3.3% for the current fiscal year end.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the College's basic financial statements. Governmental Accounting Standards Board (GASB) Statement No. 34 required the implementation of new financial statement reporting standards for the fiscal year ended August 31, 2004. The new standards require the College's financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements include: 1) the *Statement of Net Assets*, 2) the *Statement of Revenues, Expenses, and Changes in Net Assets*, and 3) *Statement of Cash Flows*. The notes to the financial statements are an integral part of the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Statement of Net Assets. The Statement of Net Assets presents all of the College's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the College is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of college activities, which are supported mainly by State Appropriations, Federal revenue, ad-valorem taxes, and tuition and fee revenues. This approach is intended to summarize and simplify the user's analysis of costs of various College services to students and the public. The statement presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of these statements distinguish the functions of the College as being a "special purpose government engaged only in business-type activities" (BTA), as permitted in GASB 35, Par. 43. Business-type activity reporting is a category of "Proprietary" funds referred to as "Enterprise" funds (GASB34, Par. 66 and 138) and is presented in a single column entity-wide format. Although the College is funded from sources in addition to user charges, the district meets the principal criteria for BTA reporting (GASB34, Par. 67 & GASB35 Par. 44).

Statement of Cash Flows. The Statement of Cash Flows is used to account for essentially the same functions reported in the other basic financial statements. However, unlike the Statement of Net Assets and The Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows focuses on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year.

Notes to the financial statements.

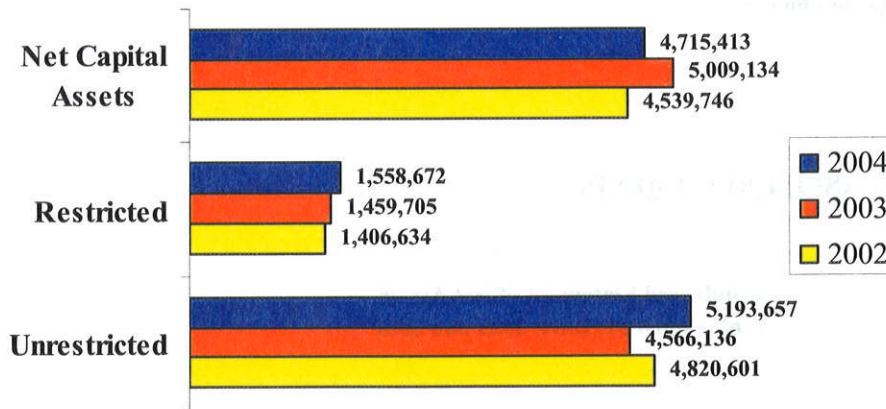
The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the basic financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statement of Net Assets
as of August 31, 2004, 2003 and 2002

	2004	% of Total	Increase (Decrease)	% of Change	2003	2002
Current assets	\$7,671,652	48.9%	\$666,206	9.5%	\$7,005,446	\$7,464,683
Non-current assets:						
Capital assets, net	6,520,738	41.5%	(443,251)	-6.4%	6,963,989	6,689,936
Other	<u>1,510,879</u>	<u>9.6%</u>	<u>215,690</u>	<u>16.7%</u>	<u>1,295,189</u>	<u>1,115,855</u>
Total Assets	<u>\$15,703,269</u>	<u>100.0%</u>	<u>\$438,645</u>	<u>2.9%</u>	<u>\$15,264,624</u>	<u>\$15,270,474</u>
Current liabilities	\$2,549,137	22.2%	\$147,859	6.2%	\$2,401,278	\$2,516,729
Non-current liabilities	<u>1,686,390</u>	<u>14.7%</u>	<u>(141,981)</u>	<u>-7.8%</u>	<u>1,828,371</u>	<u>1,986,764</u>
Total Liabilities	<u>\$4,235,527</u>	<u>36.9%</u>	<u>\$5,878</u>	<u>0.1%</u>	<u>\$4,229,649</u>	<u>\$4,503,493</u>
Net Assets:						
Invested in capital assets, net of						
related debt	\$4,715,413	41.1%	(\$293,721)	-5.9%	\$5,009,134	\$4,539,746
Restricted	1,558,672	13.6%	98,967	6.8%	1,459,705	1,406,634
Unrestricted	<u>5,193,657</u>	<u>45.3%</u>	<u>627,521</u>	<u>13.7%</u>	<u>4,566,136</u>	<u>4,820,601</u>
Total Net Assets	<u>\$11,467,742</u>	<u>100.0%</u>	<u>\$432,767</u>	<u>3.9%</u>	<u>\$11,034,975</u>	<u>\$10,766,981</u>

Net Assets
As of August 31, 2004, 2003, and 2002

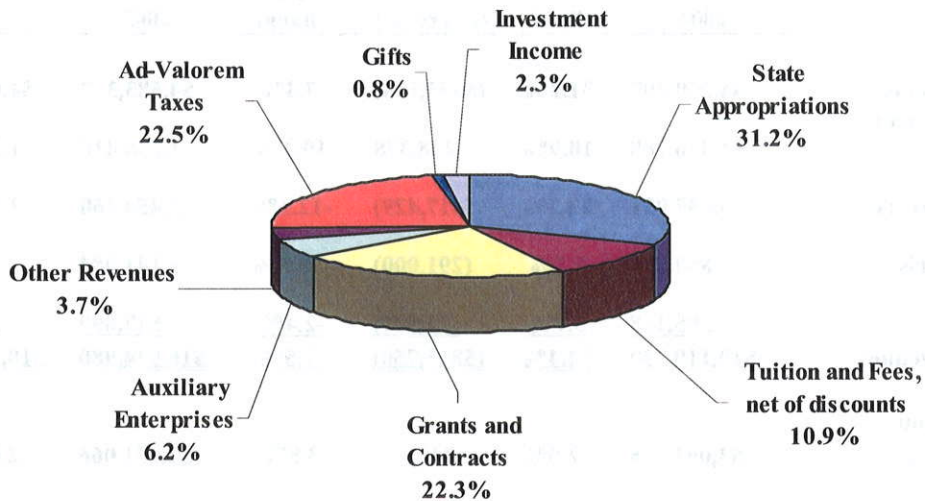


The College's assets exceeded liabilities by \$11,467,742 as of August 31, 2004. Assets amounted to \$15,703,269 with the investment in capital assets comprising \$6,520,738 of that total. Capital assets include land, library books, buildings and improvements, vehicles, furniture, and equipment. The College uses these capital assets to provide services to students and consequently these assets are not available for future spending. The College's investment in capital assets, reported net of related debt, is 41.1 % of the total net assets. It should be noted that the capital assets themselves may not be used to liquidate these liabilities. Additionally \$1,558,672 or 13.6 % of total net assets is externally restricted. The remaining balance of \$5,193,657 represents unrestricted net assets that may be used to meet the College's ongoing obligations. Capital assets net of related debt related was \$4,715,413. The total liabilities amounted to \$4,235,527 of which \$2,549,137 is due next year.

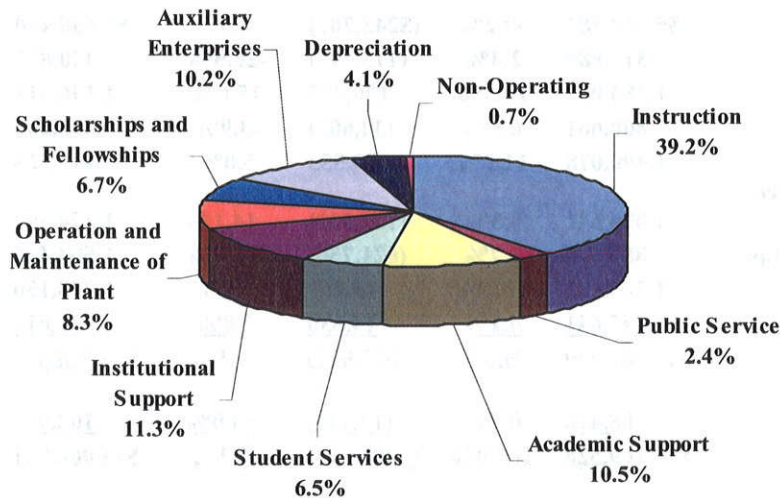
**Condensed Statement of Revenues,
Expenses, and Changes in Net Assets
For the Year Ended August 31, 2004, 2003 and 2002**

	2004	% of Total	Increase (Decrease)	% of Change	2003	2002
Operating Revenues						
State Appropriations	\$4,250,209	31.2%	(\$333,118)	-7.3%	\$4,583,327	\$4,620,700
Tuition and Fees, net of discounts	1,476,788	10.9%	238,378	19.2%	1,238,410	1,229,778
Grants and Contracts	3,037,031	22.3%	(417,429)	-12.1%	3,454,460	3,526,113
Auxiliary Enterprises	850,084	6.2%	(291,000)	-25.5%	1,141,084	761,918
Other Revenues	<u>505,118</u>	<u>3.7%</u>	<u>(12,581)</u>	<u>-2.4%</u>	<u>517,699</u>	<u>384,224</u>
Total Operating Revenues	<u>\$10,119,230</u>	<u>74.4%</u>	<u>(\$815,750)</u>	<u>-7.5%</u>	<u>\$10,934,980</u>	<u>\$10,522,733</u>
Non-Operating Revenues						
Ad-Valorem Taxes	\$3,063,426	22.5%	\$112,360	3.8%	\$2,951,066	\$2,839,006
Gifts	104,373	0.8%	(4,695)	-4.3%	109,068	103,455
Investment Income	<u>315,266</u>	<u>2.3%</u>	<u>(18,595)</u>	<u>-5.6%</u>	<u>333,861</u>	<u>303,927</u>
Total Non-Operating Revenues	<u>\$3,483,065</u>	<u>25.6%</u>	<u>\$89,070</u>	<u>2.6%</u>	<u>\$3,393,995</u>	<u>\$3,246,388</u>
Total Revenues	<u>\$13,602,295</u>	<u>100.0%</u>	<u>(\$726,680)</u>	<u>-5.1%</u>	<u>\$14,328,975</u>	<u>\$13,769,121</u>
Operating Expenses						
Instruction	\$5,164,783	39.2%	(\$243,707)	-4.5%	\$5,408,490	\$5,248,884
Public Service	316,880	2.4%	(113,997)	-26.5%	430,877	483,434
Academic Support	1,383,067	10.5%	186,755	15.6%	1,196,312	1,186,163
Student Services	860,661	6.5%	(34,605)	-3.9%	895,266	916,376
Institutional Support	1,490,078	11.3%	70,553	5.0%	1,419,525	1,292,685
Operation and Maintenance of Plant	1,094,641	8.3%	(180,353)	-14.1%	1,274,994	1,110,567
Scholarships and Fellowships	881,676	6.7%	(621,750)	-41.4%	1,503,426	1,065,433
Auxiliary Enterprises	1,343,623	10.2%	45,467	3.5%	1,298,156	1,265,906
Depreciation	<u>545,641</u>	<u>4.1%</u>	<u>14,630</u>	<u>2.8%</u>	<u>531,011</u>	<u>499,661</u>
Total Operating Expenses	<u>\$13,081,050</u>	<u>99.3%</u>	<u>(\$877,007)</u>	<u>-6.3%</u>	<u>\$13,958,057</u>	<u>\$13,069,109</u>
Non-Operating Expenses	<u>88,478</u>	<u>0.7%</u>	<u>(14,446)</u>	<u>-14.0%</u>	<u>102,924</u>	<u>84,446</u>
Total Expenses	<u>\$13,169,528</u>	<u>100.0%</u>	<u>(\$891,453)</u>	<u>-6.3%</u>	<u>\$14,060,981</u>	<u>\$13,153,555</u>
Changes in Net Assets	\$432,767	3.8%	\$164,773	61.5%	\$267,994	\$615,566
Beginning Net Assets as Restated	<u>11,034,975</u>	<u>96.2%</u>	<u>267,994</u>	<u>2.5%</u>	<u>10,766,981</u>	<u>10,151,415</u>
Ending Net Assets	<u>\$11,467,742</u>	<u>100.0%</u>	<u>\$432,767</u>	<u>3.9%</u>	<u>\$11,034,975</u>	<u>\$10,766,981</u>

**Revenue by Source
For Year Ending August 31, 2004**



**Expenses by Function
For Year Ending August 31, 2004**



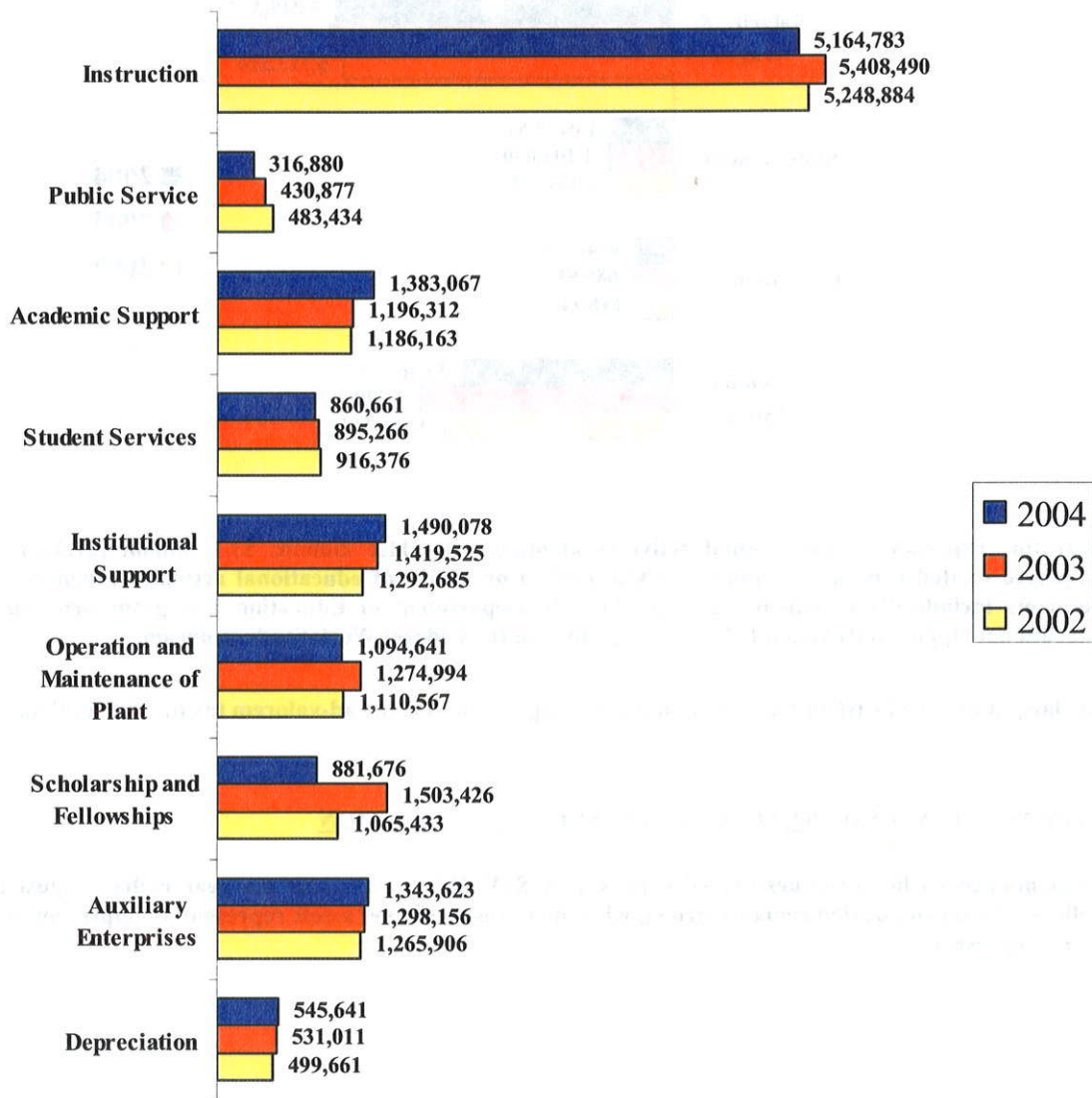
Operating revenue amounted to \$10,119,230 and non-operating revenues amounted to \$3,483,065 for a total of \$13,602,295. The major operating revenues include \$4,250,209 (31.2%) in state appropriations, \$1,473,788 (10.9%) in tuition and fees, \$3,037,031 (22.3%) in grants and contracts, \$850,084 (6.2%) in auxiliary enterprises, and \$3,063,426 (22.5%) in ad-valorem taxes.

