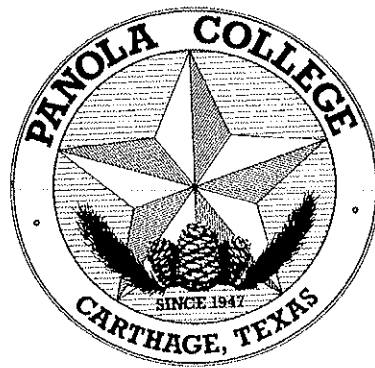


PANOLA COLLEGE
COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
AUGUST 31, 2005



PREPARED BY:
FISCAL SERVICES DEPARTMENT
PANOLA COLLEGE

**PANOLA COLLEGE
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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PANOLA COLLEGE COMPREHENSIVE ANNUAL FINANCIAL REPORT



INTRODUCTORY SECTION



November 15, 2005

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, 2005, 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 complement 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 the city of 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 to support the mission and vision of Panola College and to support its students. The Foundation is controlled by a separate board of trustees that is 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 21% 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 with the local taxpayers and tuition and fee revenues to pay for facilities. For the year beginning September 1, 2005 the state appropriation is funding only 40% of the budgeted instructional and administrative costs. Over the past five years Panola College has obtained an 11% increase in enrollment and a 12% reduction in unrestricted appropriations. To help meet the reduction it was necessary to increase local taxes and tuition and fees.

MAJOR INITIATIVES

The College is committed to the improvement of residence student life. Residence housing was improved with the construction of three new student apartments. Each building has eight two-bedroom two-bath apartments for a total of 96 beds. Additional parking was provided around the residence housing area as well as two additional parking lots on campus. Improvements in the food service were made with the purchase of new cafeteria equipment and with a new food service contract that promises an improved menu for the students.

Campus improvements also included additional landscaping, added campus lighting, and a new security camera system.

The Student Services office area was remodeled with a new focus on student service and was renamed the "Student Success Center".

Student enrollment increased. Enrollment in the fall 2004 semester was 1780, which was up 6% from the prior year.

This year the Panola Fillies Women's Basketball team won the Region XIV Athletic Conference Championship. The women's volleyball, men's basketball, women's basketball, and men's baseball teams all made the playoffs this year. This was the first year for the College to have a rodeo team and host a rodeo.

One of the College's professors, James Hallmark, was recognized for teaching excellence when he received an award as East Texas Educator of the Year.

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, 2005, 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. Total cash, deposits and investments at August 31, 2005 was \$8,795,746. The average yield on investments at year end was 2.94%.

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, 2005, 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 years ended August 31, 2004 to Panola College for its comprehensive annual financial report. This was the eleventh 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 fluid and cursive, written in a professional style.

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, 2004

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



Nancy L. Zjelle

President

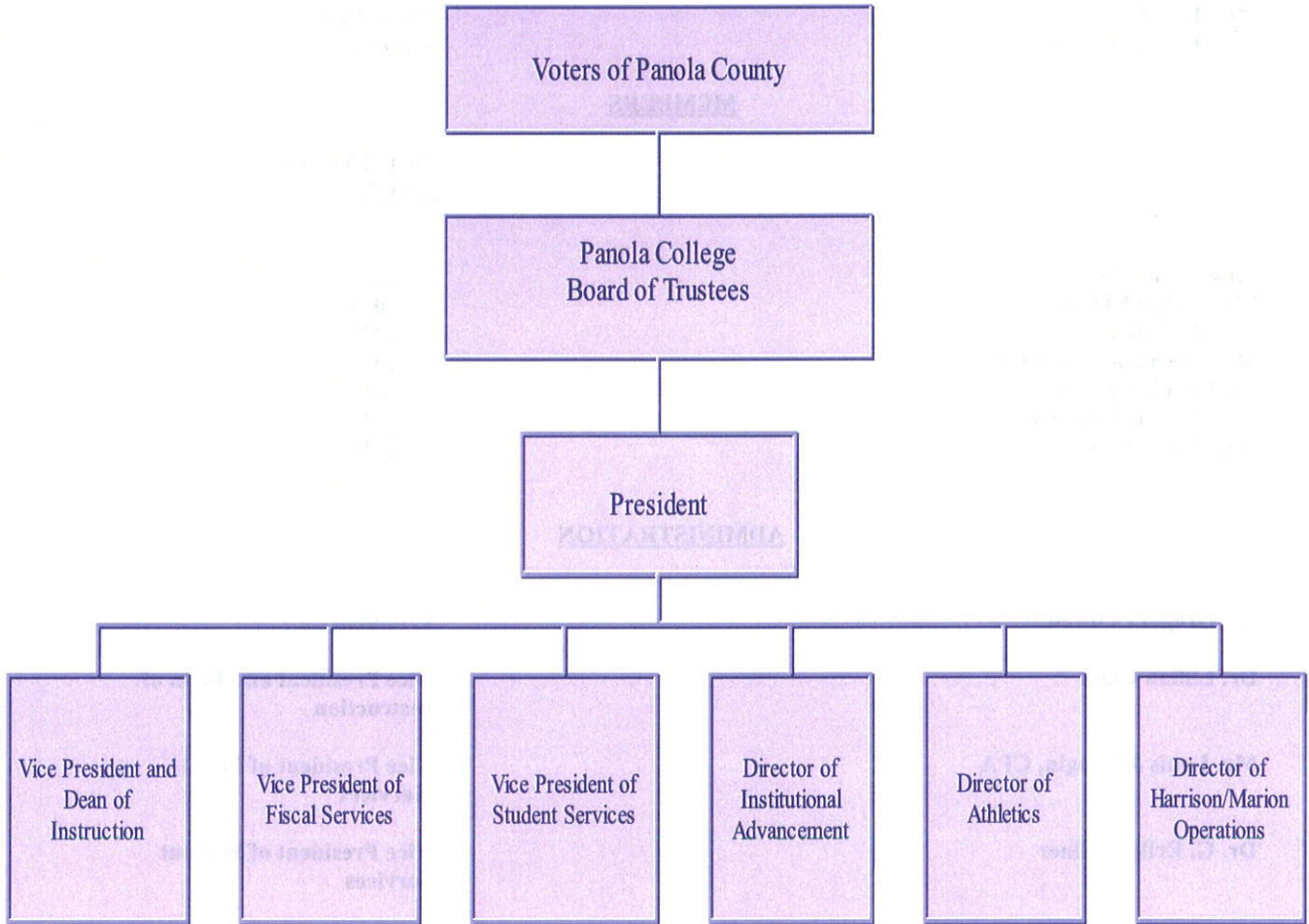
Jeffrey R. Emer

Executive Director

ORGANIZATIONAL CHART

PANOLA COLLEGE

Carthage, Texas



PANOLA COLLEGE
PRINCIPAL OFFICIALS
AUGUST 31, 2005

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

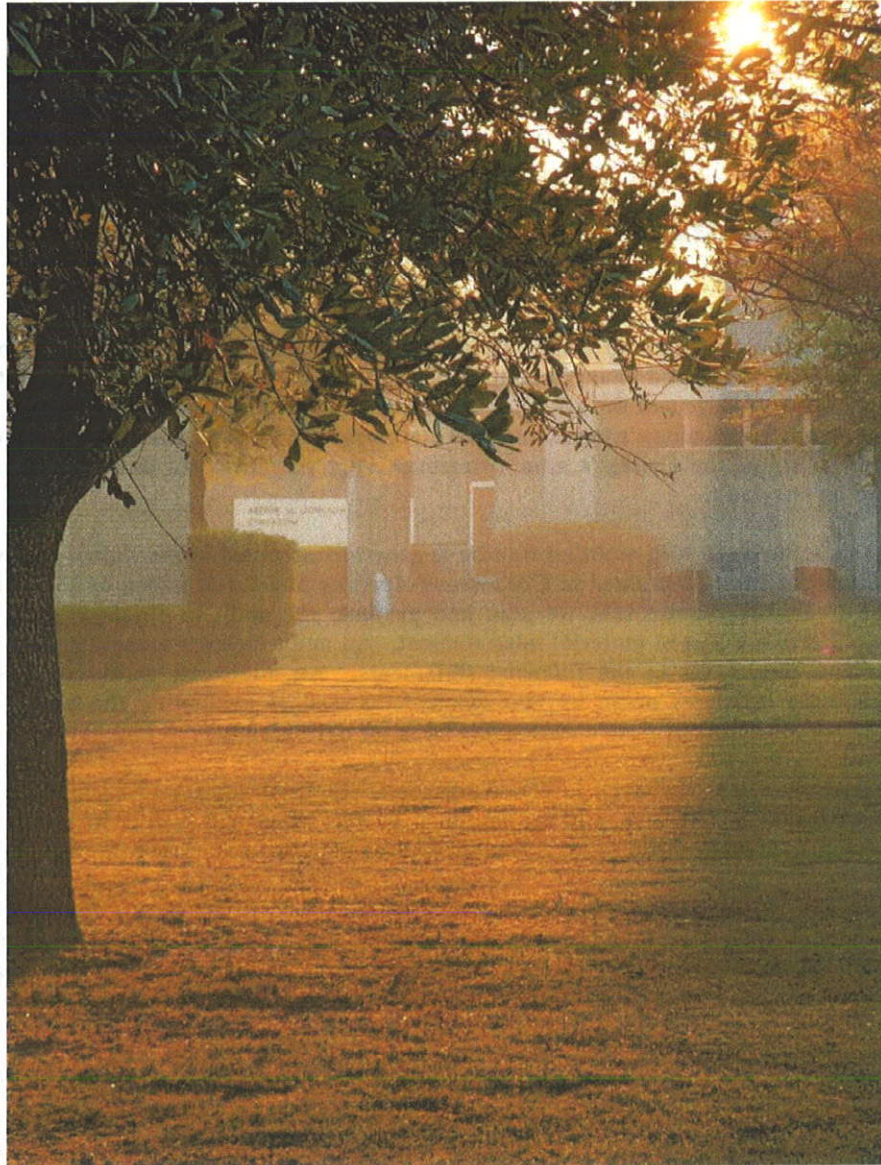
Mr. Don Clinton

Athletic Director

Dr. Jeanne Scott

Director of Harrison/Marion
Operations

**PANOLA COLLEGE
COMPREHENSIVE ANNUAL FINANCIAL REPORT**



FINANCIAL SECTION

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

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

TELEPHONE
(903) 693-8522

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, 2005 and 2004, 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, 2005 and 2004, 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.