The state appropriations of \$4,250,209 include \$1,042,063 for employee benefits (\$326,657 for retirement benefits and \$715,406 for health and life insurance coverage). Additional information is available in footnote 13, 16, and 17 found

on pages 34-38. Major sources of operating funds include student tuition and fees (\$1.5 million), grants and contracts (\$3.0 million), and state appropriations (\$4.2 million). In Texas the state appropriation to community colleges is operating revenue due to an implied contractual agreement based on contact hours taught. The Texas Higher Education Coordinating Board (THECB) determined that the appropriation was program revenue under GASB 34, para47 (b), because it is based on performance and since the appropriation is restricted to instructional programs.

Operating Expenses totaled \$13,081,050 and non-operating expenses \$88,478 for total expenses of \$13,169,528. Revenues exceed expenses for the year by \$432,767 and are the increase in net assets.

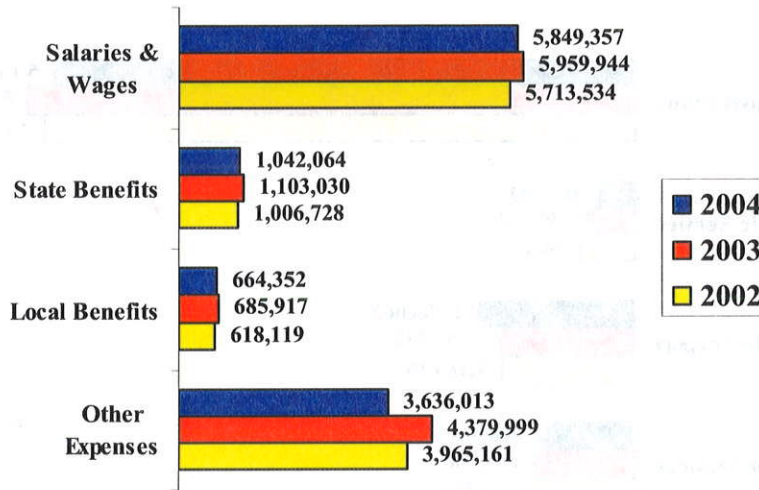
Operating Expense Comparison For Years Ended August 31, 2004, 2003, and 2002



Instruction at \$5.2 million is the largest operating expense. It includes expenditures for all activities that are part of the institution's instruction program. These activities include credit and noncredit courses, for academic, vocational, and developmental and tutorial instruction. Academic support at \$1.4 million provides support services for the college's primary missions of instruction and public service. This includes library expenses, academic administration, computer services, and distance learning support. Student services at \$.9 million, includes expenses for offices of

records and admissions and student activities. Institutional support at \$1.5 million includes expenses related to the college's executive management, fiscal operations, personnel management, college development, administrative computing, and general institutional expenses. Operation and maintenance of plant at \$1.1 million are expenditures for the operation and maintenance of the physical plant. Scholarships and fellowships at \$.9 million, includes scholarships and fellowships including tuition remissions and exemptions. Auxiliary enterprises at \$1.3 million, includes expenditures for the college store, food service, residence halls, and athletic programs.

**Educational Activities Operating Expenses
For Years Ended August 31, 2004, 2003, and 2002**



Operating expenses for educational activities amounted to \$11.2 million; \$3.1 million (27.3%) were restricted. Employee related expenses amounted to \$7.6 million or 67.5% of educational activities expenses. The scholarship payments include disbursements through the U.S. Department of Education Pell grant program, Supplemental Educational Opportunity Grant (SEOG) program, and the Federal Work Study program.

The largest inflow of cash in the non-capital financing activities is the ad-valorem tax of \$3.1 million.

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATION

As mentioned earlier revenues exceed expenses by \$432,767 or 3.3% for the year ended August 31, 2004. The College's financial position remains strong, with the unrestricted net assets representing approximately six months of operating reserves.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The College's investment in capital assets as of August 31, 2004, amounts to \$6,520,738 (net of accumulated depreciation). This investment includes land, library books, buildings and improvements, and furniture and equipment.

Capital Assets
(net of depreciation)
as of August 31, 2004, 2003 and 2002

	2004	Increase (Decrease)	% of Change	2003	2002
Land	\$968,460	\$	0.0%	\$968,460	\$968,460
Library Books	619,845	30,111	5.1%	589,734	557,713
Buildings and Improvements	4,180,317	(320,818)	-7.1%	4,501,135	4,700,567
Construction in Progress	40,098	40,098			
Furniture and Equipment	<u>712,018</u>	<u>(192,642)</u>	<u>-21.3%</u>	<u>904,660</u>	<u>463,196</u>
Total at historical cost	<u>\$6,520,738</u>	<u>\$(443,251)</u>	<u>-6.4%</u>	<u>\$6,963,989</u>	<u>\$6,689,936</u>

Please refer to footnote number 7 on pages 27-28 for additional information on capital assets.

Long-term Debt

The College has no bonded indebtedness. In December 2001 the College received a 15 year Maintenance Tax Note. The note is secured with proceeds from the college's maintenance and operations tax. The principle balance at August 31, 2004, was \$1,753,805.

The only other debt the College has is in the form of capital leases. The College leases most of its copying machines. The principal balance on the leases at August 31, 2004 was \$51,521.

Long-term Liabilities
as of August 31, 2004, 2003 and 2002

	2004	Increase (Decrease)	% of Change	2003	2002
Lease Purchase Agreements	\$51,521	(\$47,680)	-48.1%	\$99,201	\$133,484
Notes Payable		-			63,731
Maintenance Notes Payable	<u>1,753,805</u>	<u>(101,849)</u>	<u>-5.5%</u>	<u>1,855,654</u>	<u>1,952,975</u>
Total Long-term Liabilities	<u>\$1,805,326</u>	<u>\$(149,529)</u>	<u>-7.6%</u>	<u>\$1,954,855</u>	<u>\$2,150,190</u>

Additional information on the College's long-term debt can be found in footnote number 8 on page 28 of this report.

ECONOMIC FACTORS

The Texas Legislature convened in January 2003 and set appropriation amounts for the fifty state community colleges for the biennium beginning September 1, 2003. The appropriation is divided among the college based on a percentage of the total contact hours reported. The growth rate in community college since the last funding has been greatest in the large metropolitan areas. The formula funding year started in March 2002. Contact hours increased by 5% at Panola College since the prior funding year started in March 2000. Statewide the increase was 14.7%. Due to budget restraints not only was the growth not funded, the appropriations were cut. The legislature did set a stop loss percentage of no more than 10% for each college. The formula funding model continues to adversely affect smaller rural colleges with higher costs per contact hour, due to the smaller class size, lack of available adjunct faculty, and lack of economy of scale.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, students, and creditors with a general overview of the College's finances as well as demonstrate accountability for the funds the College receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Vice President of Fiscal Services, Panola College, 1109 West Panola, Carthage, Texas 75633.

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PANOLA COLLEGE
EXHIBIT 1
STATEMENT OF NET ASSETS
For the Years Ended August 31, 2004 and 2003

	<u>2004</u> <u>Primary</u> <u>Institution</u>	<u>2003</u> <u>Primary</u> <u>Institution</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,194,161	\$ 1,687,056
Short-term investments	4,794,477	3,748,000
Accounts receivable (net)	1,137,712	1,154,506
Inventories	102,193	108,113
Other assets	443,109	307,771
Total Current Assets	<u>7,671,652</u>	<u>7,005,446</u>
Noncurrent Assets		
Endowment short-term investments	1,510,879	1,295,189
Capital assets, (net) (See note)	6,520,738	6,963,989
Total Noncurrent Assets	<u>8,031,617</u>	<u>8,259,178</u>
Total Assets	<u>\$ 15,703,269</u>	<u>\$ 15,264,624</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 341,880	\$ 471,392
Accrued liabilities	242,638	221,095
Funds held for others	86,162	83,672
Deferred revenues	1,729,191	1,475,590
Capital Leases Payable - current portion	42,678	47,680
Notes Payable - current portion	106,588	101,849
Total Current Liabilities	<u>2,549,137</u>	<u>2,401,278</u>
Noncurrent Liabilities		
Deposits	30,330	23,045
Capital Leases Payable	8,843	51,521
Notes Payable	1,647,217	1,753,805
Total Noncurrent Liabilities	<u>1,686,390</u>	<u>1,828,371</u>
Total Liabilities	<u>\$ 4,235,527</u>	<u>\$ 4,229,649</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 4,715,413	\$ 5,009,134
Restricted for Nonexpendable Student Aid	1,558,672	1,459,705
Unrestricted	5,193,657	4,566,136
Total Net Assets	<u>\$ 11,467,742</u>	<u>\$ 11,034,975</u>

The accompanying notes are an integral part of this financial statement.

PANOLA COLLEGE
EXHIBIT 1-A
AFFILIATED ORGANIZATION
STATEMENT OF FINANCIAL POSITION
For the Years Ended August 31, 2004 and 2003

	<u>2004</u> <u>Panola</u> <u>College</u> <u>Foundation</u>	<u>2003</u> <u>Panola</u> <u>College</u> <u>Foundation</u>
Assets		
Cash and cash equivalents	\$ 27,007	\$ 21,970
Short-term certificates of deposit	59,538	58,746
Mutual fund investments	22,977	19,718
Annuity contracts	412,158	379,115
Gifts receivable	34,950	-
Construction in progress	50,490	-
Total Assets	<u>\$ 607,120</u>	<u>\$ 479,549</u>
Liabilities		
Accounts payable	\$ 34,950	\$ -
Accrued liabilities	3,932	3,432
Total Liabilities	<u>\$ 38,882</u>	<u>\$ 3,432</u>
Net Assets		
Unrestricted	\$ 67,089	\$ 15,531
Permanently Restricted	501,149	460,586
Total Net Assets	<u>\$ 568,238</u>	<u>\$ 476,117</u>

The accompanying notes are an integral part of this financial statement.

PANOLA COLLEGE
EXHIBIT 2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended August 31, 2004 and 2003

	<u>2004</u> <u>Primary</u> <u>Institution</u>	<u>2003</u> <u>Primary</u> <u>Institution</u>
Revenues		
Operating Revenues		
State Allocations	\$ 4,250,209	\$ 4,583,327
Tuition and Fees (Net of Discounts of \$1,033,667 for 2004 and \$1,213,144 for 2003)	1,476,788	1,238,410
Federal Grants and Contracts	2,623,949	2,955,807
State Grants and Contracts	393,018	413,091
Non-Governmental Grants and Contracts	20,064	85,562
Sales and Services of Educational Activities	196,103	187,020
Auxiliary Enterprises (Net of Discounts of \$524,857 for 2004 and \$230,834 for 2003)	850,084	1,141,084
Other Operating Revenues (Net of Discounts of \$-0-)	309,015	330,679
Total Operating Revenues (Schedule A)	<u>10,119,230</u>	<u>10,934,980</u>
Expenses		
Operating Expenses		
Instruction	5,164,783	5,408,490
Public Service	316,880	430,877
Academic Support	1,383,067	1,196,312
Student Services	860,661	895,266
Institutional Support	1,490,078	1,419,525
Operation and Maintenance of Plant	1,094,641	1,274,994
Scholarships and Fellowships	881,676	1,503,426
Auxiliary Enterprises	1,343,623	1,298,156
Depreciation	545,641	531,011
Total Operating Expenses (Schedule B)	<u>13,081,050</u>	<u>13,958,057</u>
Operating Income (Loss)	<u>(2,961,820)</u>	<u>(3,023,077)</u>
Non-Operating Revenues (Expenses)		
Ad-Valorem Taxes for Maintenance & Operations	3,063,426	2,951,066
Gifts	104,373	109,068
Investment Income (Net of Investment Expenses)	270,168	287,593
Royalty Income	45,098	46,268
Interest on Capital Related Debt	(88,478)	(102,924)
Net Non-Operating Revenues	<u>3,394,587</u>	<u>3,291,071</u>
Increase in Net Assets	432,767	267,994
NET ASSETS		
Net Assets - Beginning of Year	11,034,975	10,766,981
Net Assets - End of Year	<u>\$ 11,467,742</u>	<u>\$ 11,034,975</u>

The accompanying notes are an integral part of this financial statement.

PANOLA COLLEGE
EXHIBIT 2-A
AFFILIATED ORGANIZATION
STATEMENT OF ACTIVITIES
For the Years Ended August 31, 2004 and 2003

	<u>2004</u> <u>Panola</u> <u>College</u> <u>Foundation</u>	<u>2003</u> <u>Panola</u> <u>College</u> <u>Foundation</u>
Revenue		
Investment income	\$ 929	\$ 2,004
Unrealized Investment Income	35,302	16,578
Gifts	<u>56,390</u>	<u>318,858</u>
Total Revenue	<u>92,621</u>	<u>337,440</u>
Expenses		
Scholarships and support	<u>500</u>	<u>4,600</u>
Total Expenses	<u>500</u>	<u>4,600</u>
Change in net assets	92,121	332,840
Net Assets at beginning of year	476,117	143,277
Net Assets at end of year	<u>\$ 568,238</u>	<u>\$ 476,117</u>

The accompanying notes are an integral part of this financial statement.