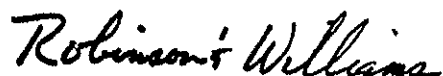
Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods 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 4, 2005 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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) and the Schedule of Expenditures of State Awards (Schedule F) as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Single Audit Circular*, respectively, are presented for purposes of additional analysis. 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.

A handwritten signature in black ink that reads "Robinson & Williams". The script is cursive and fluid.

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

November 4, 2005

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 the College for the year ended August 31, 2005. 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 District's financial statements and notes to the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- There were two significant policy changes which were made by the Texas Higher Education Coordinating Board. The first change was that the state appropriations which are based on a contact hour formula is a non-operating revenue, rather than their earlier view that it was an exchange transaction and an operating revenue. The second change was that library books, which were previously considered works of art and not depreciated, would now be depreciated over a 15 year life. Accordingly, we have restated our financial statements to reflect these policy changes. The accumulated depreciation of library books, at August 31, 2005 amounted to \$278,224. These changes and restatement are explained in more detail in footnote 3 on page 22.
- The assets of the College exceeded its liabilities at August 31, 2005 by \$11,507,827 (net assets). Of this amount \$5,645,681 (unrestricted net assets) may be used to meet the College's ongoing obligations.
- Revenue exceeded expenses by \$308,417, or 2.7%, for the current fiscal year end.
- The College secured a \$2.5 million dollar revenue bond for the construction of three student apartments with a total of 96 beds, additional parking lots, and other improvements.

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 first required the implementation of new financial statement reporting standards for the College with the fiscal year ended August 31, 2002. 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.

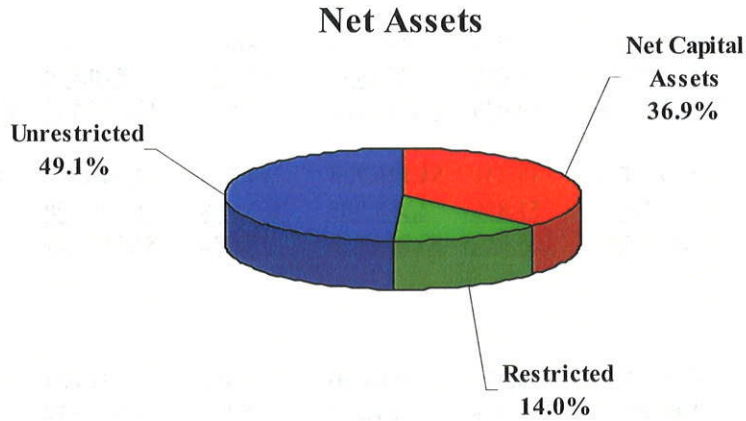
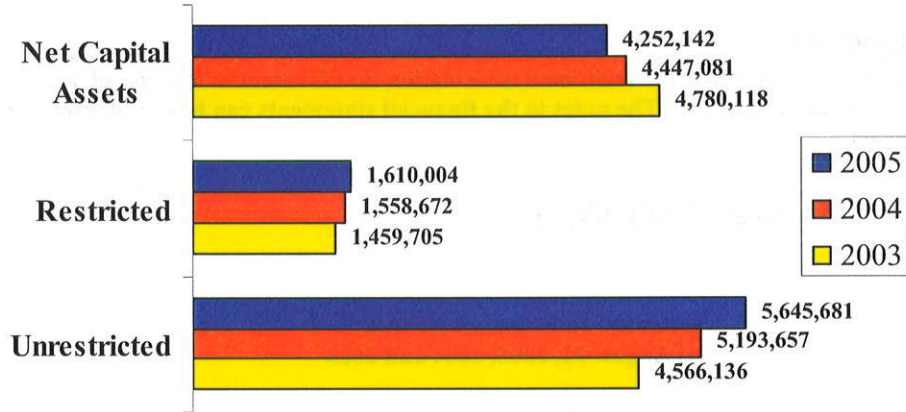
The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the basic financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

ANALYSIS OF BASIC FINANCIAL STATEMENTS

**Condensed Statement of Net Assets
as of August 31, 2005, 2004 and 2003**

	2005	% of Total	Increase (Decrease)	% of Change	2004	2003
Current assets	\$8,875,093	46.4%	\$1,203,441	15.7%	\$7,671,652	\$7,005,446
Non-current assets:						
Capital assets, net	8,408,202	44.0%	2,155,796	34.5%	6,252,406	6,734,973
Other	<u>1,844,877</u>	<u>9.6%</u>	<u>333,998</u>	<u>22.1%</u>	<u>1,510,879</u>	<u>1,295,189</u>
Total Assets	<u>\$19,128,172</u>	<u>100.0%</u>	<u>\$3,693,235</u>	<u>23.9%</u>	<u>\$15,434,937</u>	<u>\$15,035,608</u>
Current liabilities	\$3,675,870	48.2%	\$1,126,733	44.2%	\$2,549,137	\$2,401,278
Non-current liabilities	<u>3,944,475</u>	<u>51.8%</u>	<u>2,258,085</u>	<u>133.9%</u>	<u>1,686,390</u>	<u>1,828,371</u>
Total Liabilities	<u>\$7,620,345</u>	<u>100.0%</u>	<u>\$3,384,818</u>	<u>79.9%</u>	<u>\$4,235,527</u>	<u>\$4,229,649</u>
Net Assets:						
Invested in capital assets, net of related debt	\$4,252,142	36.9%	(\$194,939)	-4.4%	\$4,447,081	\$4,780,118
Restricted	1,610,004	14.0%	51,332	3.3%	1,558,672	1,459,705
Unrestricted	<u>5,645,681</u>	<u>49.1%</u>	<u>452,024</u>	<u>8.7%</u>	<u>5,193,657</u>	<u>4,566,136</u>
Total Net Assets	<u>\$11,507,827</u>	<u>100.0%</u>	<u>\$308,417</u>	<u>2.8%</u>	<u>\$11,199,410</u>	<u>\$10,805,959</u>

Net Assets
As of August 31, 2005, 2004, and 2003

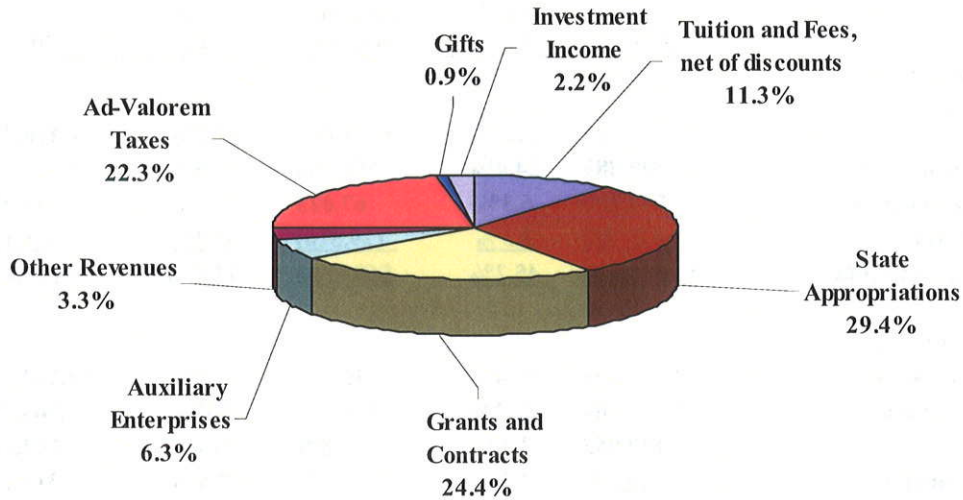


The College's assets exceeded liabilities by \$11,507,827 as of August 31, 2005. Assets amounted to \$19,128,172 with the investment in capital assets comprising \$8,408,202 of that total. Capital assets include land, library books, buildings and improvements, vehicles, furniture, and equipment. The increase in capital assets is primarily due to the construction of student apartments this year. The project was funded by a \$2.5 million revenue bond. The revenue bond payable is discussed in detail in footnote number 9 on pages 28-31. 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 36.9% of total net assets. It should be noted that the capital assets themselves may not be used to liquidate these liabilities. Additionally \$1,610,004 or 14.0% of total net assets is externally restricted. The remaining balance of \$5,645,681 represents unrestricted net assets that may be used to meet the College's ongoing obligations. Debt related to capital assets was \$4,252,142. Total liabilities amounted to \$7,620,345, of which \$3,675,870 is due next year.