PANOLA COLLEGE
EXHIBIT 3
STATEMENT OF CASH FLOWS
For the Years Ended August 31, 2004 and 2003

	<u>2004</u> <u>Primary</u> <u>Institution</u>	<u>2003</u> <u>Primary</u> <u>Institution</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 2,750,657	\$ 2,868,272
Receipts from state allocations	3,208,146	3,480,296
Receipts from grants, and contracts	2,999,187	3,818,231
Payments to or on behalf of employees	(6,707,108)	(6,866,940)
Payments to suppliers for goods or services	(3,959,876)	(3,857,772)
Payments of scholarships	(881,676)	(1,503,425)
Net cash used for operating activities	<u>(2,590,670)</u>	<u>(2,061,338)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Ad valorem tax revenues	3,057,505	2,952,666
Gifts and grants (other than capital)	128,229	109,068
Student organization and other agency transactions	46,074	8,117
Net cash provided by non-capital financing activities	<u>3,231,808</u>	<u>3,069,851</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(50,947)	(778,285)
Interest expense paid	(89,428)	(104,018)
Payments on capital debt and leases	(149,528)	(232,433)
Net cash used for capital and related financing activities	<u>(289,903)</u>	<u>(1,114,736)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	5,043,189	4,347,308
Investment earnings	413,917	311,609
Purchases of investments	(6,301,236)	(5,038,630)
Net cash used for investing activities	<u>(844,130)</u>	<u>(379,713)</u>
Decrease in cash and cash equivalents	(492,895)	(485,936)
Cash and cash equivalents - Beginning	<u>1,687,056</u>	<u>2,172,992</u>
Cash and cash equivalents - Ending	<u>\$ 1,194,161</u>	<u>\$ 1,687,056</u>
Noncash investing, capital, and financing activities:		
Capital assets purchased	\$ 102,390	\$ 805,065
Less Assets Donated	(11,345)	
Less Accounts Payable	(40,098)	
Less Capitalized Leases	-	(26,780)
Cash paid for capital assets	<u>\$ 50,947</u>	<u>\$ 778,285</u>
Increase (decrease) in fair value of investments	<u>\$ 4,120</u>	<u>\$ 4,559</u>

The accompanying notes are an integral part of this financial statement.

PANOLA COLLEGE
EXHIBIT 3 (Continued)
STATEMENT OF CASH FLOWS
For the Years Ended August 31, 2004 and 2003

	<u>2004</u> <u>Primary</u> <u>Institution</u>	<u>2003</u> <u>Primary</u> <u>Institution</u>
Reconciliation of operating loss to net cash used for operating activities		
Operating loss	\$ <u>(2,961,820)</u>	\$ <u>(3,023,077)</u>
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation expense	545,641	531,011
Operating expenses financed	-	10,317
Changes in assets and liabilities		
(Increase) Decrease in Receivables, net	(115,260)	529,294
(Increase) Decrease in Inventories	5,920	(25,809)
(Increase) Decrease in Prepaid expenses	6,482	3,069
(Increase) Decrease in Deferred expenses	(141,820)	(612)
Increase (Decrease) in Deferred credits student related	253,463	65,875
Increase (Decrease) in Deferred credits other	138	(29,921)
Increase (Decrease) in Accounts payable	(204,202)	(106,082)
Increase (Decrease) in Accrued liabilities-payroll related	4,127	1,801
Increase (Decrease) in Compensated absences	16,661	(17,204)
Total Adjustments	<u>371,150</u>	<u>961,739</u>
Net cash used by operating activities	<u>\$ (2,590,670)</u>	<u>\$ (2,061,338)</u>

The accompanying notes are an integral part of this financial statement.

PANOLA COLLEGE
EXHIBIT 3-A
AFFILIATED ORGANIZATION
STATEMENT OF CASH FLOWS
For the Years Ended August 31, 2004 and 2003

	<u>2004</u> <u>Panola</u> <u>College</u> <u>Foundation</u>	<u>2003</u> <u>Panola</u> <u>College</u> <u>Foundation</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from donors	\$ 21,440	\$ 318,858
Payments for scholarships and support		(2,568)
Investment receipts	929	2,004
Net cash provided by operating activities	<u>22,369</u>	<u>318,294</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction in progress	<u>(15,540)</u>	-
Net cash used for capital and related financing activities	<u>(15,540)</u>	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities and liquidation of investments		75,090
Purchase of investments and annuities	<u>(1,792)</u>	<u>(376,909)</u>
Net cash used for investing activities	<u>(1,792)</u>	<u>(301,819)</u>
Increase in cash and cash equivalents	5,037	16,475
Cash and cash equivalents-beginning	21,970	5,495
Cash and cash equivalents-ending	<u>\$ 27,007</u>	<u>\$ 21,970</u>
Reconciliation of change in net assets to net cash used for operating activities		
Change in net assets	<u>\$ 92,121</u>	<u>\$ 332,840</u>
Adjustments to reconcile change in net assets to net cash used to net cash used for operating activities		
(Increase) Decrease in fair value of investments	(35,302)	(16,578)
Changes in assets and liabilities		
Increase in gifts receivable	(34,950)	-
Increase in accrued liabilities	500	2,032
Total Adjustments	<u>(69,752)</u>	<u>(14,546)</u>
Net cash provided by operating activities	<u>\$ 22,369</u>	<u>\$ 318,294</u>
Noncash investing, capital, and financing activities:		
Construction in progress	\$ 50,490	
Less Accounts Payable	<u>(34,950)</u>	
Cash paid for construction in progress	<u>\$ 15,540</u>	

The accompanying notes are an integral part of this financial statement.

PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003

1. REPORTING ENTITY

Panola College was established in 1947 in accordance with the laws of the State of Texas to serve the educational needs of the Panola College service area. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state and federal sources, and must comply with the spending, reporting and recordkeeping requirements of these entities, it is not a component unit of any other governmental entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

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

Tuition Discounting

Texas Public Education Grants

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

Title IV, 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.

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.

Basis of Accounting

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

**PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. Encumbrances outstanding at year-end that are provided for in subsequent year's budget are reported as designations of net assets since they do not constitute expenditures or liabilities.

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 District'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.

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.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. (The governing board has designated public funds investment pools comprised of \$55,808 and \$55,256 at August 31, 2004 and 2003, respectively, to be short-term investments). Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories

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

Capital Assets

Capital assets are stated at cost. Donated capital assets are valued at their estimated fair market value on the date received. Panola College's capitalization policy includes real or personal property with a value equal to or greater than \$5,000 and has an estimated life of greater than 1 year. 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 applying the half-year convention. The following lives are used:

Buildings	30 years
Facilities and Other Improvements	10-20 years
Furniture, Machinery, Vehicles and Other Equipment	5-10 years
Telecommunications and Peripheral Equipment	5 years
Library Books	As long as in collection

**PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

Library Books

Library books are capitalized as inexhaustible assets and therefore are not depreciated. Library books have an economic benefit or service potential that is used up slowly and their estimated useful lives are extraordinarily long. Some books have a cultural, aesthetic, or historical value, and efforts are usually applied to protect and preserve these assets in a manner greater than that for similar assets without such cultural, aesthetic, or historical value. Library books will be written off as the books are removed from service.

Collections

The College does not maintain any collections for public exhibition, education, or research.

Deferred Revenues

Tuition, fees, and other revenues received and related to the periods after August 31, 2004 and 2003 have been deferred.

Estimates

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

Operating Revenues and Non- Operating Revenues

The statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues. For this purpose, operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of the College. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. The College also recognizes as operating revenue allocations from the state. State allocations are classified as operating revenues because the college is a separate primary government and is not included as part of the Texas state-wide CAFR. In addition, Texas state allocations are program specific for instructional services provided on behalf of the State and are affected by performance through a formula funding process (exchange-transaction) based on contact hours of instruction provided. Non-operating revenues arise from exchange transactions not associated with the College's principal activities (such as investment income) and from all non-exchange transactions (such as property taxes).

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Net Assets

The College reports its net assets in three components. Net assets invested in capital assets are equal to amounts reported for capital assets net of accumulated depreciation and net of related debt. Restricted net assets are reported when assets (net of related debt) can only be used for a specified purpose that is established by grantors, contributors, or laws or regulations governing the College. Unrestricted net assets are all other College net assets that do not meet the definitions of invested in capital assets or restricted.

3. COMPONENT UNIT (AFFILIATED ORGANIZATION)

Governmental Accounting Standards Board (GASB) Statement 39 amends GASB Statement 14 regarding the inclusion of annual financial statements of certain non-profit organizations in the primary government's annual report. The Panola College Foundation (the Foundation) is a non profit corporation organized under the Texas Non Profit Corporation Act. The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The sole purpose of the Foundation is to strengthen the educational resources of Panola College by encouraging a program of benefactions to the College. Appointments to the board of trustees are ratified by the Panola College board of trustees, and two members of the College's board serve on the Foundation's board. The College has adopted early implementation of the provisions of GASB 39 by discreetly presenting the financial activity of the Foundation in the College's annual financial report as an affiliated organization.

Financial transactions in the form of support from the Foundation to the College for the years ended August 31, 2004 and 2003 amounted to approximately \$500 and \$4,600, respectively. In addition, the Foundation is in the process of constructing a rodeo team practice facility for use by the College.

4. AUTHORIZED INVESTMENTS

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

5. DEPOSITS AND SHORT-TERM INVESTMENTS

Deposits and Investments

At August 31, 2004 and 2003, the carrying amount of Panola College's deposits was \$7,398,018 and \$6,639,543, respectively. Total bank balances (balances per financial institution records) equaled \$7,609,246 and \$6,805,836, respectively.

**PANOLA COLLEGE
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Depository bank balances of \$7,552,208 (2004) and \$6,723,475 (2003) were covered by \$100,000 in federal depository insurance and \$9,243,552 (2004) and \$9,275,804 (2003) (book value) in pledged securities. These pledged securities are held by the depository bank's agent in the name of the bank, for the benefit of Panola College. Based on this arrangement, the pledged securities meet the definition of GASB Statement No. 3 as uncollateralized.

Deposits and investments in other financial institutions totaling \$50,179 (2004) and \$82,361 (2003) were fully covered by federal depository insurance. Short-term investments with the Lone Star Investment Pool and a mutual fund investment firm described below totaling \$97,809 (2004) and \$87,137 (2003) were not covered by insurance.

During the year, the College transitioned from one depository bank to another. The transition process began in September 2003 and was completed in February 2004. The former depository was First State Bank of Carthage, Texas. The new depository bank is Farmers State Bank of Carthage, Texas.

Deposits with both contracted depository banks were in interest bearing accounts which were secured throughout the year by FDIC coverage and by securities conforming to the provisions of House Bill 1488 pledged to the College and held by the depository bank's agent. Following are selected details about the deposits at both the former and the current depository banks:

First State Bank

- a. Name of the Bank: First State Bank, Carthage, Texas.
- b. The amount of bond and/or the market value of securities pledged as of the date of the highest combined balance on deposit was approximately \$8,522,993 (2004) and \$8,963,045 (2003). The highest combined balances of cash, savings and time deposits accounts amounted to approximately \$5,232,817 (2004) and \$7,587,753 (2003) and occurred during the months of September 2003 (FYE 2004) and November 2002 (FYE 2003).
- c. Total amount of FDIC coverage at the time of the highest combined balances in September 2003 and November 2002 was \$100,000.
- d. At the end of August 2003, fair value of securities pledged was approximately \$9,354,026.

Farmers State Bank

- a. Name of the Bank: Farmers State Bank, Carthage, Texas.
- b. The amount of bond and/or the market value of securities pledged as of the date of the highest combined balance on deposit was approximately \$9,219,912 (2004) and The highest combined balances of cash, savings and time deposits accounts amounted to approximately \$7,560,745 (2004) and occurred during the month of August 2004 (FYE 2004).
- c. Total amount of FDIC coverage at the time of the highest combined balances in August 2004 was \$100,000.
- d. At the end of August 2004, fair value of securities pledged was approximately \$9,219,912.

**PANOLA COLLEGE
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Cash and cash equivalents as reported on Exhibit 1, Statement of Net Assets, consist of the items reported below.

<u>Cash and Cash Equivalents</u>	<u>2004</u>	<u>2003</u>
Cash in Bank		
Demand Deposits	\$ 1,134,663	\$ 1,628,235
Time Deposits	0	0
Cash and Cash Equivalents	<u>1,134,663</u>	<u>1,628,235</u>
Short Term Investments	55,808	55,256
Petty Cash on Hand	3,690	3,565
Total Cash and Cash Equivalents	<u><u>\$ 1,194,161</u></u>	<u><u>\$ 1,687,056</u></u>

Short-term investments reflected on Exhibit 1, Statement of Net Assets, consisted of certificates of deposit with a maturity date greater than 90 days in the amount of \$6,263,355 (2004) and \$5,011,308 (2003), an investment in the Lone Star Investment Pool in the amount of \$55,808 (2004) and \$55,256 (2003), and an investment with a mutual fund investment firm of \$42,001 (2004) and \$31,881 (2003). The Lone Star Investment Pool is an investment pool administered by the Texas Association of School Boards, Inc. The pool has various investment options for participating members. The College's investment portfolio at August 31, 2004 and 2003, is in the Liquidity Plus Fund. The composition of this pool consists of cash and repurchase agreements (66%) and U.S. Treasures and Agencies (34%). Fair value of the College's portfolio at August 31, 2004 and 2003, was approximately \$55,808 and \$55,256, respectively, the same as the carrying amount. GASB statement 31 requires that investments be reported at fair value.

The cash deposits held at financial institutions can be categorized according to three levels of risk in accordance with GASB Statement 3. Those levels of risk give an indication of credit risk assumed by Panola 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.

- Category 1: Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2: Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3: Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name.

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Based on these definitions, the Colleges deposits are categorized as follows:

Deposit Type	Category	2004		2003	
		Carrying Amount	Institution Balance	Carrying Amount	Institution Balance
Demand and Time Deposits	1	\$ 150,179	\$ 157,038	\$ 182,361	\$ 182,361
Demand and Time Deposits	3	7,247,839	7,452,208	6,457,182	6,623,475
Total		\$ 7,398,018	\$ 7,609,246	\$ 6,639,543	\$ 6,805,836
Uncategorized investments					
Lone Star Investment Pool		\$ 55,808	\$ 55,808	\$ 55,256	\$ 55,256
Mutual Fund		42,001	42,001	31,881	31,881
Total		\$ 97,809	\$ 97,809	\$ 87,137	\$ 87,137

Reconciliation of Deposits and Investments Between Note 4 and Exhibit 1:

	2004	2003
Per Note 4		
Petty Cash on Hand	\$ 3,690	\$ 3,565
Demand and Time Deposits	1,134,663	1,628,235
Short Term Time Deposits	6,263,355	5,011,308
Lone Star Investment Pool	55,808	55,256
Mutual Fund Investments	42,001	31,881
	\$ 7,499,517	\$ 6,730,245
Per Exhibit 1		
Cash and Cash Equivalents	\$ 1,194,161	\$ 1,687,056
Short Term Investments - current	4,794,477	3,748,000
Short Term Investments - endowments	1,510,879	1,295,189
	\$ 7,499,517	\$ 6,730,245

The College did not invest in securities other than those shown above during the year, nor did any losses result from default on investment transactions.