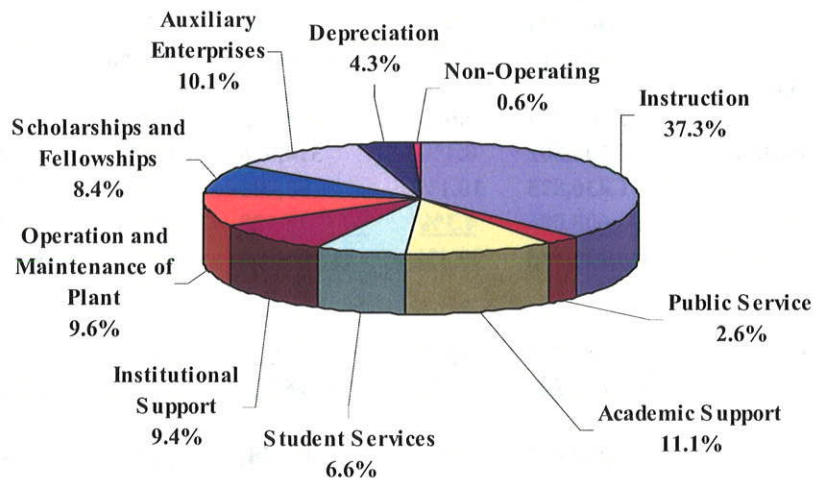
Condensed Statement of Revenues,
Expenses, and Changes in Net Assets
For the Year Ended August 31, 2005, 2004 and 2003

	2005	% of Total	Increase (Decrease)	% of Change	2004	2003
Operating Revenues						
Tuition and Fees, net of discounts	\$1,634,788	11.3%	\$158,000	10.7%	\$1,476,788	\$1,238,410
Grants and Contracts	3,537,887	24.4%	500,856	16.5%	3,037,031	3,454,460
Auxiliary Enterprises	917,107	6.3%	67,023	7.9%	850,084	1,141,084
Other Revenues	<u>475,602</u>	<u>3.3%</u>	<u>(29,516)</u>	<u>-5.8%</u>	<u>505,118</u>	<u>517,699</u>
Total Operating Revenues	<u>\$6,565,384</u>	<u>45.2%</u>	<u>\$696,363</u>	<u>11.9%</u>	<u>\$5,869,021</u>	<u>\$6,351,653</u>
Non-Operating Revenues						
State Appropriations	\$4,265,653	29.4%	\$15,444	0.4%	\$4,250,209	\$4,583,327
Ad-Valorem Taxes	3,240,504	22.3%	177,078	5.8%	3,063,426	2,951,066
Gifts	127,965	0.9%	23,592	22.6%	104,373	109,068
Investment Income	<u>316,120</u>	<u>2.2%</u>	<u>854</u>	<u>0.3%</u>	<u>315,266</u>	<u>333,861</u>
Total Non-Operating Revenues	<u>\$7,950,242</u>	<u>54.8%</u>	<u>\$216,968</u>	<u>2.8%</u>	<u>\$7,733,274</u>	<u>\$7,977,322</u>
Total Revenues	<u>\$14,515,626</u>	<u>100.0%</u>	<u>\$913,331</u>	<u>6.7%</u>	<u>\$13,602,295</u>	<u>\$14,328,975</u>
Operating Expenses						
Instruction	\$5,302,643	37.3%	\$137,860	2.7%	\$5,164,783	\$5,408,490
Public Service	368,519	2.6%	51,639	16.3%	316,880	430,877
Academic Support	1,583,645	11.1%	200,578	14.5%	1,383,067	1,196,312
Student Services	940,144	6.6%	79,483	9.2%	860,661	895,266
Institutional Support	1,329,411	9.4%	(160,667)	-10.8%	1,490,078	1,419,525
Operation and Maintenance of Plant	1,360,574	9.6%	265,933	24.3%	1,094,641	1,274,994
Scholarships and Fellowships	1,196,502	8.4%	314,826	35.7%	881,676	1,503,426
Auxiliary Enterprises	1,436,825	10.1%	93,202	6.9%	1,343,623	1,298,156
Depreciation	<u>608,085</u>	<u>4.3%</u>	<u>23,128</u>	<u>4.0%</u>	<u>584,957</u>	<u>566,728</u>
Total Operating Expenses	<u>\$14,126,348</u>	<u>99.4%</u>	<u>\$1,005,982</u>	<u>7.7%</u>	<u>\$13,120,366</u>	<u>\$13,993,774</u>
Non-Operating Expenses	<u>80,861</u>	<u>0.6%</u>	<u>(7,617)</u>	<u>-8.6%</u>	<u>88,478</u>	<u>102,924</u>
Total Expenses	<u>\$14,207,209</u>	<u>100.0%</u>	<u>\$998,365</u>	<u>7.6%</u>	<u>\$13,208,844</u>	<u>\$14,096,698</u>
Changes in Net Assets	\$308,417	2.7%	(\$85,034)	-21.6%	\$393,451	\$232,277
Beginning Net Assets as Restated	<u>11,199,410</u>	<u>97.3%</u>	<u>393,451</u>	<u>3.6%</u>	<u>10,805,959</u>	<u>10,573,682</u>
Ending Net Assets	<u>\$11,507,827</u>	<u>100.0%</u>	<u>\$308,417</u>	<u>2.8%</u>	<u>\$11,199,410</u>	<u>\$10,805,959</u>

**Revenue by Source
For Year Ending August 31, 2005**



**Expenses by Function
For Year Ending August 31, 2005**

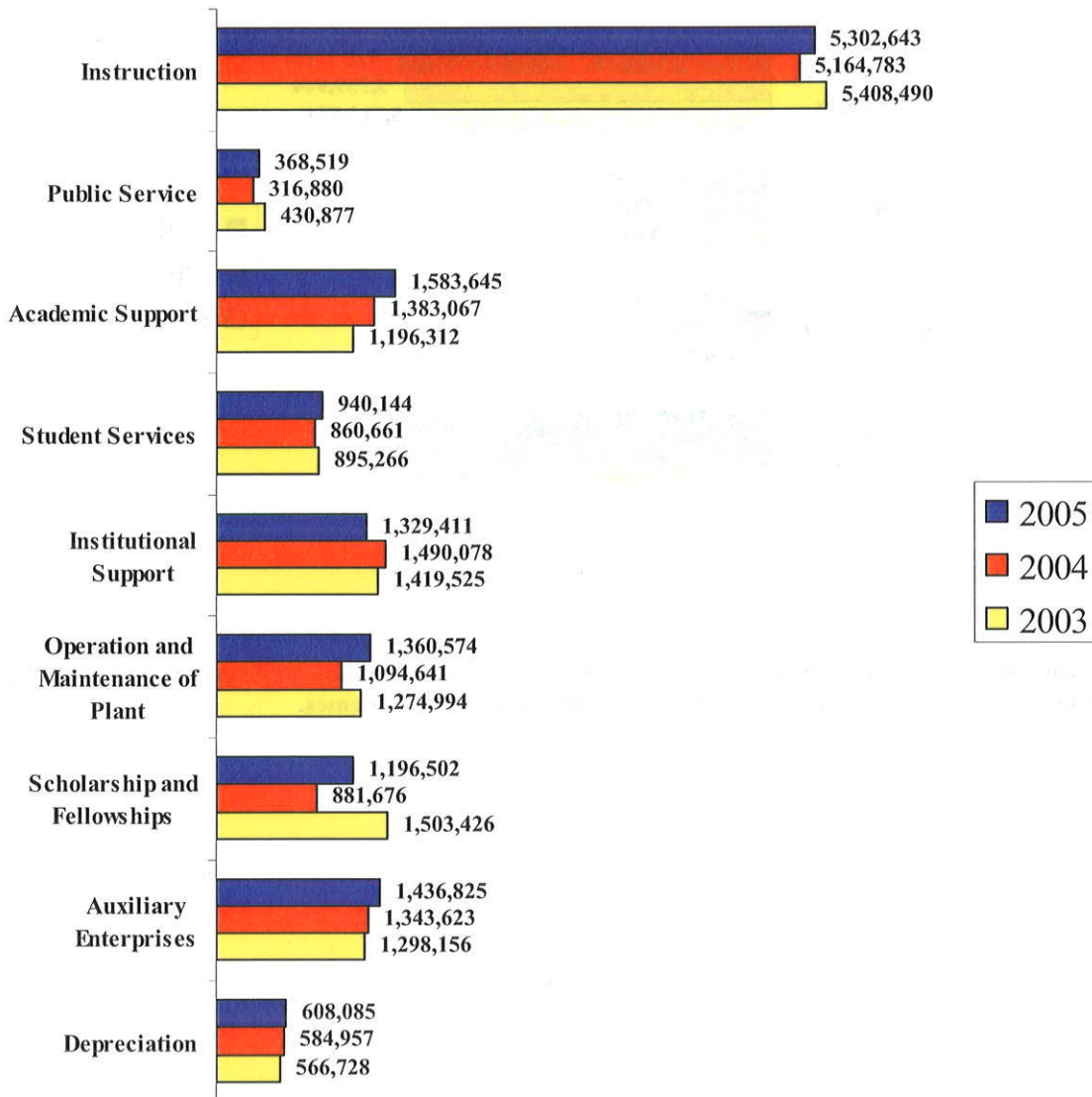


Operating revenues amounted to \$6,565,384 and non-operating revenues \$7,950,242 for a total of \$14,515,626. Major operating revenues include \$1,634,788 in tuition and fees, \$3,537,887 in grants and contracts, and \$917,107 in auxiliary enterprises. Major sources of operating funds include student tuition and fees (\$1.6 million), and grants and contracts (\$3.5 million). Tuition and fees are up 11.3% this year due a record enrollment and increased fees. Grants from the U.S. Department of Education are reported here and amounted to \$2,557,249. The Federal Pell Grant Program is the largest of these grants and amounts to \$1,966,212. More detail is provided on federal awards in Schedule E (page 45) and state awards in Schedule F (page 47).