6. DERIVATIVES

Interest in derivative products has increased in recent years. Derivatives are investment products which may be a security or contract which derives its value from another security, currency, commodity or index, regardless of the source of funds used. Panola College did not invest in any derivative products during the year.

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NOTES TO THE FINANCIAL STATEMENTS
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7. CAPITAL ASSETS

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

Description	Balance September 1, 2003	Increases	Decreases	Balance August 31, 2004
Capital assets not being depreciated:				
Land	\$ 968,460		\$	\$ 968,460
Library Books	589,734	\$ 30,111		619,845
Total capital assets not being Depreciated	1,558,194	30,111	-	1,588,305
Capital assets, being depreciated:				
Buildings and Improvements	11,845,138	6,514		11,851,652
Construction in progress	0	40,098		40,098
Equipment under Capital Lease	489,416			489,416
Furniture, Fixtures, Machinery & Equipment and Other Equipment	1,804,017	25,667		1,829,684
Total capital assets, being depreciated	14,138,571	72,279	-	14,210,850
Less accumulated depreciation for:				
Building and Improvements	(7,344,003)	(327,332)		(7,671,335)
Construction in progress	0	0		0
Equipment under Capital Lease	(416,294)	(30,416)		(446,710)
Furniture, Fixtures, Machinery & Equipment and Other Equipment	(972,479)	(187,893)		(1,160,372)
Total accumulated depreciation	(8,732,776)	(545,641)	-	(9,278,417)
Total capital assets, being depreciated, net	5,405,795	(473,362)	-	4,932,433
Net Capital Assets	\$ 6,963,989	\$ (443,251)	\$ -	\$ 6,520,738

PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
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Capital assets activity for the year ended August 31, 2003 was as follows:

Description	Balance September 1, 2002	Increases	Decreases	Balance August 31, 2003
Capital assets not being depreciated:				
Land	\$ 968,460		\$	\$ 968,460
Library Books	557,713	\$ 32,021		589,734
Total capital assets not being Depreciated	1,526,173	32,021	-	1,558,194
Capital assets, being depreciated:				
Buildings and Improvements	11,714,087	131,051		11,845,138
Equipment under Capital Lease	462,637	26,779		489,416
Furniture, Fixtures, Machinery & Equipment and Other Equipment	1,188,804	615,213		1,804,017
Total capital assets, being depreciated	13,365,528	773,043	-	14,138,571
Less accumulated depreciation for:				
Building and Improvements	(7,013,520)	(330,483)		(7,344,003)
Equipment under Capital Lease	(377,888)	(38,406)		(416,294)
Furniture, Fixtures, Machinery & Equipment and Other Equipment	(810,357)	(162,122)		(972,479)
Total accumulated depreciation	(8,201,765)	(531,011)	-	(8,732,776)
Total capital assets, being depreciated, net	5,163,763	242,032	-	5,405,795
Net Capital Assets	\$ 6,689,936	\$ 274,053	\$ -	\$ 6,963,989

8. LONG-TERM LIABILITIES

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

	Balance September 1, 2003	Additions	Reductions	Balance August 31, 2004	Current Portion
<u>Leases and Notes</u>					
Capital Leases	\$ 99,201	\$	\$ 47,680	\$ 51,521	\$ 42,678
Maintenance Notes Payable	1,855,654		101,849	1,753,805	106,588
Total Long-Term Liabilities	\$ 1,954,855	\$	\$ 149,529	\$ 1,805,326	\$ 149,266

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

Long-term liability activity for the year ended August 31, 2003 was as follows:

	Balance September 1, 2002	Additions	Reductions	Balance August 31, 2003	Current Portion
<u>Leases and Notes</u>					
Capital Leases	\$ 133,484	\$ 37,097	\$ 71,380	\$ 99,201	\$ 47,680
Notes Payable	63,731	-	63,731	-	-
Maintenance Notes Payable	1,952,975	37,097	97,321	1,855,654	101,849
Total Long-Term Liabilities	\$ 2,150,190	\$ 37,097	\$ 232,432	\$ 1,954,855	\$ 149,529

Lease Purchase Agreements Payable

In prior years, the College entered into capital lease commitments for copy equipment. The leases are for twenty-four copiers and related attachments. The arrangements require the College to make payments in monthly installments of \$3,756 ranging from 30 to 60 months. Summarized below are annual lease requirements associated with the commitments. Imputed interest assumed in the leases ranges from 5% to 8%. The interest portion of current year payments amounted to \$5,226 and \$7,216 for the years ended August 31, 2004 and 2003 respectively.

Year Ending August 31,	2004			2003		
	Interest	Principal	Total Requirement	Interest	Principal	Total Requirement
2004	\$ 2,237	\$ 42,678	\$ 44,915	\$ 5,158	\$ 39,911	\$ 45,069
2005	104	8,843	8,947	2,237	42,678	44,915
2006	-	-	-	104	8,843	8,947
Total	\$ 2,341	\$ 51,521	\$ 53,862	\$ 7,499	\$ 91,432	\$ 98,931

In prior years, the College entered into lease purchase agreements with Bank One Leasing Corporation for the rental of vehicles, computer technology equipment, and telephone systems. Terms of current, five separate lease agreements require that the College pay \$6,230 for 60 months. Total rents to be paid on the lease agreements amounted to \$373,807. Summarized below are annual lease requirements associated with the agreements. Interest rates of 5.25% to 5.65% were assumed in the leases. The interest portion of lease payments amounted to \$68 and \$1,351 for the years ended August 31, 2004 and 2003, respectively. The Bank One leases were completely liquidated in the current fiscal year.

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NOTES TO THE FINANCIAL STATEMENTS
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Year Ending August 31,	2004			2003		
	Interest	Principal	Total Requirement	Interest	Principal	Total Requirement
2004	\$ 0	\$ 0	\$ 0	\$ 68	\$ 7,768	\$ 7,836
Total	\$ 0	\$ 0	\$ 0	\$ 68	\$ 7,768	\$ 7,836

Note Payable

In October 1999, the college purchased approximately one acre of land and two structures adjoining existing College land. This real estate was purchased from an individual for a purchase price of \$120,000. The \$120,000 was financed with a cash down payment of \$20,000 to the former owner and execution of a real estate lien note to the former owner in the amount of \$100,000. The note had an interest rate of 6.5%. Interest associated with the note payment amounted to \$6,722 for the year ending August 31, 2003. The note was paid off early in August, 2003.

Maintenance Notes Payable

On December 15, 2001, the College issued Maintenance Tax Notes, Series 2001 in the amount of \$2,000,000. The maintenance notes carry an interest rate of 4.6% payable in thirty semi annual installments of \$93,025 each.

The notes were issued to finance facility improvements related to an energy management project. In addition to the note proceeds being used for upgrades and replacements to lighting and HVAC equipment, the notes were also used for roofing projects and other maintenance projects to the physical plant.

In accordance with Section 45.108 of the Texas Education Code, all available funds of the College are pledged to the payment of principal and interest on the notes. In the event such available funds are insufficient to meet the obligations, the College has the authority to assess a separate maintenance tax levy in addition to the regular maintenance and operations tax levy to insure the funds are available to meet the scheduled obligations.

Assessment of a separate maintenance tax levy is not anticipated and payment of the obligations due in the fiscal year ending August 31, 2005 has been provided for in the budget.

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The first of the thirty semi-annual installments was made on June 19, 2002. Interest expense on the note amounted to \$84,201 and \$88,730 for the years ended August 31, 2004 and 2003, respectively. Accrued interest on the note at August 31, 2004 and 2003 amounted to approximately \$16,359 and \$17,309 respectively, and is included in the financial statements.

Annual debt service requirements associated with the notes are summarized below.

Year Ending August 31,	2004			2003		
	Interest	Principal	Total Requirement	Interest	Principal	Total Requirement
2004	\$ 0	\$ 0	\$ 0	\$ 84,201	\$ 101,849	\$ 186,050
2005	79,462	106,588	186,050	79,462	106,588	186,050
2006	74,503	111,547	186,050	74,503	111,547	186,050
2007	69,313	116,737	186,050	69,313	116,737	186,050
2008	63,881	122,169	186,050	63,881	122,169	186,050
2009	58,198	127,852	186,050	58,198	127,852	186,050
2010-2014	196,022	734,232	930,254	196,022	734,232	930,254
2015-2017	30,453	434,680	465,133	30,453	434,680	465,133
Total	\$ 571,832	\$ 1,753,805	\$ 2,325,637	\$ 656,033	\$ 1,855,654	\$ 2,511,687

9. DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at August 31, 2004 and 2003, were as follows:

	2004		
	Total Receivable	Less Allowance For Uncollectibles	Net Receivable
Student Receivables	\$ 616,610	\$ 217,172	\$ 399,438
Taxes Receivable	206,761	137,319	69,442
Federal Receivables	361,416		361,416
State Receivables	279,007		279,007
Interest Receivable	7,578		7,578
Other Receivables	20,831		20,831
Total	\$ 1,492,203	\$ 354,491	\$ 1,137,712

	2003		
	Total Receivable	Less Allowance For Uncollectibles	Net Receivable
Student Receivables	\$ 488,006	\$ 217,172	\$ 270,834
Taxes Receivable	194,698	131,177	63,521
Federal Receivables	411,426		411,426
State Receivables	210,000		210,000
Interest Receivable	145,553		145,553
Other Receivables	53,172		53,172
Total	\$ 1,502,855	\$ 348,349	\$ 1,154,506

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Payables

Payables at August 31, 2004 and 2003, were as follows:

	2004	2003
Vendors Payable	\$ 341,880	\$ 471,392
Salaries and Benefits Payable	226,279	203,786
Students Payable	59,868	46,413
Accrued Interest	16,359	17,309
Other Payables	26,294	37,258
Total	\$ 670,680	\$ 776,158

10. CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, Audits of Colleges and Universities. Funds received, but not expended during the reporting period, are shown as additions to fund balance. Revenues are recognized as funds are actually expended. For direct federal contract and grant awards, funds expended but not collected, are reported as federal receivables. Federal pass through awards and non-federal contract and grant awards for which funds are expended but not collected, are reported as state and local contracts and grants receivable. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements.

11. PROPERTY TAXES

Property taxes are levied each October 1 in conformity with Subtitle E, Texas Property Tax Code. The levy is based on the assessed value as of the prior January 1 for all real and personal property located in the District. The taxes become due January 1 of the following year. A discount of up to 3% is allowed for taxes paid between October 1 and December 31. Taxes become past due February 1 and become delinquent on June 30. A tax lien attaches to property on January 1 of each year to secure the payment of all taxes, penalties, and interest ultimately imposed. Taxes receivable as reflected on the balance sheet are net of an allowance for doubtful accounts. The allowance is based upon historical experience in collecting property taxes.

Taxes levied for current year operations are summarized below:

	2004	2003
Original tax levy	\$ 3,158,865	\$ 3,065,430
Supplemental levy and adjustments	(45)	(24,576)
Adjusted levy	3,158,820	3,040,854
Penalty and interest assessments	14,102	13,990
Total Levy	\$ 3,172,922	\$ 3,054,844

Tax collections for the years ended August 31, 2004 and 2003, including delinquent collections, exceeded 99% of the levy for both years.

PANOLA COLLEGE
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A summary of tax data is presented as follows:

	<u>2004</u>	<u>2003</u>
Assessed valuation of the District	\$ 2,874,025,396	\$ 3,118,959,711
Less: Exemptions	(143,911,079)	(139,607,344)
Less Abatements	(387,297,555)	(368,504,844)
Net Assessed Valuation of the District	<u>\$ 2,342,816,762</u>	<u>\$ 2,610,847,523</u>
Tax Rate Per \$100 authorized:		
Current Operations	\$ 0.35000	\$ 0.35000
Debt Service	0.50000	0.50000
Total	<u>\$ 0.85000</u>	<u>\$ 0.85000</u>
Tax Rate Per \$100 assessed		
Current Operations	\$ 0.13483	\$ 0.11647
Debt Service	-	-
Total	<u>\$ 0.13483</u>	<u>\$ 0.11647</u>
Gross Taxes Collected (Current Operations)	\$ 3,107,875	\$ 2,967,337
Discounts Allowed	(80,396)	(77,128)
Delinquent Taxes Collected	38,699	59,534
Penalties and Interest Collected	47,685	51,679
Collection Fees	(50,437)	(50,356)
Total Collections	<u>\$ 3,063,426</u>	<u>\$ 2,951,066</u>

12. DEFERRED REVENUES

Revenues, primarily consisting of tuition, fees and housing charges, related to academic terms in the next fiscal year are recorded in the statement of net assets as deferred revenue in the current fiscal year.

A summary of deferred revenues follows:

	<u>2004</u>	<u>2003</u>
Tuition and Fees	\$ 1,213,984	\$ 1,055,370
Housing and Residential Life	297,575	218,458
Bookstore Profit Deferral	185,704	169,971
Other	<u>31,928</u>	<u>31,791</u>
Total	<u>\$ 1,729,191</u>	<u>\$ 1,475,590</u>

**PANOLA COLLEGE
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13. EMPLOYEE RETIREMENT PLANS

Teacher Retirement System

Plan Description:

The Teacher Retirement System of Texas (TRS) is a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: all risks and costs are not shared by the employer (unless the employer is a senior college, medical school, or a state agency in which case the employer is considered the State of Texas) and are the liability of the State of Texas. By statute, the State of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the retirement system during that fiscal year.

Types of Employees Covered:

All employees of public, state-supported educational institutions in Texas who are employed for 1/2 or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Subtitle C Section 822.002 are covered under the plan.

Benefit Provisions:

The Teacher Retirement System of Texas administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. It operates primarily under the provisions of Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C.

The system also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and 805, respectively.

Service Retirement:

1. Normal - age 65 with 5 years of service
 age 60 with 20 years of service
 age 50 with 30 years of service
 age plus years of service equals 80

2. Reduced- age 55 with at least 5 years of service, or
 any age below 50 with 30 years of service

A member is fully vested after 5 years of creditable service and is entitled to any benefit for which eligibility requirements have been met.