Major non-operating revenues include \$4,265,653 in state appropriations, and \$3,240,504 in ad-valorem taxes. State appropriations include \$1,057,559 for employee benefits (\$335,480 for retirement benefits and \$722,079 for health and life insurance coverage). Additional information is available in footnote 14, 17, and 18 found on pages 34-38. In Texas the state appropriation to community colleges was previously considered operating revenue due to an implied contractual agreement based on contact hours taught. The Texas Higher Education Coordinating Board (THECB) has reversed their ruling and no longer considers the appropriation as an exchange transaction. Accordingly state appropriations for current and prior years are presented as non-operating revenue.

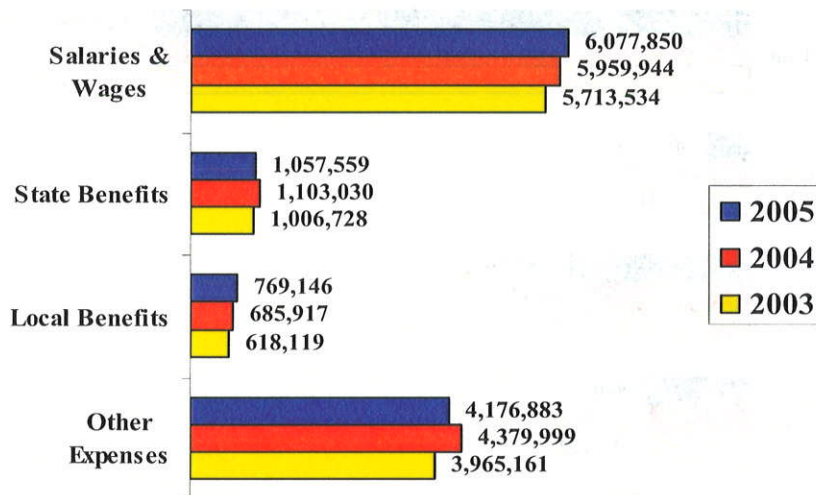
Operating Expenses totaled \$14,126,348 and non-operating expenses \$80,861 for total expenses of \$14,207,209. The THECB had previously ruled that library books were works of art and should not be depreciated. That ruling was reversed and accordingly depreciation has been restated for current and prior years. The increase in net assets is due to revenues exceeding expenses for the year by \$308,417.

Operating Expense Comparison For Years Ended August 31, 2005, 2004, and 2003



Instruction at \$5.3 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 amounted to \$1.6 million. These expenses are used to provide support services for the College's primary missions of instruction, research, and public service. This includes library expenses, academic administration, computer services, and distance learning support. Student services, \$.9 million, include expenses for offices of records and admissions and student activities. Institutional support, \$1.3 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, \$1.4 million, are expenditures for the operation and maintenance of the physical plant. Scholarships and fellowships, \$1.2 million, includes scholarships and fellowships including tuition remissions and exemptions. Auxiliary enterprises, \$1.4 million, include expenditures for the college store, food service, residence halls, and athletic programs.

**Educational Activities Operating Expenses
For Years Ended August 31, 2005, 2004, and 2003**



Operating expenses for educational activities amounted to \$12.1 million; \$3.6 million (28.6%) were restricted. Employee related expenses amounted to \$7.9 million or 65.4% of educational activities expenses.

**Condensed Statement of Cash Flows
For the Year Ended August 31, 2005, 2004 and 2003**

	2005	Increase (Decrease)	2004	2003
Cash provided by/(used) in:				
Operating Activities	(\$5,676,227)	\$122,589	(\$5,798,816)	(\$5,541,634)
Non-capital Financing Activities	6,895,423	455,469	6,439,954	6,550,147
Capital and Related Financing Activities	(126,692)	163,211	(289,903)	(1,114,736)
Investing Activities	<u>(868,475)</u>	<u>(24,345)</u>	<u>(844,130)</u>	<u>(379,713)</u>
Net Increase (decrease) in Cash and Cash Equivalents	\$224,029	\$716,924	(\$492,895)	(\$485,936)
Cash and cash equivalents - September 1	<u>1,194,161</u>	<u>(492,895)</u>	<u>1,687,056</u>	<u>2,172,992</u>
Cash and cash equivalents - August 31	<u>\$1,418,190</u>	<u>\$224,029</u>	<u>\$1,194,161</u>	<u>\$1,687,056</u>

Cash and cash equivalents at August 31, 2005 was \$1,418,190 which is an increase of \$224,029 or 18.8%

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATION

As mentioned earlier, revenues exceed expenses by \$308,417 or 2.7% for the year ended August 31, 2005. The College's financial position remains strong, with unrestricted net assets representing approximately 5.7 months of operating reserves, which is well above the 3.6 months minimum recommended by the State Auditor's Office.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The College's investment in capital assets as of August 31, 2005, amounts to \$8,408,202 (net of accumulated depreciation). This investment includes land, library books, buildings and improvements, and furniture and equipment. The increase in buildings and improvements is primarily the result of the construction of three new student apartments and parking lots.

	Capital Assets (net of depreciation) as of August 31, 2005, 2004 and 2003				
	2005	Increase (Decrease)	% of Change	2004	2003
Land	\$1,103,543	\$135,083	13.9%	\$968,460	\$968,460
Library Books	339,161	(12,352)	-3.5%	351,513	360,718
Buildings and Improvements	6,215,944	2,035,627	48.7%	4,180,317	4,501,135
Construction in Progress	0	(40,098)		40,098	0
Furniture and Equipment	<u>749,554</u>	<u>37,536</u>	<u>5.3%</u>	<u>712,018</u>	<u>904,660</u>
Total at historical cost	<u>\$8,408,202</u>	<u>\$2,155,796</u>	<u>34.5%</u>	<u>\$6,252,406</u>	<u>\$6,734,973</u>

Please refer to footnote number 8 on page 27 for additional information on capital assets.

Long-term Debt

The College issued a \$2.5 million 15 year revenue bond in March 2005. 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 principal balance at August 31, 2005 was \$1,753,805.

The only other debt the College has is also 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 \$8,843.

	Long-term Liabilities				
	as of August 31, 2005, 2004 and 2003				
	2005	Increase (Decrease)	% of Change	2004	2003
Lease Purchase Agreements	\$8,843	(\$42,678)	-82.8%	\$51,521	\$99,201
Maintenance Notes Payable	1,647,217	(106,588)	-6.1%	1,753,805	1,855,654
Revenue Bonds Payable	<u>2,500,000</u>	<u>2,500,000</u>		<u>0</u>	<u>0</u>
Total Long-term Liabilities	<u>\$4,156,060</u>	<u>\$2,350,734</u>	<u>130.2%</u>	<u>\$1,805,326</u>	<u>\$1,954,855</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 2005 and set appropriation amounts for the fifty state community colleges for the next biennium beginning September 1, 2005. The unrestricted appropriation is divided among the colleges based on a percentage of the total formula funding and contact hours reported. The growth rate in community colleges, as in the general population, has been greatest in the large metropolitan areas. Over the past five years contact hours increased by 11.4% at Panola College while unrestricted appropriations has declined by 12.4%. Due to budget restraints not only was the growth not funded, the appropriations were cut. 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 economy of size.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, students, stakeholders 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, 2005 and 2004

	<u>2005</u> <u>Primary</u> <u>Institution</u>	<u>2004</u> <u>Primary</u> <u>Institution</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,418,190	\$ 1,194,161
Short-term investments	5,532,679	4,794,477
Accounts receivable (net)	1,372,548	1,137,712
Inventories	136,785	102,193
Other assets	414,891	443,109
Total Current Assets	<u>8,875,093</u>	<u>7,671,652</u>
Noncurrent Assets		
Endowment and othe short-term investments	1,844,877	1,510,879
Capital assets, (net) (See note)	8,408,202	6,252,406
Total Noncurrent Assets	<u>10,253,079</u>	<u>7,763,285</u>
Total Assets	<u>\$ 19,128,172</u>	<u>\$ 15,434,937</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 743,681	\$ 341,880
Accrued liabilities	308,090	242,638
Funds held for others	152,472	86,162
Payable to Affiliated Organization	322,447	-
Deferred revenues	1,902,790	1,729,191
Capital Leases Payable - current portion	8,843	42,678
Revenue Bonds Payable - current portion	126,000	-
Notes Payable - current portion	111,547	106,588
Total Current Liabilities	<u>3,675,870</u>	<u>2,549,137</u>
Noncurrent Liabilities		
Deposits	34,805	30,330
Capital Leases Payable	-	8,843
Revenue Bonds Payable	2,374,000	-
Notes Payable	1,535,670	1,647,217
Total Noncurrent Liabilities	<u>3,944,475</u>	<u>1,686,390</u>
Total Liabilities	<u>\$ 7,620,345</u>	<u>\$ 4,235,527</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 4,252,142	\$ 4,447,081
Restricted for		
Nonexpendable		
Student Aid	1,610,004	1,558,672
Unrestricted		
Total Net Assets	<u>\$ 11,507,827</u>	<u>\$ 11,199,410</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, 2005 and 2004

	2005	2004
	<u>Panola College Foundation</u>	<u>Panola College Foundation</u>
Assets		
Cash and cash equivalents	\$ 30,243	\$ 27,007
Short Term Certificates of Deposit	60,601	59,538
Mutual Fund Investments	25,933	22,977
Annuity Contracts	473,280	412,158
Receivable from Panola College	322,447	34,950
Construction in progress	-	50,490
Total Assets	<u>\$ 912,504</u>	<u>\$ 607,120</u>
Liabilities		
Accounts payable	\$ -	\$ 34,950
Accrued liabilities	-	3,932
Total Liabilities	<u>\$ -</u>	<u>\$ 38,882</u>
Net Assets		
Unrestricted	\$ 17,113	\$ 67,089
Permanently Restricted	895,391	501,149
Total Net Assets	<u>\$ 912,504</u>	<u>\$ 568,238</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, 2005 and 2004

	<u>2005</u> <u>Primary</u> <u>Institution</u>	<u>2004</u> <u>Primary</u> <u>Institution</u>
Operating Revenues		
Tuition and Fees (Net of Discounts of \$1,259,071 for 2005 and \$1,033,667 for 2004)	\$ 1,634,788	\$ 1,476,788
Federal Grants and Contracts	2,973,806	2,623,949
State Grants and Contracts	535,939	393,018
Non-Governmental Grants and Contracts	28,142	20,064
Sales and Services of Educational Activities	207,039	196,103
Auxiliary Enterprises (Net of Discounts of \$680,439 for 2005 and \$524,857 for 2004)	917,107	850,084
Other Operating Revenues (Net of Discounts of \$-0-)	268,563	309,015
Total Operating Revenues (Schedule A)	<u>6,565,384</u>	<u>5,869,021</u>
Operating Expenses		
Instruction	5,302,643	5,164,783
Public Service	368,519	316,880
Academic Support	1,583,645	1,383,067
Student Services	940,144	860,661
Institutional Support	1,329,411	1,490,078
Operation and Maintenance of Plant	1,360,574	1,094,641
Scholarships and Fellowships	1,196,502	881,676
Auxiliary Enterprises	1,436,825	1,343,623
Depreciation	608,085	584,957
Total Operating Expenses (Schedule B)	<u>14,126,348</u>	<u>13,120,366</u>
Operating Loss	<u>(7,560,964)</u>	<u>(7,251,345)</u>
Non-Operating Revenues (Expenses)		
State Appropriations	4,265,653	4,250,209
Ad-Valorem Taxes for Maintenance & Operations	3,240,504	3,063,426
Gifts	127,965	104,373
Investment Income (Net of Investment Expenses)	250,680	270,168
Royalty Income	65,440	45,098
Interest on Capital Related Debt	(80,861)	(88,478)
Net Non-Operating Revenues (Schedule C)	<u>7,869,381</u>	<u>7,644,796</u>
Increase in Net Assets	308,417	393,451
NET ASSETS		
Net Assets - Beginning of Year	11,199,410	10,805,959
Net Assets - End of Year	<u>\$ 11,507,827</u>	<u>\$ 11,199,410</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, 2005 and 2004

	2005	2004
	<u>Panola College Foundation</u>	<u>Panola College Foundation</u>
Revenue		
Investment income	\$ 1,231	\$ 929
Unrealized Investment Income	63,078	35,302
Gifts	330,447	56,390
Total Revenue	<u>394,756</u>	<u>92,621</u>
Expenses		
Scholarships and support	<u>50,490</u>	<u>500</u>
Total Expenses	<u>50,490</u>	<u>500</u>
Change in net assets	344,266	92,121
Net Assets at beginning of year	<u>568,238</u>	<u>476,117</u>
Net Assets at end of year	<u>\$ 912,504</u>	<u>\$ 568,238</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, 2005 and 2004

	<u>2005</u> Primary Institution	<u>2004</u> Primary Institution
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 2,915,247	\$ 2,750,657
Receipts from grants, and contracts	3,462,061	2,999,187
Payments to or on behalf of employees	(7,028,720)	(6,707,108)
Payments to suppliers for goods or services	(3,828,313)	(3,959,876)
Payments of scholarships	(1,196,502)	(881,676)
Net cash used for operating activities	<u>(5,676,227)</u>	<u>(5,798,816)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	3,208,094	3,208,146
Ad valorem tax revenues	3,252,318	3,057,505
Gifts and grants (other than capital)	77,475	128,229
Student organization and other agency transactions	357,536	46,074
Net cash provided by non-capital financing activities	<u>6,895,423</u>	<u>6,439,954</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of revenue bonds	2,500,000	
Purchases of capital assets	(2,395,571)	(50,947)
Interest expense paid	(81,855)	(89,428)
Payments on capital debt and leases	(149,266)	(149,528)
Net cash used for capital and related financing activities	<u>(126,692)</u>	<u>(289,903)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	6,263,355	5,043,189
Investment earnings	197,026	413,917
Purchases of investments	(7,328,856)	(6,301,236)
Net cash used for investing activities	<u>(868,475)</u>	<u>(844,130)</u>
Increase (Decrease) in cash and cash equivalents	224,029	(492,895)
Cash and cash equivalents - Beginning	<u>1,194,161</u>	<u>1,687,056</u>
Cash and cash equivalents - Ending	<u>\$ 1,418,190</u>	<u>\$ 1,194,161</u>
Noncash investing, capital, and financing activities:		
Capital assets purchased	\$ 2,803,978	\$ 102,390
Less Assets Donated	(50,490)	(11,345)
Less Accounts Payable	(357,917)	(40,098)
Cash paid for capital assets	<u>\$ 2,395,571</u>	<u>\$ 50,947</u>
Increase (decrease) in fair value of investments	<u>\$ 6,699</u>	<u>\$ 4,120</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, 2005 and 2004

	<u>2005</u> Primary Institution	<u>2004</u> Primary Institution
Reconciliation of operating loss to net cash used for operating activities		
Operating loss	\$ <u>(7,560,964)</u>	\$ <u>(7,251,345)</u>
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation expense	608,085	584,957
On-behalf state appropriations	1,057,559	1,042,063
Changes in assets and liabilities		
(Increase) Decrease in Receivables, net	(134,028)	(115,260)
(Increase) Decrease in Inventories	(34,592)	5,920
(Increase) Decrease in Prepaid expenses	(482)	6,482
(Increase) Decrease in Deferred expenses	28,700	(141,820)
Increase (Decrease) in Deferred credits student related	175,425	253,463
Increase (Decrease) in Deferred credits other	(1,826)	138
Increase (Decrease) in Accounts payable	162,133	(204,202)
Increase (Decrease) in Accrued liabilities-payroll related	13,683	4,127
Increase (Decrease) in Compensated absences	10,080	16,661
Total Adjustments	<u>1,884,737</u>	<u>1,452,529</u>
Net cash used by operating activities	\$ <u><u>(5,676,227)</u></u>	\$ <u><u>(5,798,816)</u></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, 2005 and 2004**

	<u>2005 Panola College Foundation</u>	<u>2004 Panola College Foundation</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from donors	\$ 42,950	\$ 21,440
Payments for scholarships and support	(38,882)	-
Investment receipts	1,231	929
Net cash provided by operating activities	<u>5,299</u>	<u>22,369</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction in progress	0	(15,540)
Net cash used for capital and related financing activities	<u>0</u>	<u>(15,540)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments and annuities	(2,063)	(1,792)
Net cash used for investing activities	<u>(2,063)</u>	<u>(1,792)</u>
Increase in cash and cash equivalents	3,236	5,037
Cash and cash equivalents-beginning	27,007	21,970
Cash and cash equivalents-ending	<u>\$ 30,243</u>	<u>\$ 27,007</u>
Reconciliation of change in net assets to net cash used for operating activities		
Change in net assets	<u>\$ 344,266</u>	<u>\$ 92,121</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	(63,078)	(35,302)
Changes in assets and liabilities		
Increase in gifts receivable	(287,497)	(34,950)
Decrease in accounts payable	(34,950)	-
Decrease in construction in progress	50,490	-
Decrease in accrued liabilities	(3,932)	500
Total Adjustments	<u>(338,967)</u>	<u>(69,752)</u>
Net cash provided by operating activities	<u>\$ 5,299</u>	<u>\$ 22,369</u>
Noncash investing, capital, and financing activities:		
Construction in progress		\$ 50,490
Less Accounts Payable		(34,950)
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, 2005 AND 2004

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, Higher Education Act (HEA) Program Funds

Certain Title IV HEA Program funds are received by the college to pass through to the student. These funds are initially received by the college and recorded as restricted revenue. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount.