**PANOLA COLLEGE
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Funding Status and Progress

State law provided for a state contribution rate for fiscal years 1998 - 2002 of 6.0% and a member contribution rate of 6.4%. These rates are set by state statutes. The actuarially determined contribution requirements for the fiscal year were 6.4% for the employee and 6.0% for the state. In certain instances, the reporting district is required to make all or a portion of the State's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during that fiscal year. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Contribution requirements for Panola College for fiscal years ended August 31, 2000 through 2004 were as follows:

Fiscal Year Ended August 31,	On-Behalf State Contribution	Employee Contribution	Total Contribution	Covered Payroll
2000	\$ 162,603	\$ 173,443	\$ 336,046	\$ 2,710,054
2001	176,167	187,911	364,078	2,936,103
2002	181,720	193,835	375,555	3,029,043
2003	203,972	217,505	421,477	3,399,533
2004	206,474	219,565	426,039	3,441,474

The contributions applicable to Panola College for the above years are less than 1/10 of 1 percent of total contributions into the Teacher Retirement System as a whole.

Actuarial values of assets and accrued liabilities of the Teacher Retirement System of Texas as of August 31, 2000 through 2004 were as follows (in billions).

Fiscal Year	Actuarial Value Of Assets	Actuarial Accrued Liability	(Unfunded)/Overfunded Actuarial Accrued Liability
2000	\$ 79.3	\$ 73.9	\$ 5.4
2001	86.3	84.2	2.1
2002	86.0	89.3	(3.3)
2003	89.0	94.2	(5.2)
2004	88.8	96.7	(7.9)

The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the Teacher Retirement System, 1000 Red River Street, Austin, Texas 78701.

**PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

Optional Retirement Program

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts or mutual funds. The percentages of participant salaries currently contributed by the state and each participant are 6.0% and 6.65% respectively. Since these are individual investments, the State has no additional or unfunded liability for this program. Currently, the District contributes an additional 2.5% of each participant's salary who was a member of the program at August 31, 1995, to the Optional Retirement Program as allowed under provisions of state law. A summary of on-behalf, District and participant contribution is as follows:

Year Ended August 31,	On Behalf State Contribution	Panola College Contribution	Participant Contributions	Total Contributions	Covered Payroll
2004	\$ 120,183	\$ 32,839	\$ 133,203	\$ 286,225	\$ 2,003,051
2003	138,218	40,378	153,192	331,788	2,303,632

All on-behalf payments referenced above are included in the statement of revenues, expenses, and changes in net assets.

14. DEFERRED COMPENSATION PROGRAM

State 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. As of August 31, 2004 and 2003, the College had twenty-three and twenty-four respectively, employees participating in the tax sheltered annuity program. A total of \$84,006 and \$98,256 in payroll deductions was invested in approved plans during the years ending August 31, 2004 and 2003, respectively.

15. COMPENSATED ABSENCES

Upon retirement, termination, or death of full time employees, the College pays employees for unused vacation leave. The College recognized the accrued liability for the unpaid annual leave in the financial statements. Sick leave is not paid to an employee upon death, termination, or retirement; therefore, there is no liability shown in the financial statements.

Vacation is earned at the rate of one day per month up to a maximum of ten days per year. Employees accrue vacation during the first six months of employment but are not eligible to take vacation until after six months of continuous employment. Sick leave is also earned at the rate of one day per month up to ten days per year. In addition, two personal days are earned each year.

Total accrued compensated absences representing unused vacation leave amounted to approximately \$131,601 at August 31, 2004 and \$114,940 at August 31, 2003, and are included in the statement of net assets as accrued liabilities.

**PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

16. HEALTH CARE AND LIFE INSURANCE COVERAGE

Employees of Panola College were covered by a health and life insurance plan (the Plan). The Plan is funded by the State. The State paid premiums of \$300 and \$298 per month per employee to the Plan for the years ending August 31, 2004 and 2003, respectively. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51.2, Texas Insurance Code.

The College supplements cost of the plan from local sources for active employees and board members due to the state not fully funding this benefit plan. Cost and employees covered under the plan are summarized below.

Fiscal Year Ended August 31,	Average Number Employees Covered	Board Members Covered	On Behalf State Contributions	College Contributions
2004	127	7	\$ 485,128	\$ 82,141
2003	128	7	551,086	128,882

17. POST-RETIREMENT HEALTH BENEFITS

Panola College as allowed, but not required by state statutes, presently reimburses retired employees for the cost of continuation of dental insurance. This is the same amount provided to active employees employed prior to May 26, 1998 who participate in the dental plan.

Additionally, the College in accordance with state statutes, funds the costs of health insurance of retired employees who formerly worked in auxiliary departments of the College. Shown below are costs and coverages associated with the dental and health insurance plans.

Year Ended August 31,	Average Number Retirees Covered	Average Monthly Dental Premium	Retired Auxiliary Employees	Average Monthly Health Insurance Premium
2004	52	\$ 20.00	4	\$ 300
2003	45	19.58	4	326

In addition to providing pension benefits, the State provides in accordance with state statutes, 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 cost to the State (on-behalf payments) of providing those benefits for these retirees is included in the financial statements as revenues and expenditures in the restricted fund. A summary of the coverage is summarized below.

**PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

Post Retirement Health Benefits:

Year Ended August 31,	On Behalf State Contribution	Average Number Retirees Covered
2004	\$230,278	58
2003	\$209,755	42

18. RELATED PARTIES

Panola College Development Foundation is a nonprofit organization with the sole purpose of supporting the educational and other activities of the College. The Foundation accepts donations and acts as coordinator of gifts made by other parties. Other details regarding activities of the foundation are presented in Note 3.

19. FUNDS HELD IN TRUST BY OTHERS

The balances and transactions of funds held in trust by others on behalf of Panola College are not reflected in the financial statements. At August 31, 2004 and 2003, there were five such funds for the benefit of the College. The Lawrence R. and Debbie H. Sharp Endowment Scholarship Fund, the Q. M. Martin Trust No. 2, the Reeves Scholarship Fund, the Daniel Scholarship Fund, and the Jacke Daniel Davis Memorial Scholarship Fund are held in trust by First State Bank and Trust of Carthage, Texas. Funds held in trust on these amounted to approximately \$311,119 at August 31, 2004 and \$315,496 at August 31, 2003.

20. RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the College. At no time during the last three fiscal years have claims exceeded commercial coverage.

21. NON-MONETARY TRANSACTIONS

The College receives the benefit from the use of certain facilities at its off campus sites at no cost or costs below prevailing market rates that the College would have to pay in an exchange transaction. Included in operating revenues is approximately \$257,000 and \$263,000 in non monetary transactions representing the value of the use of the facilities for the years ended August 31, 2004 and 2003, respectively. A corresponding amount is also included in operating expenses. In addition, during the year ending August 31, 2004, the College's baseball club donated a set of bleachers to the College. The bleachers cost approximately \$11,000 when purchased by the club in the current year. Revenues and capital assets are reflected in the financial statements recognizing this transaction.

**PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2004 AND 2003**

22. PENDING CLAIMS

The administration of the College and its legal counsel are aware of only one pending lawsuit against the College. While the ultimate liability with the respect to the litigation is unknown, legal counsel is of the opinion that the suit is without any grounds in Texas law.

23. OTHER DISCLOSURES

Panola College had no transactions related to advance refunding bonds or defeased bonds outstanding during the periods.

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 Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the year ended August 31, 2004, or 2003.

SUPPLEMENTARY DATA

PANOLA COLLEGE
SCHEDULE A
SCHEDULE OF OPERATING REVENUES
For the Year Ended August 31, 2004 (With Memorandum Totals for the Year Ended August 31, 2003)

	Total				2004 Total	2003 Total
	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises		
State Allocations						
Education and general state support	\$ 3,208,146	\$ -	\$ 3,208,146	\$ -	\$ 3,208,146	\$ 3,480,296
State group insurance	-	715,406	715,406	-	715,406	760,841
State retirement matching	-	326,657	326,657	-	326,657	342,190
Total state appropriations	3,208,146	1,042,063	4,250,209	-	4,250,209	4,583,327
Tuition						
State funded courses						
In-district resident tuition	239,240	-	239,240	-	239,240	224,798
Out-of-district resident tuition	527,561	-	527,561	-	527,561	510,164
TPEG (set aside)*	56,361	-	56,361	-	56,361	45,462
Non-resident tuition	55,245	-	55,245	-	55,245	36,458
State funded continuing education	184,502	-	184,502	-	184,502	134,111
Non-state funded continuing education	9,479	-	9,479	-	9,479	9,200
Total Tuition	1,072,388	-	1,072,388	-	1,072,388	960,193
Fees						
General fee	693,939	-	693,939	-	693,939	731,432
Out-of-district fees	598,007	-	598,007	-	598,007	568,350
Laboratory fee	102,799	-	102,799	-	102,799	89,293
Other fees	43,322	-	43,322	-	43,322	102,286
Total fees	1,438,067	-	1,438,067	-	1,438,067	1,491,361
Scholarship allowances and discounts						
Institutional scholarships	(244,314)	-	(244,314)	-	(244,314)	(316,710)
Remissions and exemptions-state	(13,775)	-	(13,775)	-	(13,775)	(27,119)
Remissions and exemptions-local	(48,380)	-	(48,380)	-	(48,380)	(33,358)
Title IV federal grants	(563,400)	-	(563,400)	-	(563,400)	(691,448)
TPEG allowances	(39,480)	-	(39,480)	-	(39,480)	(45,462)
Other federal grants	(2,988)	-	(2,988)	-	(2,988)	-
State grants to students	(121,330)	-	(121,330)	-	(121,330)	(99,047)
Total scholarship allowances	(1,033,667)	-	(1,033,667)	-	(1,033,667)	(1,213,144)
Total net tuition and fees	1,476,788	-	1,476,788	-	1,476,788	1,238,410
Additional operating revenues						
Federal grants and contracts	-	2,623,949	2,623,949	-	2,623,949	2,955,807
State grants and contracts	-	393,018	393,018	-	393,018	413,091
Nongovernmental grants and contracts	-	20,064	20,064	-	20,064	85,562
Sales and services of educational activities	196,103	-	196,103	-	196,103	187,020
General operating revenues	309,015	-	309,015	-	309,015	330,679
Total other operating revenues	505,118	3,037,031	3,542,149	-	3,542,149	3,972,159
Auxiliary enterprises						
Bookstore	-	-	-	908,078	908,078	860,048
Less allowances and discounts	-	-	-	(218,903)	(218,903)	(100,358)
Residential life	-	-	-	466,863	466,863	511,870
Less allowances and discounts	-	-	-	(305,954)	(305,954)	(130,476)
Total net auxiliary enterprises	-	-	-	850,084	850,084	1,141,084
Total Operating Revenues	\$ 5,190,052	\$ 4,079,094	\$ 9,269,146	\$ 850,084	\$ 10,119,230	\$ 10,934,980
				(Exhibit 2)		(Exhibit 2)

*In accordance with Education Code 56.033, \$48,707 and \$45,462 of tuition was set aside for Texas Public Education Grants (TPEG)

See Independent Auditor's Report on Additional Information.

PANOLA COLLEGE
SCHEDULE B
SCHEDULE OF OPERATING EXPENSES BY OBJECT
For the Year Ended August 31, 2004 (With Memorandum Totals for the Year Ended August 31, 2003)

	Salaries And Wages	Benefits		Other Expenses	2004 Total	2003 Total
		State Benefits	Local Benefits			
Unrestricted Educational Activities						
Instruction	\$ 3,188,499	\$ -	\$ 322,954	\$ 429,653	\$ 3,941,106	\$ 4,441,384
Public Service	-	-	-	-	-	-
Academic Support	768,358	-	92,858	363,507	1,224,723	1,065,618
Student Services	458,614	-	48,552	74,252	581,418	608,011
Institutional Support	691,185	-	71,069	526,845	1,289,099	1,294,115
Operation and Maintenance of Plant	218,207	-	48,616	827,818	1,094,641	1,224,337
Scholarship and Fellowships	-	-	-	1,060	1,060	-
Total Unrestricted Educational Activities	5,324,863	-	584,049	2,223,135	8,132,047	8,633,465
Restricted Educational Activities						
Instruction	\$ 217,846	\$ 628,869	\$ 23,425	\$ 353,537	\$ 1,223,677	\$ 967,106
Public Service	211,413	3,795	34,820	66,852	316,880	430,877
Academic Support	-	154,467	-	3,877	158,344	130,694
Student Services	95,235	99,599	22,058	62,351	279,243	287,255
Institutional Support	-	155,334	-	45,645	200,979	125,410
Operation and Maintenance of Plant	-	-	-	-	-	50,657
Scholarship and Fellowships	-	-	-	880,616	880,616	1,503,426
Total Restricted Educational Activities	524,494	1,042,064	80,303	1,412,878	3,059,739	3,495,425
Auxiliary Enterprises	182,915	-	33,734	1,126,974	1,343,623	1,298,156
Depreciation Expense-Buildings & other real estate improvements				327,332	327,332	330,483
Depreciation Expense-Equipment & fixtures				218,309	218,309	200,528
Total	\$ 6,032,272	\$ 1,042,064	\$ 698,086	\$ 5,308,628	\$ 13,081,050	\$ 13,958,057
					(Exhibit 2)	(Exhibit 2)

See Independent Auditor's Report on Additional Information.

PANOLA COLLEGE
SCHEDULE C
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
For the Year Ended August 31, 2004 (With Memorandum Totals for the Year Ended August 31, 2003)

	Unrestricted	Restricted	Auxiliary Enterprises	2004 Total	2003 Total
NON-OPERATING REVENUES					
Ad-Valorem Taxes for Maintenance & Operation: \$	3,063,426	\$ -	\$ -	\$ 3,063,426	\$ 2,951,066
Gifts	11,345	93,028	-	104,373	109,068
Investment Income	171,002	94,149	5,017	270,168	287,593
Royalty Income	-	45,098	-	45,098	46,268
Total non-operating revenues	3,245,773	232,275	5,017	3,483,065	3,393,995
NON-OPERATING EXPENSES					
Interest on Capital Related Debt	88,478	-	-	88,478	102,924
Total non-operating expenses	88,478	-	-	88,478	102,924
 Net non-operating revenues	 \$ 3,157,295	 \$ 232,275	 \$ 5,017	 \$ 3,394,587	 \$ 3,291,071

See Independent Auditor's Report on Additional Information.