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.

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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 unrestricted 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 \$57,146 and \$55,808 at August 31, 2005 and 2004, 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	15 years

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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, 2005 and 2004 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 Expenses and Non-Operating Revenues and Expenses

The statement of revenues, expenses and changes in net assets distinguishes between operating revenues and expenses and non-operating revenues and expenses. For this purpose, operating revenues, such as tuition and fees, result from exchange transactions associated with the principal ongoing operations of the College. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Non-operating revenues arise from exchange transactions not associated with the College's principal activities (such as investment income and state allocations) and from all non-exchange transactions (such as property taxes). Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Non-operating expenses is comprised of interest on long-term debt.

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. CORRECTION OF ERROR AND RESTATEMENT

In prior years, revenues received from the state appropriations representing allocations for formula funding based on performance have been classified as operating revenues. In the current year a decision was made to classify state revenues as non-operating revenues in order to conform with GASB reporting standards. In addition, library books have in previous years been classified as assets not subject to depreciation. A change was made in the current year to depreciate library books in order to conform with established accounting standards. The August 31, 2004 statements have been restated to reflect these changes. The classification of the state revenues only involves a reclassification from operating revenues to non-operating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

The change in subjecting library books to depreciation involves making a prior period adjustment effective to the beginning of the August 31, 2004 net assets. This involved a cumulative effect of decreasing net assets at the beginning of 2004 by \$229,016 to reflect accumulated depreciation at August 31, 2003. In addition, depreciation expense for the year ending August 31, 2004 amounted to approximately \$39,316. The total of these two changes amounts to a cumulative decrease in net assets of \$268,332 from that originally reported in the August 31, 2004 financial statements.

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Summarized below is the impact of the restatements on the affected components of the Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets at August 31, 2004.

	<u>As Originally Reported</u>	<u>Adjustment Increase (Decrease)</u>	<u>As Restated</u>
Net Assets, August 31, 2003			
Invested in capital assets, net of related			
Debt	\$ 5,009,134	\$ (229,016)	\$ 4,780,118
Restricted	1,459,705	-	1,459,705
Unrestricted	<u>4,566,136</u>	<u>-</u>	<u>4,566,136</u>
Net Assets, August 31, 2003	<u>\$ 11,034,975</u>	<u>\$ (229,016)</u>	<u>\$ 10,805,959</u>
Statement of Net Assets, August 31, 2004			
Total Current Assets	\$ 7,671,652	\$ -	\$ 7,671,652
Non Current Assets:			
Endowment short-term investments	1,510,879	-	1,510,879
Capital Assets, Net	<u>6,520,738</u>	<u>(268,332)</u>	<u>6,252,406</u>
Total Non Current Assets	<u>8,031,617</u>	<u>(268,332)</u>	<u>7,763,285</u>
Total Assets	<u>\$ 15,703,269</u>	<u>\$ (268,332)</u>	<u>\$ 15,434,937</u>
Total Liabilities	<u>\$ 4,235,527</u>	<u>\$ -</u>	<u>\$ 4,235,527</u>
Invested in capital assets, net of related			
Debt	4,715,413	\$ (268,332)	\$ 4,447,081
Restricted	1,558,672	-	1,558,672
Unrestricted	<u>5,193,657</u>	<u>-</u>	<u>5,193,657</u>
Total Net Assets	<u>\$ 11,467,742</u>	<u>\$ (268,332)</u>	<u>\$ 11,199,410</u>
Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended August 31, 2004			
Total Operating Revenues	\$ 10,119,230	\$ (4,250,209)	\$ 5,869,021
Depreciation expense	545,641	39,316	584,957
Other operating expenses	<u>12,535,409</u>	<u>-</u>	<u>12,535,409</u>
Total Operating Expenses	<u>13,081,050</u>	<u>39,316</u>	<u>13,120,366</u>
Operating Income (Loss)	<u>(2,961,820)</u>	<u>(4,289,525)</u>	<u>(7,251,345)</u>
Net Non-Operating Revenues	<u>3,394,587</u>	<u>4,250,209</u>	<u>7,644,796</u>
Increase in Net Assets	<u>432,767</u>	<u>(39,316)</u>	<u>393,451</u>

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	As Originally Reported	Adjustment Increase (Decrease)	As Restated
Net Assets – Beginning of Year, As Originally Reported	11,034,975	-	11,034,975
Prior Period Adjustment	(229,016)	-	(229,016)
Net Assets – Beginning of Year, As Restated	10,805,959	-	10,805,959
Net Assets End of Year	\$ 11,238,726	\$ (39,316)	11,199,410

4. **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 not a governmental entity. 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 discreetly presents the financial activity of the Foundation in the College's annual financial report as an affiliated organization. Separate financial statements of the Foundation are normally not issued.

Financial transactions in the form of support from the Foundation to the College for the years ended August 31, 2005 and 2004 amounted to approximately \$50,490 and \$500, respectively. In addition, the Foundation is presently conducting a capital campaign for the purpose of raising funds to assist the College in the construction of a planned library project.

5. **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.

6. **DEPOSITS AND SHORT-TERM INVESTMENTS**

During the 2005 and 2004 fiscal years all deposits and investments were comprised of cash on hand, bank demand deposits, bank time deposits, investments with the Lonestar Investment Pool, and mutual funds administered by American Funds Distributors.

Deposits on account with financial institutions were insured by federal depository insurance and collateralized by pledged securities. The pledged securities are held by the depository bank's agent bank in the name of the College. Such securities cannot be released without the express written permission of the Board of Trustees of the College.

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The College's temporary investments consist of balances held by Lonestar Investment Pool (Liquidity Plus) and Lincoln Financial Advisors. The Lonestar Investment Pool is a public funds investment pool created to provide a safe environment for the placement of local government funds in short-term investments. The Liquidity Plus Fund is regulated by the Securities and Exchange Act and seeks to maintain a net asset value of 50 cents, and its dollar weighted average maturity is 120 days or fewer. Lonestar Investment Pool is administered by the Texas Association of School Boards, in Austin, Texas. Lonestar Investment Pool has a rating of AA+ by Standard & Poor's.

The fair value of the investment in Lonestar Investment Pool was the same as its carrying value of \$57,146 and \$55,808 for the years ending August 31, 2005 and 2004, respectively.

Lincoln Financial Advisors is the broker for the College's investment in five mutual funds within the American Funds Family. Each of the five funds were rated "****" or better by Morningstar Rating Services. The fair value of the mutual fund investments was the same as its carrying value of \$52,700 and \$42,001 for the years ending August 31, 2005 and 2004, respectively.

Details of the composition of the deposit balances and categorization as presented in the Statement of Net Assets at Exhibit I are summarized below:

Composition of Cash, Deposits and Investments

	August 31 2005	August 31 2004
Cash and Deposits		
Cash in Banks:		
Demand Deposits	\$ 1,207,354	1,134,663
Time Deposits	7,474,856	6,263,355
Petty Cash on Hand	3,690	3,690
Total Cash and Deposits	8,685,900	7,401,708
Investments		
Short-Term Investments		
Lonestar Investment Pool		
Liquidity Plus Fund	57,146	55,808
Mutual Fund Investments	52,700	42,001
Total Investments	109,846	97,809
Total Deposits and Investments	\$ 8,795,746	\$ 7,499,517

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Classification in Statement of Net Assets, Exhibit 1

	August 31 2005	August 31 2004
Cash and Cash Equivalents		
Cash in Banks:		
Demand Deposits	\$ 1,207,354	\$ 1,134,663
Time Deposits	150,000	-
Short-Term Investments		
Lonestar Investment Pool		
Liquidity Plus Fund	57,146	55,808
Petty Cash on Hand	3,690	3,690
Total Cash and Cash Equivalents	1,418,190	1,194,161
Short-Term Investments		
Cash in Banks – Time Deposits	5,532,679	4,794,477
Endowment and Other Short-Term Investments		
Cash in Banks – Time Deposits	1,792,177	1,468,878
Mutual Fund Investments	52,700	42,001
Total Short-Term Investments	1,844,877	1,510,879
Total Cash, Deposits and Investments	\$ 8,795,746	\$ 7,499,517

Policies Governing Deposits and Investments

In compliance with the *Public Funds Investment Act*, the College has adopted a deposit and investment policy. Specific policies applicable to deposits and investments of the College and the risks of such are described below.

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The College's policy with respect to custodial credit risk complies with State Law. At August 31, 2005 and 2004, the College's bank deposits (balance per financial institution) were approximately \$8,838,504 and \$7,452,208, respectively. Of these amounts, the deposits were insured by federal depository (FDIC) insurance in the amounts of \$192,694 and \$157,038 respectively. The remaining balances of \$8,838,504 (2005) and \$7,452,208 (2004) were covered by pledged collateral held by the agent of the financial institution in the name of the College. The College was therefore not exposed to custodial credit risk during the year as its deposits were covered as described above.