PANOLA COLLEGE
SCHEDULE D
SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY
For the Year Ended August 31, 2004
With Memorandum Totals for the Year Ended August 31, 2003

	Detail By Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non- Expendable				
Current							
Unrestricted	\$ 2,685,476	\$ -	\$ -	\$ -	\$ 2,685,476	\$ 2,685,476	\$ -
Restricted	76,990	-	-	-	76,990	76,990	-
Auxiliary enterprises	239,551	-	-	-	239,551	239,551	-
Endowment							
Quasi:							
Unrestricted	-	-	-	-	-	-	-
Restricted	-	-	1,558,672	-	1,558,672	-	1,558,672
Plant							
Unexpended	2,191,640	-	-	-	2,191,640	193,886	1,997,754
Investment in Plant	-	-	-	4,715,413	4,715,413	-	4,715,413
					-		
Total Net Assets, August 31, 2004	<u>\$ 5,193,657</u>	<u>\$ -</u>	<u>\$ 1,558,672</u>	<u>\$ 4,715,413</u>	<u>\$ 11,467,742</u>	<u>\$ 3,195,903</u>	<u>\$ 8,271,839</u>
					(Exhibit 1)		
Total Net Assets, August 31, 2003	<u>4,566,136</u>	<u>-</u>	<u>1,459,705</u>	<u>5,009,134</u>	<u>11,034,975</u>	<u>2,943,758</u>	<u>8,091,217</u>
					(Exhibit 1)		
Net Increase (Decrease) in Net Assets	<u>\$ 627,521</u>	<u>\$ -</u>	<u>\$ 98,967</u>	<u>\$ (293,721)</u>	<u>\$ 432,767</u>	<u>\$ 252,145</u>	<u>\$ 180,622</u>
					(Exhibit 2)		

PANOLA COLLEGE
SCHEDULE E
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the 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. S. Department of Education			
Direct			
SEOG	84.007	EP007A034092	* \$ 115,984
SEOG	84.007	EP007A044092	* 26,556
Sub-total SEOG Program			<u>142,540</u>
Federal College Workstudy	84.033	EP033A014092	* 7,268
Federal College Workstudy	84.033	EP033A034092	62,281
Federal College Workstudy	84.033	EP033A044092	* 2,028
			<u>71,577</u>
Federal Pell Grant Program	84.063	EP063P032297	* 1,210,704
Federal Pell Grant Program	84.063	EP063P042297	* 327,495
			<u>1,538,199</u>
Passed Through From:			
Texas Education Agency			
Adult Basic Education	84.002A	441000132107031	111,550
Adult Basic Education	84.002A	441000232107031	52,391
Adult Basic Education	84.002A	441000332107031	6,350
Adult Basic Education - Corrections	84.002A	0541000171100015	985
Texas Higher Education Coordinating Board			
Carl Perkins Voc. Ed.	84.048	44236	200,160
Navarro College			
Carl Perkins Voc. Ed. (Rural Focus)	84.048		8,788
East Texas Tech Prep Consortium			
Carl Perkins Voc. Ed.	84.048		20,029
Texas Higher Education Coordinating Board			
Leveraging Educational Assistance Program	84.069A		2,272
Special Leveraging Educational Assistance Program	84.069B		716
Byrd Scholarship Program	84.185		1,500
Total U. S. Department of Education			<u>2,157,057</u>
Department of Health and Human Services			
Pass Through From			
Texas Education Agency			
Temporary Assistance to Needy Families (TANF)	93.558	436250111711049	20,984
East Texas Council of Governments			
Temporary Assistance to Needy Families (TANF 25)	93.558	PC-TANF-PY03-02	70,872
Texas Workforce Commission			
Self Sufficiency Grant	93.558	0803SSF000	201,331
Self Sufficiency Grant	93.558	0804SSF000	173,705
Total Department of Health and Human Services			* <u>466,892</u>
Total Federal Financial Assistance			<u>\$ 2,623,949</u>
Federal Grants and Revenues -Per Schedule A			<u>\$ 2,623,949</u>

* Denotes major federal financial assistance program as defined by the Single Audit Act as amended in 1996 and OMB Circular A-133.

**PANOLA COLLEGE
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2004**

Significant accounting policies used in preparing the schedule

The expenditures included in the schedule are reported for the College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported on the previous page represent funds which have been expended by the College for the purposes of the award. The expenditures reported in the schedule may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the general purpose 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.

PANOLA COLLEGE
SCHEDULE F
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2004

Grantor Agency/ Program Title	Grant Contract Number	Expenditures
Passed Through From:		
Texas Education Agency		
Adult Basic Education	401000132107031	\$ 19,387
Adult Basic Education TANF	4011001711027	8,528
Sub-Total		<u>27,915</u>
Texas Workforce Commission		
Skills Development	0804SDF000	164,829
Sub-Total		<u>164,829</u>
Texas Higher Education Coordinating Board		
Texas Grant		150,127
Texas Guaranteed Student Loan		8,549
PSIG Program		3,289
Nursing Innovation Grant	NIGP	13,967
Nursing Innovation Grant	ANET CUS3	24,342
Sub-Total		<u>200,274</u>
Total State Financial Assistance		<u>\$ 393,018</u>
State Grants and Revenues -Per Schedule A		<u>\$ 393,018</u>

**STATISTICAL SECTION
(UNAUDITED)**

Table 1

**PANOLA COLLEGE
CONTACT HOUR STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Contact Hours		
	Academic	Vo-Tech	Total
1994-95	520,528	344,206	864,734
1995-96	555,728	382,496	938,224
1996-97	526,160	445,851	972,011
1997-98	483,616	470,985	954,601
1998-99	488,176	441,712	929,888
1999-00	531,568	435,658	967,226
2000-01	506,640	365,433	872,073
2001-02	530,944	365,639	896,583
2002-03	582,016	353,969	935,985
2003-04	539,328	380,001	919,329

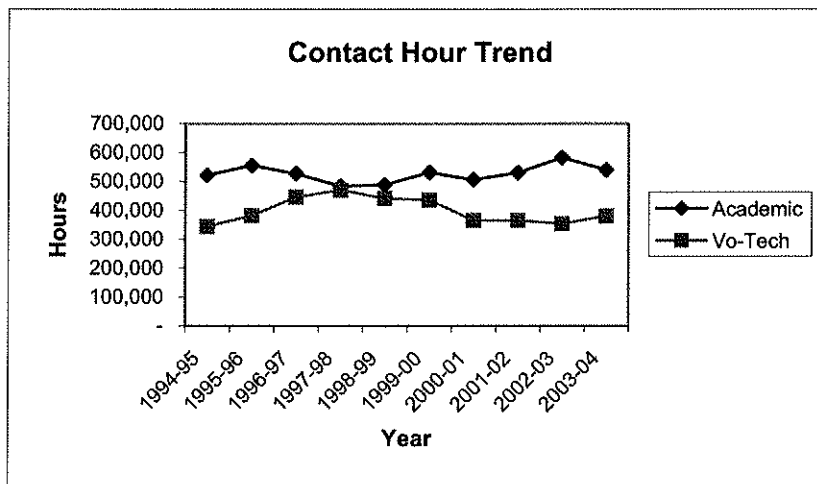
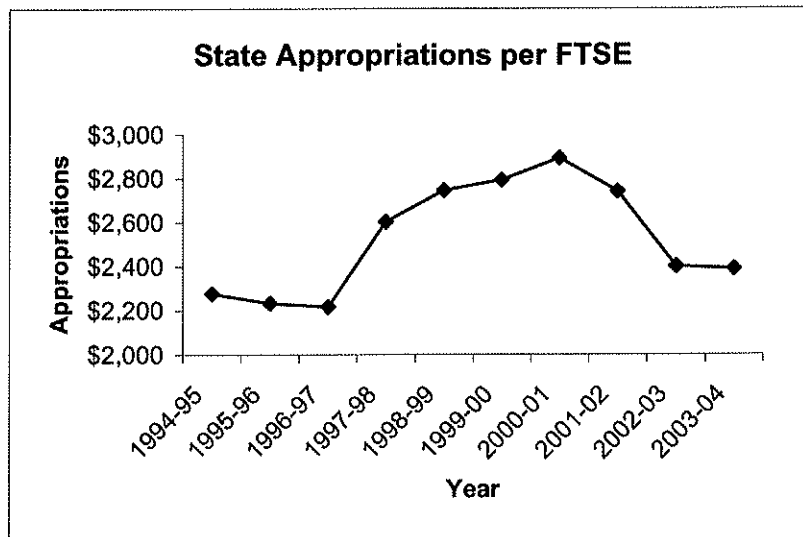


Table 2

**PANOLA COLLEGE
STATE APPROPRIATIONS PER
FULL TIME STUDENT EQUIVALENTS (FTSE)
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	State Appropriations Per FTSE
1994-95	\$2,276
1995-96	\$2,233
1996-97	\$2,216
1997-98	\$2,604
1998-99	\$2,747
1999-00	\$2,793
2000-01	\$2,893
2001-02	\$2,741
2002-03	\$2,402
2003-04	\$2,389



**PANOLA COLLEGE
EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Instruction</u>	<u>Research</u>	<u>Public Service</u>	<u>Academic Support</u>	<u>Student Services</u>
1994-95	\$ 3,564,957	\$	\$	\$ 525,834	\$ 669,241
1995-96	3,668,420			826,387	745,232
1996-97	4,018,742		71,336	720,648	948,740
1997-98	4,122,474		142,431	1,279,016	703,306
1998-99	4,076,593		292,321	1,173,995	719,946
1999-00	4,753,371		313,401	1,432,755	771,305
2000-01	4,820,808		313,197	1,277,212	804,017
2001-02	5,279,402		483,434	1,341,723	921,376
2002-03	5,530,942		440,202	1,278,328	895,266
2003-04	5,170,070		316,880	1,413,178	860,068

- (1) Expenditures include government wide activities including capital and debt outlays and excluding depreciation.
- (2) Year 01-02 Scholarships and fellowships includes \$1,387,726 of discounts from operating revenues.
- (3) Year 02-03 Scholarships and fellowships includes \$1,443,978 of discounts from operating revenues.
- (4) Year 03-04 Scholarships and fellowships includes \$1,558,524 of discounts from operating revenues.

Table 3

<u>Institutional Support</u>	<u>Operation & Maintenance of Plant</u>	<u>Scholarships and Fellowships (2)</u>	<u>Auxiliary Enterprises</u>	<u>Debt Service</u>	<u>Totals</u>
\$ 808,962	\$ 1,382,991	\$ 1,626,866	\$ 872,264	\$ 138,738	\$ 9,589,853
909,160	960,603	1,285,451	864,428	88,751	9,348,432
1,043,810	1,298,724	1,433,724	947,469	91,544	10,574,737
1,376,752	1,113,752	1,308,191	1,158,777	113,912	11,318,611
1,259,836	917,479	1,851,101	1,159,960	124,001	11,575,232
1,124,204	863,313	1,909,360	1,275,720	125,326	12,568,755
1,181,797	1,113,903	2,122,285	1,312,935	154,533	13,100,687
1,292,685	3,065,101	2,453,159 (2)	1,265,906	245,152	16,347,938
1,547,115	1,388,425	2,783,698 (3)	1,391,067	335,357	15,590,400
1,485,039	1,141,253	2,189,956 (4)	1,485,062	238,006	14,299,512

PANOLA COLLEGE
REVENUES BY SOURCE
LAST TEN FISCAL YEARS (1)
(UNAUDITED)

Fiscal Year	State Appropriations	Gross Tuition & Fees	Taxes for Current Operations	Federal & State Grants & Contracts	Investment Income
1994-95	\$ 3,282,548	\$ 1,094,453	\$ 2,491,307	\$ 1,540,843	\$ 178,845
1995-96	3,640,572	1,220,804	2,587,938	1,248,142	233,900
1996-97	3,524,089	1,556,362	2,588,723	1,345,438	246,001
1997-98	3,928,256	1,541,162	2,683,436	1,502,071	247,556
1998-99	4,080,669	1,688,829	2,667,618	1,744,843	252,108
1999-00	4,442,104	1,766,100	2,668,222	2,106,401	332,671
2000-01	4,553,608	1,865,909	2,722,625	2,475,492	373,673
2001-02	4,620,700	2,084,594 (3)	2,839,006	3,511,770	303,927
2002-03	4,583,327	2,451,554 (4)	2,951,066	3,368,898	333,861
2003-04	4,250,209	2,510,455 (5)	3,063,426	3,016,967	270,168

Notes:

- (1) Revenues include government wide activities
- (2) Miscellaneous includes sales & services of educational activities, private gifts and grants and other miscellaneous income.
- (3) Tuition & fees and auxiliary enterprises excludes discounts (scholarships) of \$854,816 and \$532,910, respectively.
- (4) Tuition & fees and auxiliary enterprises excludes discounts (scholarships) of \$1,213,144 and \$230,834, respectively.
- (5) Tuition & fees and auxiliary enterprises excludes discounts (scholarships) of \$1,033,667 and \$524,857, respectively.

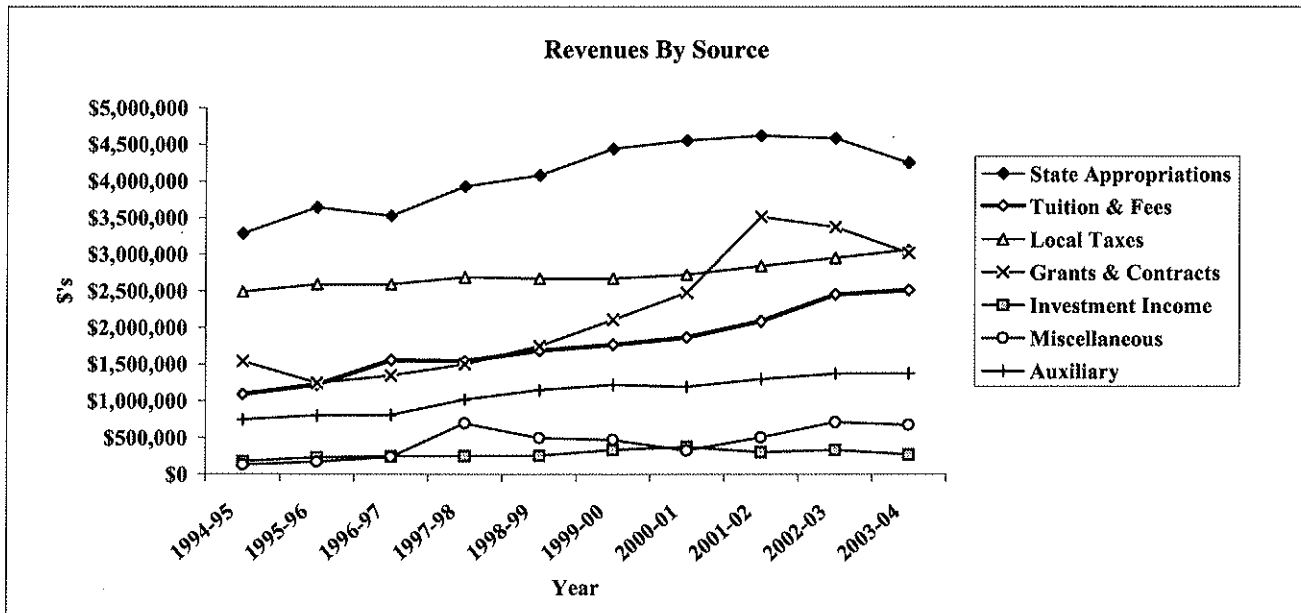


Table 4

<u>Miscellaneous</u> (2)	<u>Auxiliary Enterprises</u>	<u>Totals</u>
\$ 132,634	\$ 746,851	\$ 9,467,481
169,226	800,510	9,901,092
235,323	811,386	10,307,322
694,981	1,020,164	11,617,626
494,784	1,146,846	12,075,697
467,678	1,216,328	12,999,504
326,150	1,193,796	13,511,253
502,022	1,294,828 (3)	15,156,847
712,329	1,371,918 (4)	15,772,953
674,653	1,374,941 (5)	15,160,819

**PANOLA COLLEGE
PROPERTY TAX LEVIES & COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>% of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>
1994-95	\$ 2,556,344	\$ 2,510,759	98.22%	\$ 65,682	\$ 2,576,441
1995-96	2,659,962	2,609,186	98.09%	67,287	2,676,473
1996-97	2,673,934	2,622,811	98.09%	57,295	2,680,106
1997-98	2,750,498	2,700,732	98.19%	72,547	2,773,279
1998-99	2,747,743	2,683,405	97.66%	46,825	2,730,230
1999-00	2,758,209	2,693,891	97.67%	46,271	2,740,162
2000-01	2,807,219	2,759,074	98.28%	37,546	2,796,620
2001-02	2,906,089	2,867,461	98.67%	45,143	2,912,604
2002-03	3,040,854	2,967,337	97.58%	59,534	3,026,871
2003-04	3,158,820	3,107,875	98.39%	38,699	3,146,574

Note:

The above collection data does not include the effects of discounts, penalties and interest or collection fees associated with net tax revenues.

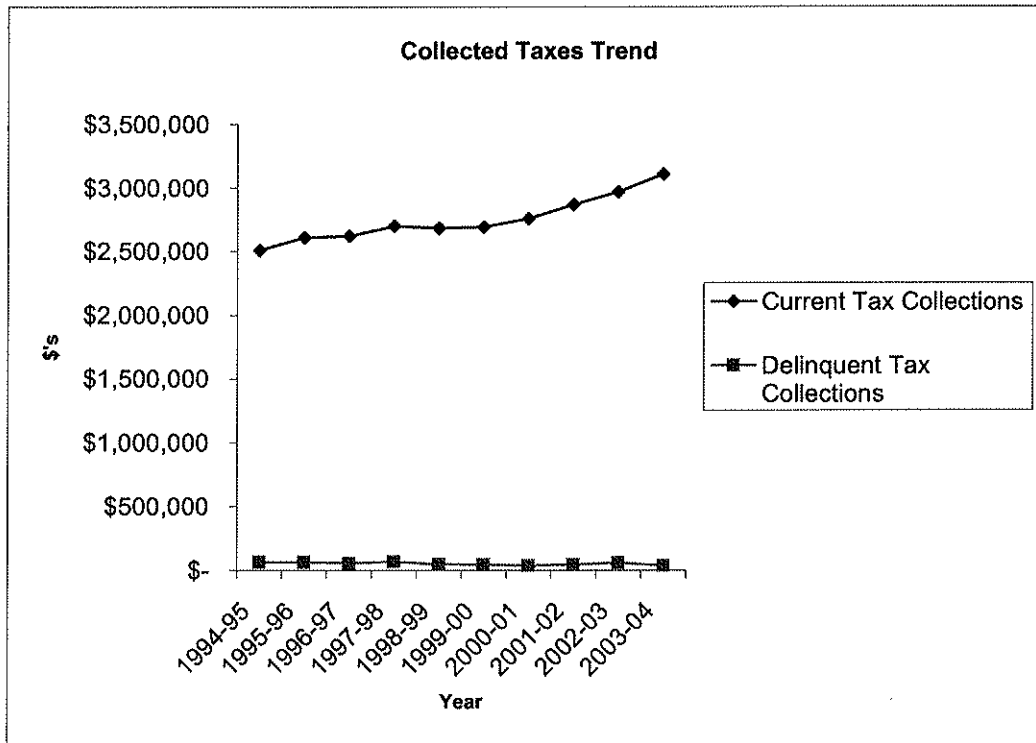


Table 5

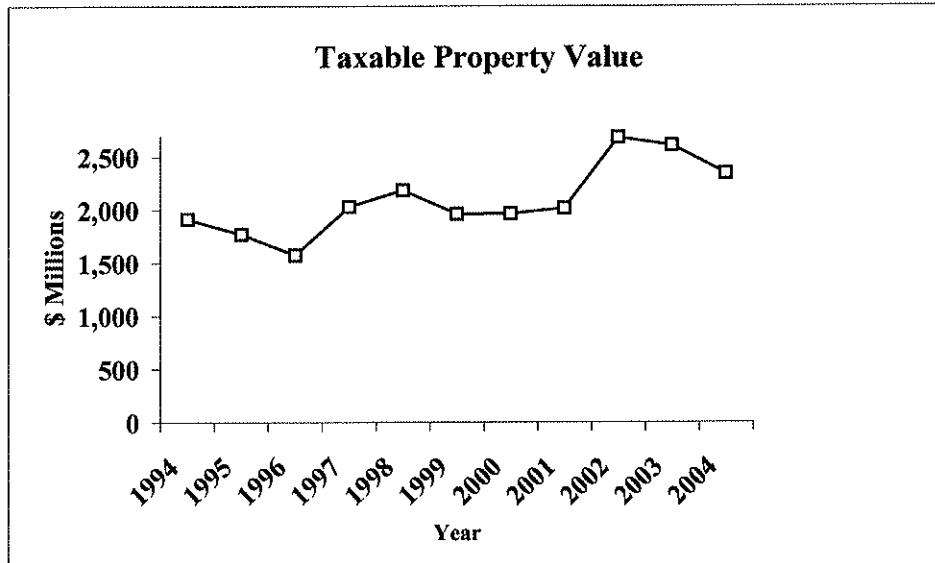
<u>% of Total Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>% of Delinquent Taxes to Levy</u>
100.79%	\$ 203,696	7.97%
100.62%	199,876	7.51%
100.23%	207,503	7.76%
100.83%	191,363	6.96%
99.36%	188,630	6.86%
99.35%	202,903	7.36%
99.62%	211,249	7.53%
100.22%	193,388	6.65%
99.54%	187,396	6.16%
99.61%	196,170	6.21%

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Table 6

**PANOLA COLLEGE
 ASSESSED & ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN TAX ROLL YEARS
 AND CURRENT TAX ROLL YEAR
 (UNAUDITED)**

<u>Tax Roll Year</u>	<u>Taxable Value</u>	<u>Estimated Value</u>	<u>Ratio of Total Actual/ Total Estimated</u>
1994	\$ 1,911,959,249	\$ 1,911,959,249	100%
1995	1,773,071,737	1,773,071,737	100%
1996	1,572,994,934	1,572,994,934	100%
1997	2,032,137,421	2,032,137,421	100%
1998	2,186,980,773	2,186,980,773	100%
1999	1,961,427,205	1,961,427,205	100%
2000	1,964,396,169	1,964,396,169	100%
2001	2,016,245,780	2,016,245,780	100%
2002	2,683,865,293	2,683,865,293	100%
2003	2,610,847,523	2,610,847,523	100%
2004	2,342,816,762	2,342,816,762	100%



PANOLA COLLEGE
 PROPERTY TAX RATES - DIRECT & OVERLAPPING
 (PER \$100 OF ASSESSED VALUE)
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	College		Total	County	Cities (Average)
	Current Operations	Debt Service			
1994-95	0.13975		0.13975	0.3668	0.51610
1995-96	0.15002		0.15002	0.3996	0.51742
1996-97	0.16999		0.16999	0.4661	0.51742
1997-98	0.13535		0.13535	0.3862	0.42621
1998-99	0.12585		0.12585	0.3539	0.39286
1999-00	0.14041		0.14041	0.3926	0.40810
2000-01	0.13923		0.13923	0.3949	0.42368
2001-02	0.10828		0.10828	0.3249	0.41033
2002-03	0.11647		0.11647	0.3677	0.39068
2003-04	0.13483		0.13483	0.4382	0.41321

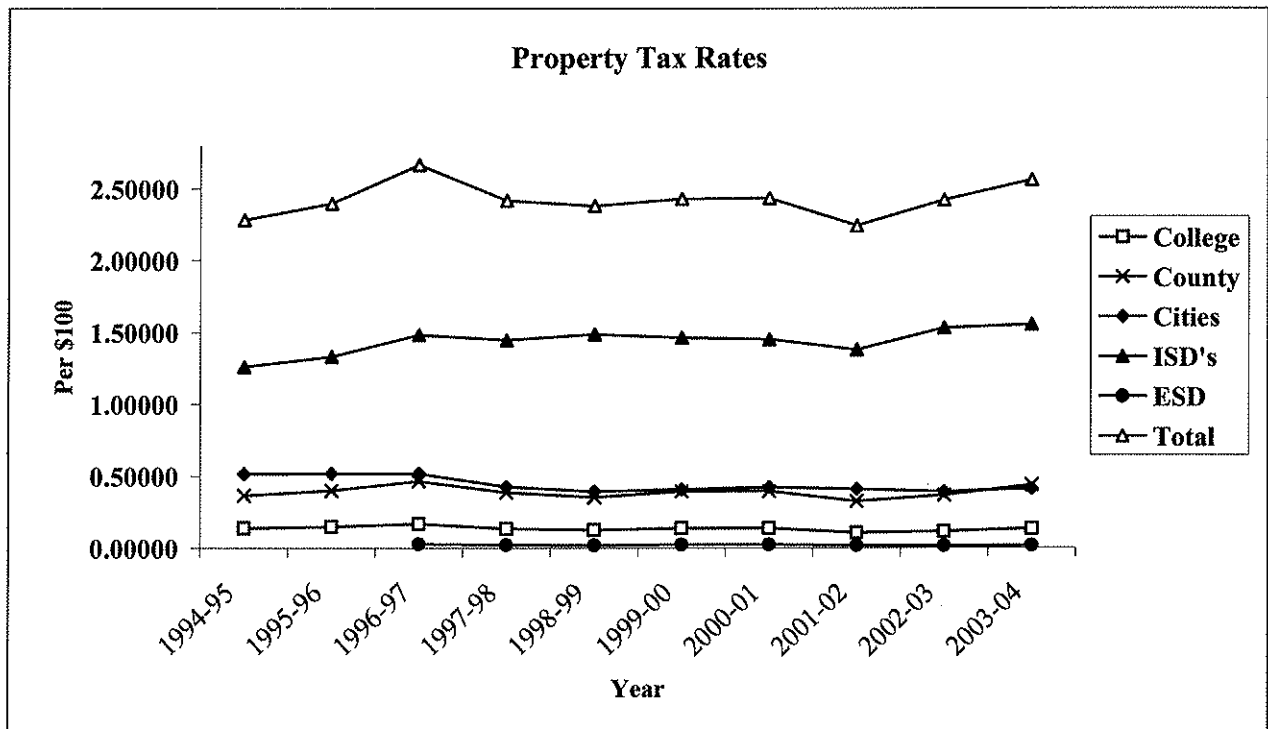


Table 7

<u>Independent School Districts (Average)</u>	<u>Emergency Services District</u>	<u>Total</u>
1.26000		2.28265
1.33137		2.39841
1.48223	0.03000	2.66574
1.44714	0.02370	2.41860
1.48743	0.02179	2.38183
1.46291	0.02560	2.42962
1.45130	0.02520	2.43431
1.37786	0.02000	2.24137
1.52867	0.01750	2.42103
1.55508	0.02000	2.56132

Table 8

PANOLA COLLEGE
RATIO OF NET BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Population	Assessed Value(2) (Thousands)	Gross Bonded Debt	Available Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1994-95	22,500	1,773,072	150,000	25,517	124,483	7.02%	5.53
1995-96	22,500	1,572,994	130,000	25,517	104,483	6.64%	4.64
1996-97	23,402	2,031,345	105,000	25,517	79,483	3.91%	3.40
1997-98	22,949	2,186,981	80,000	25,517	54,483	2.49%	2.37
1998-99	22,891	1,961,427	55,000	25,517	29,483	1.50%	1.29
1999-00	23,070	1,964,306	30,000	25,517	4,483	0.23%	0.19
2000-01	22,756	2,016,246	0	0	0	0.00%	0.00
2001-02	22,689	2,683,865	0	0	0	0.00%	0.00
2002-03	22,606	2,610,848	0	0	0	0.00%	0.00
2003-04	22,734	2,342,817	0	0	0	0.00%	0.00

(1) 1983 through 1986 and 1988 and 1990 population based on Sales & Marketing Management Survey of buying power. 1987 population based on Texas Department of Health projections. 1989 and 1992 through 1995 population is based on estimates. 1996 is based on Texas State and Local Government Fiscal 1996 Debt Report.

(2) Panola County Appraisal District.

**PANOLA COLLEGE
COMPUTATION OF LEGAL DEBT MARGIN
AUGUST 31, 2004
(UNAUDITED)**

The amount of bonded debt is limited by statute to the extent that the aggregate annual bond taxes in the District shall never exceed \$0.50 per \$100 valuation of taxable property in the District.

For the fiscal year ended August 31, 2004, the College had no general obligation debt; therefore, no tax rate was established for the purpose of debt service.

PANOLA COLLEGE
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
AUGUST 31, 2004
(UNAUDITED)

<u>Jurisdiction</u>	<u>Net Bonded Debt Outstanding</u> (1)	<u>Percent Applicable to College</u> (2)	<u>Amount Applicable to College</u>
Direct:			
Panola College	<u>\$0</u>	100.00%	<u>\$0</u>
Sub total-Direct	<u>0</u>		<u>0</u>
Overlapping:			
Panola County	0	100.00%	0
City of Carthage	18,460,000	100.00%	18,460,000
City of Beckville	0	100.00%	0
Carthage ISD	7,260,000	100.00%	7,260,000
Gary ISD	1,715,000	100.00%	1,715,000
Beckville ISD	5,100,000	100.00%	5,100,000
Elysian Fields ISD	1,350,000	52.55%	709,425
Tatum ISD	0	2.27%	0
Tenaha ISD	0	4.75%	0
Joaquin ISD	<u>2,545,000</u>	5.05%	<u>128,523</u>
Sub total-Overlapping	<u>36,430,000</u>		<u>33,372,948</u>
Total Direct and Overlapping Debt	<u>\$36,430,000</u>		<u>\$33,372,948</u>

(1) Respective entities and auditors of respective entities.

(2) Texas Municipal Reports

PANOLA COLLEGE
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL
BONDED DEBT TO TOTAL EXPENDITURES
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total Expenditures (1)</u>	<u>Ratio of Debt Service to Total General Expenditures</u>
1994-95	\$ 20,000	\$ 12,965	\$ 32,965	\$ 9,589,853	0.34%
1995-96	20,000	10,080	30,080	9,348,432	0.32%
1996-97	25,000	8,460	33,460	10,574,737	0.32%
1997-98	25,000	6,660	31,660	11,318,611	0.28%
1998-99	25,000	4,860	29,860	11,575,232	0.26%
1999-00	25,000	3,060	28,060	12,568,755	0.22%
2000-01	30,000	1,080	31,080	13,100,687	0.24%
2001-02	30,000	1,080	31,080	16,347,938	0.19%
2002-03	0 (2)	0	0	15,590,400	0.00%
2003-04	0 (2)	0	0	14,299,512	0.00%

(1) Represents government wide expenditures

(2) Bonded debt was liquidated in the 2001-02 year.

Table 12

PANOLA COLLEGE
 PRINCIPAL TAXPAYERS
 AUGUST 31, 2004
 (UNAUDITED)

<u>Taxpayer (1)</u>	<u>Type of Business</u>	<u>2003 Assessed Valuation (1) (in 1,000's)</u>	<u>Percentage of Total Assessed Valuation</u>
Anadarko E&P Company	Petroleum	\$266,243 ✓	10.20%
Chevron USA, Inc.	Petroleum	182,068 ✓	6.97%
Devon Energy	Petroleum	165,638 ✓	6.34%
BP Amoco Corporation	Petroleum	76,329 ✓	2.92%
Lacy R. Inc.	Petroleum	67,431 ✓	2.58%
Exxon Corp.	Petroleum	66,194 ✓	2.54%
Duke Energy Field Svcs-Processing	Petroleum	50,588 ✓	1.94%
EOG Resources	Petroleum	44,963 ✓	1.72%
Louisiana Pacific	Timber	43,871 ✓	1.68%
Ocean Energy Inc.	Petroleum	43,692	1.67%
Totals (42.98% of Actual Value of \$2,342,816,762)		<u>\$1,007,017</u>	<u>38.57%</u>

(1) Panola County Appraisal District

**PANOLA COLLEGE
 DEMOGRAPHIC STATISTICS-TAXING DISTRICT
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

<u>Fiscal Year</u>	<u>Popula- tion (1)</u>	<u>Median Age (2)</u>	<u>Per Capita Effective Buying Income</u>	<u>Median Household Effective Buying Income (2)</u>	<u>Unemploy- ment Rate (3)</u>
1994-95	22,500	36.1	\$16,375	\$23,139	6.3%
1995-96	22,500	36.1	\$16,695	\$21,027	8.7%
1996-97	23,402	36.1	\$17,550	\$22,899	9.6%
1997-98	22,949	36.1	\$16,720	\$21,027	9.8%
1998-99	22,891	36.1	\$16,800	\$25,781	10.5%
1999-00	23,070	36.1	\$16,948	\$23,651	9.9%
2000-01	22,756	36.1	\$16,992	\$25,059	6.9%
2001-02	22,689	37.1	\$15,439	\$31,909	7.9%
2002-03	22,606	37.1	\$15,589	\$32,209	8.8%
2003-04	22,734	39.0	\$14,268	\$30,230	5.8%

(1) 1993 through 1996 estimated.
 1997 based on Texas State and Local Government Fiscal 1996 Debt Report.

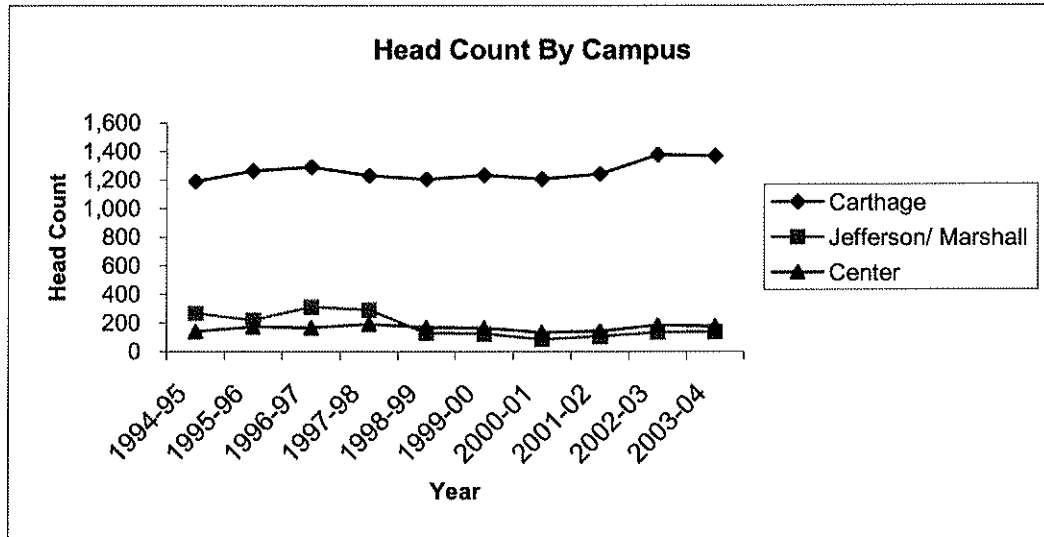
(2) Federal Bureau of Census, East Texas Council of Governments, Regional
 Economic Information System Bureau of Economic Analysis and
 Estimates.

(3) Texas Workforce Commission.

**PANOLA COLLEGE
STUDENT ENROLLMENT
LAST TEN FISCAL YEARS
(UNAUDITED)**

Head Count:

<u>Fiscal Year</u>	<u>Carthage</u>	<u>Jefferson/ Marshall</u>	<u>Center</u>	<u>Total</u>
1994-95	1,192	268	140	1,600
1995-96	1,264	220	173	1,657
1996-97	1,292	312	168	1,772
1997-98	1,232	292	193	1,717
1998-99	1,205	129	170	1,504
1999-00	1,234	124	164	1,522
2000-01	1,206	85	133	1,424
2001-02	1,243	106	144	1,493
2002-03	1,376	134	184	1,694
2003-04	1,368	137	177	1,682

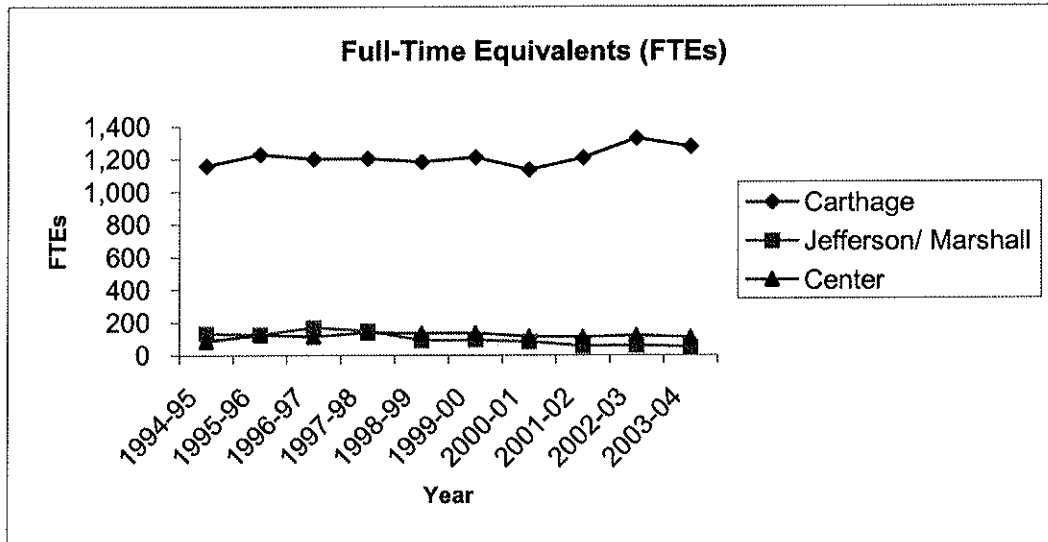


The above information reflects the fall semester statistics for the respective fiscal years.

Table 14

Full-Time Equivalents (FTEs):

<u>Fiscal Year</u>	<u>Carthage</u>	<u>Jefferson/ Marshall</u>	<u>Center</u>	<u>Total</u>
1994-95	1,159	133	86	1,378
1995-96	1,230	126	125	1,481
1996-97	1,202	169	116	1,487
1997-98	1,204	149	139	1,492
1998-99	1,185	91	135	1,411
1999-00	1,212	94	136	1,442
2000-01	1,136	83	115	1,334
2001-02	1,209	56	111	1,376
2002-03	1,327	60	120	1,507
2003-04	1,277	50	108	1,435



The above information reflects the fall semester statistics for the respective fiscal years.

Table 15

PANOLA COLLEGE
STUDENT ENROLLMENT DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Attendance		Gender		Residency		
	Full Time	Part Time	Male	Female	Resident	Out of County	Out of State
1994-95	54%	46%	35%	65%	34%	58%	8%
1995-96	54%	46%	35%	65%	32%	61%	7%
1996-97	51%	49%	38%	62%	31%	63%	6%
1997-98	53%	47%	38%	62%	27%	68%	5%
1998-99	61%	39%	32%	68%	33%	66%	1%
1999-00	63%	37%	35%	65%	31%	68%	1%
2000-01	63%	37%	34%	66%	31%	68%	1%
2001-02	61%	39%	34%	66%	33%	66%	1%
2002-03	58%	42%	34%	66%	32%	67%	1%
2003-04	52%	48%	33%	67%	31%	68%	1%

Fiscal Year	Average Age of Student	Ethnic Background				
		Asian	Black	Hispanic	White	Other
1994-95	25.3	0%	15%	1%	84%	0%
1995-96	25.2	0%	15%	1%	84%	0%
1996-97	25.7	1%	14%	1%	83%	1%
1997-98	24.7	1%	16%	1%	81%	1%
1998-99	24.3	1%	18%	2%	79%	1%
1999-00	23.0	0%	18%	3%	79%	0%
2000-01	23.0	1%	17%	2%	80%	1%
2001-02	23.6	1%	18%	2%	78%	1%
2002-03	24.1	1%	19%	3%	76%	1%
2003-04	23.5	0%	19%	3%	77%	1%

Table 16

**PANOLA COLLEGE
TUITION AND FEE STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)**

Cost for Full Time Resident Student (12 Credit Hours) Per Semester:

<u>Fiscal Year</u>	<u>Tuition</u>	<u>General Fees</u>	<u>Total Cost</u>	<u>Percentage of Increase</u>
1994-95	\$180	\$48	\$228	35.7%
1995-96	\$180	\$48	\$228	0.0%
1996-97	\$180	\$48	\$228	0.0%
1997-98	\$216	\$48	\$264	15.8%
1998-99	\$216	\$72	\$288	9.1%
1999-00	\$216	\$96	\$312	8.3%
2000-01	\$216	\$156	\$372	19.2%
2001-02	\$216	\$180	\$396	6.5%
2002-03	\$216	\$216	\$432	9.1%
2003-04	\$252	\$216	\$468	8.3%

In addition to the above, the following fees are required, as applicable:

Regular Laboratory Fees	\$15
Special Laboratory Fees: Photography, Welding, Cosmetology, Forestry and Nursing	\$5-\$185
Private Music Lessons	\$50-\$75
Building use fee for off campus sites	\$2 per/semester hour
Records Fee	\$3

Table 17

**PANOLA COLLEGE
FACULTY STATISTICS
AUGUST 31, 2004
(UNAUDITED)**

<u>Years of Experience</u>	<u>Number of Full Time Faculty</u>	<u>Percentage of Total</u>
0-5 years	27	45.00%
6-10 years	10	16.67%
11-15 years	9	15.00%
16-20 years	8	13.33%
More than 21 years	6	10.00%
	<u>60</u>	<u>100.00%</u>

	<u>Number of Full Time Faculty</u>	<u>Percentage of Total</u>
Less than Bachelor's	5	8.33%
Bachelor's	11	18.33%
Master's	38	63.33%
Doctorate	6	10.00%
	<u>60</u>	<u>100.00%</u>

SINGLE AUDIT SECTION

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ROBINSON & WILLIAMS, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
410 WEST PANOLA
CARTHAGE, TEXAS 75633

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
TELEPHONE
(903) 693-5822

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

**Board of Trustees
Panola College
1109 West Panola
Carthage, Texas 75633**

We have audited the financial statements of Panola College as of and for the year ended August 31, 2004, and have issued our report thereon dated November 5, 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.

Compliance

As part of obtaining reasonable assurance about whether Panola College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including the Public Funds Investment Act (Texas Government Code, Chapter 2256), 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 that are required to be reported under *Government Auditing Standards*.

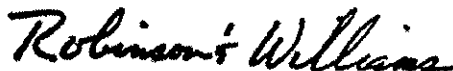
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Panola 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 assurance 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 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 in amounts that would be material in relation to the 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.

Public Funds Investment Act

We have performed tests designed to verify Panola College's compliance with the Public Funds Act. During the year ended August 31, 2004, no instances of noncompliance were found.

This report is intended for the information of the administration, trustees, the Texas Higher Education Coordinating Board, and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.



Robinson & Williams, P.L.L.C.
Certified Public Accountants

November 5, 2004

ROBINSON & WILLIAMS, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
410 WEST PANOLA
CARTHAGE, TEXAS 75633

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

**Board of Trustees
Panola College
1109 West Panola
Carthage, Texas 75633**

Compliance

We have audited the compliance of Panola College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2004. Panola College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations contracts and grants applicable to each of its major federal programs is the responsibility of Panola College's administration. Our responsibility is to express an opinion on Panola College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Panola 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 Panola College's compliance with those requirements.

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the administration, trustees, the Texas Higher Education Coordination Board, and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Robinson's Williams

Robinson & Williams, P.L.L.C.
Certified Public Accountants

November 5, 2004

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**PANOLA COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2004**

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of Panola College was an unqualified opinion.
- b. No material weaknesses were identified in internal control over financial reporting; and no reportable conditions were reported.
- c. The audit did not disclose any noncompliance which is material to the financial statements of the College.
- d. No material weaknesses were identified in internal control over major programs and no reportable conditions were reported.
- e. The type of report issued on compliance for major programs was an unqualified opinion.
- f. The audit did not disclose any audit findings which is required to be reported under Section __.510(a) of the Office of Management and Budget (OMB) Circular No. A-133.
- g. Major programs of Panola College include:
 - 1. The cluster of The United States Department of Education Student Financial Aid Programs administered by the College. The cluster of programs include the campus-based programs of the Federal Work Study (FWS -CFDA 84.033) and the Federal Supplemental Education Opportunity Grant (FSEOG - CFDA 84.007); and the Federal Pell Grant (Pell - CFDA 84.063) program.
 - 2. The Department of Health and Human Services grants (CFDA 93.558) program passed through from various agencies.
- h. The dollar threshold used to distinguish between Type A Type B programs was \$300,000.
- i. Panola College qualified as a low-risk auditee.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.

NONE

III. Findings and Questioned Costs For Federal Awards

NONE

IV. Status of Prior Audit Findings

There are no outstanding findings.

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