- a. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College's investments in the investment pools and mutual funds (described above) are not included in this type of custodial credit risk. During the year, the College was not exposed to custodial credit risk for investments.

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- b. **Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The College has no specific policy regarding concentration of credit risk. During the year, the College was not exposed to concentration of credit risk.
- c. **Interest Rate Risk:** Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. The College does not have a specific policy regarding interest rate risk, as it does not contemplate the investment of funds in such instruments. During the year, the College was not exposed to interest rate risk.

7. **DERIVATIVES**

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.

8. **CAPITAL ASSETS**

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

Description	Balance September 1, 2004	Increases	Decreases	Balance August 31, 2005
Capital assets not being Depreciated:				
Land	\$ 968,460	\$ 135,083	\$ -	\$ 1,103,543
Total capital assets not being Depreciated	968,460	135,083	-	1,103,543
Capital assets, being depreciated:				
Buildings and Improvements	11,851,652	2,370,547	-	14,222,199
Construction in progress	40,098	-	40,098	-
Equipment under Capital Lease - Copy Machines	152,078	-	-	152,078
Furniture, Fixtures, Machinery & Equipment and Other Equipment	2,167,022	269,665	-	2,436,687
Library Books	619,845	28,684	31,144	617,385
Total capital assets, being depreciated	14,830,695	2,668,896	71,242	17,428,349
Less accumulated depreciation for:				
Building and Improvements	(7,671,335)	(334,920)	-	(8,006,255)
Equipment Under Capital Lease	(109,372)	(30,416)	-	(139,788)
Furniture, Fixtures, Machinery & Equipment and Other Equipment	(1,497,710)	(201,713)	-	(1,699,423)
Library Books	(268,332)	(41,036)	(31,144)	(278,224)
Total accumulated depreciation	(9,546,749)	(608,085)	(31,144)	(10,123,690)
Total capital assets, being depreciated, net	5,283,946	2,060,811	40,098	7,304,659
Net Capital Assets	\$ 6,252,406	\$ 2,195,894	\$ 40,098	\$ 8,408,202

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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
Total capital assets not being Depreciated	968,460	-	-	968,460
Capital assets, being depreciated:				
Buildings and Improvements	11,845,138	6,514	-	11,851,652
Construction in Progress		40,098	-	40,098
Equipment under Capital Lease - Copiers	152,078	-	-	152,078
Furniture, Fixtures, Machinery & Equipment and Other Equipment	2,141,355	25,667	-	2,167,022
Library Books	589,734	30,111	-	619,845
Total capital assets, being depreciated	14,728,305	102,390	-	14,830,695
Less accumulated depreciation for:				
Building and Improvements	(7,344,003)	(327,332)	-	(7,671,335)
Equipment under Capital Lease	(78,956)	(30,416)	-	(109,372)
Furniture, Fixtures, Machinery & Equipment and Other Equipment	(1,309,817)	(187,893)	-	(1,497,710)
Library Books	(229,016)	(39,316)	-	(268,332)
Total accumulated depreciation	(8,961,792)	(584,957)	-	(9,546,749)
Total capital assets, being depreciated, net	5,766,513	(482,567)	-	5,283,946
Net Capital Assets	\$ 6,734,973	\$ (482,567)	\$ -	\$ 6,252,406

9. LONG-TERM LIABILITIES

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

	Balance September 1, 2004	Additions	Reductions	Balance August 31, 2005	Current Portion
<u>Leases and Notes</u>					
Capital Leases	\$ 51,521	\$ -	\$ 42,678	\$ 8,843	\$ 8,843
Maintenance Notes Payable	1,753,805	-	106,588	1,647,217	111,547
Revenue Bonds Payable	-	2,500,000	-	2,500,000	126,000
Total Long-Term Liabilities	\$ 1,805,326	\$ 2,500,000	\$ 149,266	\$ 4,156,060	\$ 246,390

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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, 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	<u>\$ 1,954,855</u>	<u>\$ -</u>	<u>\$ 149,529</u>	<u>\$ 1,805,326</u>	<u>\$ 149,266</u>

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 \$2,393 and \$5,226 for the years ended August 31, 2005 and 2004 respectively.

Year Ending August 31,	2005			2004		
	Interest	Principal	Total Requirement	Interest	Principal	Total Requirement
2005	\$ -	\$ -	\$ -	\$ 2,237	\$ 42,678	\$ 44,915
2006	104	8,843	8,947	104	8,843	8,947
Total	<u>\$ 104</u>	<u>\$ 8,843</u>	<u>\$ 8,947</u>	<u>\$ 2,341</u>	<u>\$ 51,521</u>	<u>\$ 53,862</u>

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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.

The first of the thirty semi-annual installments was made on June 19, 2002. Interest expense on the note amounted to \$79,462 and \$84,201 for the years ended August 31, 2005 and 2004, respectively. Accrued interest on the note at August 31, 2005 and 2004 amounted to approximately \$15,365 and \$16,359 respectively, and is included in the financial statements.

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

Year Ending August 31,	2005			2004		
	Interest	Principal	Total Requirement	Interest	Principal	Total Requirement
2005	\$ 0	\$ 0	\$ 0	\$ 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	52,248	133,802	186,050	52,248	133,802	186,050
2011-2015	161,865	768,395	930,260	161,865	768,395	930,260
2016-2017	12,362	266,715	279,077	12,362	266,715	279,077
Total	\$492,370	\$1,647,217	\$ 2,139,587	\$571,832	\$1,753,805	\$ 2,325,637

Revenue Bond Payable

On March 28, 2005, the College issued Revenue Bonds, Series 2005 in the amount of \$2,500,000. The revenue bonds carry an interest rate of 3.94% payable in thirty semi-annual installments. Principal on the bonds is due in 15 annual installments beginning on April 18, 2006, and the final payment is due on April 18, 2020.

The bonds were issued to finance construction of student housing apartment complexes and additional improvements to the physical plant.

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In accordance with Section 130.123 of the Texas Education Code, the revenue bonds are to be paid by the assessment of a building use (dorm) fee to all students occupying dorms at the College. Such fees assessed are pledged toward repayment of the bonds along with other pledged revenues of the College sufficient to the payment of principal and interest on the bonds.

Accrued interest on the bonds at August 31, 2005 amounted to approximately \$42,683, and is included in the financial statements.

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

Year Ending August 31	Interest	Principal	Total Requirement
2006	\$ 98,500	\$ 126,000	\$ 224,500
2007	93,536	131,000	224,536
2008	88,374	136,000	224,274
2009	83,016	141,000	224,016
2010	77,460	146,000	223,460
2011-2015	296,249	823,000	1,119,249
2016-2020	120,643	997,000	1,117,643
	<u>\$ 857,778</u>	<u>\$ 2,500,000</u>	<u>\$ 3,357,778</u>

10. DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

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

	2005			2004		
	Total Receivable	Less Allowance For Uncollectibles	Net Receivable	Total Receivable	Less Allowance For Uncollectibles	Net Receivable
Student Receivables	\$ 745,118	\$ 293,172	\$ 451,946	\$ 616,610	\$ 217,172	\$ 399,438
Taxes Receivable	180,362	122,734	57,628	206,761	137,319	69,442
Federal Receivables	379,131	-	379,131	361,416	-	361,416
State Receivables	359,164	-	359,164	279,007	-	279,007
Interest Receivable	120,200	-	120,200	7,578	-	7,578
Other Receivables	4,479	-	4,479	20,831	-	20,831
TOTAL	<u>\$ 1,788,454</u>	<u>\$ 415,906</u>	<u>\$ 1,372,548</u>	<u>\$ 1,492,203</u>	<u>\$ 354,491</u>	<u>\$ 1,137,712</u>

Payables

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

	2005	2004
Vendors Payable	\$ 743,681	\$ 341,880
Salaries and Benefits Payable	250,042	226,279
Students Payable	85,973	59,868
Accrued Interest	58,048	16,359
Payable to Affiliated Organization	322,447	-
Other Payables	66,498	26,294
TOTAL	<u>\$ 1,526,689</u>	<u>\$ 670,680</u>

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11. 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.

12. 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:

	2005	2004
Original tax levy	\$ 3,327,013	\$ 3,158,865
Supplemental levy and adjustments	832	(45)
Adjusted levy	3,327,845	3,158,820
Penalty and interest assessments	13,392	14,102
Total Levy	\$ 3,341,237	\$ 3,172,922

Tax collections for the years ended August 31, 2005 and 2004, including delinquent collections, exceeded 99% of the levy for both years.

PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

A summary of tax data is presented as follows:

	<u>2005</u>	<u>2004</u>
Assessed valuation of the District	\$ 3,420,234,204	\$ 2,874,025,396
Less: Exemptions	(150,497,830)	(143,911,079)
Less Abatements	(429,551,310)	(387,297,555)
Net Assessed Valuation of the District	<u>\$ 2,840,185,064</u>	<u>\$ 2,342,816,762</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	\$ 0.11717	\$ 0.13483
Debt Service	-	-
Total	<u>\$ 0.11717</u>	<u>\$ 0.13483</u>
Gross Taxes Collected (Current Operations)	\$ 3,292,265	\$ 3,107,875
Discounts Allowed	(85,423)	(80,396)
Delinquent Taxes Collected	44,019	38,699
Penalties and Interest Collected	42,682	47,685
Collection Fees	(53,003)	(50,437)
Total Collections	<u>\$ 3,240,540</u>	<u>\$ 3,063,426</u>

13. **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>2005</u>	<u>2004</u>
Tuition and Fees	\$ 1,353,586	\$ 1,213,984
Housing and Residential Life	349,525	297,575
Bookstore Profit Deferral	169,577	185,704
Other	<u>30,102</u>	<u>31,928</u>
Total	<u>\$ 1,902,790</u>	<u>\$ 1,729,191</u>

PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

14. 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
 NOTES TO THE FINANCIAL STATEMENTS
 AT AND FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

Funding Status and Progress

State law provided for a state contribution rate for fiscal years 1998 - 2005 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, 2001 through 2005 were as follows:

Fiscal Year Ended August 31,	On-Behalf State Contribution	Employee Contribution	Total Contribution	Covered Payroll
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
2005	216,305	230,619	446,924	3,605,087

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, the date of the latest available information, 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, 2005 AND 2004

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
2005	\$ 119,175	\$ 30,019	\$ 132,085	\$ 281,279	\$ 1,986,246
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.

15. 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, 2005 and 2004, the College had twenty-six and twenty-three respectively, employees participating in the tax sheltered annuity program. A total of \$107,397 and \$84,006 in payroll deductions was invested in approved plans during the years ending August 31, 2005 and 2004, respectively.

16. 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 \$141,681 at August 31, 2005 and \$131,601 at August 31, 2004, 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, 2005 AND 2004

17. 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 \$341 and \$300 per month per employee to the Plan for the years ending August 31, 2005 and 2004, 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
2005	131	7	\$ 463,198	\$ 150,167
2004	127	7	485,128	82,141

18. 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
2005	54	\$ 20.00	3	\$ 341
2004	52	20.00	4	300

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, 2005 AND 2004**

Post Retirement Health Benefits:

Year Ended August 31,	On Behalf State Contribution	Average Number Retirees Covered
2005	\$258,881	63
2004	\$230,278	58

19. 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.

20. 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, 2005 and 2004, 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 \$307,972 at August 31, 2005 and \$311,119 at August 31, 2004.

21. 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.

22. 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 \$227,000 and \$257,000 in non monetary transactions representing the value of the use of the facilities for the years ended August 31, 2005 and 2004, respectively. A corresponding amount is also included in operating expenses. Capital donations amounted to approximately \$50,490 and \$11,000 for the years ended August 31, 2005 and 2004, respectively. In the current year, the \$50,490 represented a donation from the Panola College Foundation for a rodeo arena and related improvements. 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. Revenues and capital assets are reflected in the financial statements recognizing these transactions.

PANOLA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

23. PENDING CLAIMS

The administration of the College and its legal counsel are not aware of any pending lawsuits against the College.

24. 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, 2005, or 2004.

SUPPLEMENTARY DATA

PANOLA COLLEGE
SCHEDULE A
SCHEDULE OF OPERATING REVENUES

For the Year Ended August 31, 2005 (With Memorandum Totals for the Year Ended August 31, 2004)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2005 Total	2004 Total
Tuition						
State funded courses						
In-district resident tuition	\$ 239,281	\$ -	\$ 239,281	\$ -	\$ 239,281	\$ 239,240
Out-of-district resident tuition	584,223	-	584,223	-	584,223	527,561
TPEG (set aside)*	62,390	-	62,390	-	62,390	56,361
Non-resident tuition	123,547	-	123,547	-	123,547	55,245
State funded continuing education	176,255	-	176,255	-	176,255	184,502
Non-state funded continuing education	7,372	-	7,372	-	7,372	9,479
Total Tuition	1,193,068	-	1,193,068	-	1,193,068	1,072,388
Fees						
General fee	872,296	-	872,296	-	872,296	693,939
Out-of-district fees	651,579	-	651,579	-	651,579	598,007
Laboratory fee	133,250	-	133,250	-	133,250	102,799
Other fees	43,666	-	43,666	-	43,666	43,322
Total fees	1,700,791	-	1,700,791	-	1,700,791	1,438,067
Scholarship allowances and discounts						
Institutional scholarships	(333,618)	-	(333,618)	-	(333,618)	(244,314)
Remissions and exemptions-state	(11,303)	-	(11,303)	-	(11,303)	(13,775)
Remissions and exemptions-local	(117,175)	-	(117,175)	-	(117,175)	(48,380)
Title IV federal grants	(634,898)	-	(634,898)	-	(634,898)	(563,400)
TPEG allowances	(51,792)	-	(51,792)	-	(51,792)	(39,480)
Other federal grants	(586)	-	(586)	-	(586)	(2,988)
State grants to students	(109,699)	-	(109,699)	-	(109,699)	(121,330)
Total scholarship allowances	(1,259,071)	-	(1,259,071)	-	(1,259,071)	(1,033,667)
Total net tuition and fees	1,634,788	-	1,634,788	-	1,634,788	1,476,788
Additional operating revenues						
Federal grants and contracts	-	2,973,806	2,973,806	-	2,973,806	2,623,949
State grants and contracts	-	535,939	535,939	-	535,939	393,018
Nongovernmental grants and contracts	-	28,142	28,142	-	28,142	20,064
Sales and services of educational activities	207,039	-	207,039	-	207,039	196,103
General operating revenues	268,563	-	268,563	-	268,563	309,015
Total other operating revenues	475,602	3,537,887	4,013,489	-	4,013,489	3,542,149
Auxiliary enterprises						
Bookstore	-	-	-	1,026,369	1,026,369	908,078
Less allowances and discounts	-	-	-	(321,891)	(321,891)	(218,903)
Residential life	-	-	-	571,177	571,177	466,863
Less allowances and discounts	-	-	-	(358,548)	(358,548)	(305,954)
Total net auxiliary enterprises	-	-	-	917,107	917,107	850,084
Total Operating Revenues	\$ 2,110,390	\$ 3,537,887	\$ 5,648,277	\$ 917,107	\$ 6,565,384	\$ 5,869,021
				(Exhibit 2)		(Exhibit 2)

*In accordance with Education Code 56.033, \$62,390 and \$48,707 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, 2005 (With Memorandum Totals for the Year Ended August 31, 2004)

	Salaries And Wages	Benefits		Other Expenses	2005 Total	2004 Total
		State Benefits	Local Benefits			
Unrestricted Educational Activities						
Instruction	\$ 3,281,693	\$ -	\$ 366,954	\$ 379,094	\$ 4,027,741	\$ 3,941,106
Public Service	-	-	-	-	-	-
Academic Support	856,958	-	108,675	437,757	1,403,390	1,224,723
Student Services	486,176	-	53,573	111,573	651,322	581,418
Institutional Support	206,704	-	48,502	925,476	1,180,682	1,289,099
Operation and Maintenance of Plant	686,807	-	98,583	575,184	1,360,574	1,094,641
Scholarship and Fellowships	-	-	-	-	-	1,060
Total Unrestricted Educational Activities	5,518,338	-	676,287	2,429,084	8,623,709	8,132,047
Restricted Educational Activities						
Instruction	\$ 297,015	\$ 632,417	\$ 48,842	\$ 296,628	\$ 1,274,902	\$ 1,223,677
Public Service	200,497	4,986	32,255	130,781	368,519	316,880
Academic Support	-	170,180	-	10,075	180,255	158,344
Student Services	62,000	101,247	11,762	113,813	288,822	279,243
Institutional Support	-	148,729	-	-	148,729	200,979
Operation and Maintenance of Plant	-	-	-	-	-	-
Scholarship and Fellowships	-	-	-	1,196,502	1,196,502	880,616
Total Restricted Educational Activities	559,512	1,057,559	92,859	1,747,799	3,457,729	3,059,739
Auxiliary Enterprises	172,883	-	33,094	1,230,848	1,436,825	1,343,623
Depreciation Expense-Buildings & other real estate improvements			-	334,920	334,920	327,332
Depreciation Expense-Equipment & fixtures		-	-	232,129	232,129	218,309
Depreciation Expense-Library books				41,036	41,036	39,316
Total	\$ 6,250,733	\$ 1,057,559	\$ 802,240	\$ 6,015,816	\$ 14,126,348	\$ 13,120,366

(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, 2005 (With Memorandum Totals for the Year Ended August 31, 2004)

	Unrestricted	Restricted	Auxiliary Enterprises	2005 Total	2004 Total
NON-OPERATING REVENUES					
State Appropriations					
Education and general state support	\$ 3,208,094	-	-	\$ 3,208,094	\$ 3,208,146
State group insurance	-	722,079	-	722,079	715,406
State retirement matching	-	335,480	-	335,480	326,657
Total State Appropriations	3,208,094	1,057,559	-	4,265,653	4,250,209
Ad-Valorem Taxes for Maintenance & Operation:					
Gifts	3,240,504	-	-	3,240,504	3,063,426
Investment Income	-	77,475	50,490	127,965	104,373
Royalty Income	184,031	59,856	6,793	250,680	270,168
Total non-operating revenues	3,424,535	202,771	57,283	3,684,589	3,483,065
NON-OPERATING EXPENSES					
Interest on Capital Related Debt	80,861	-	-	80,861	88,478
Total non-operating expenses	80,861	-	-	80,861	88,478
Net non-operating revenues	\$ 6,551,768	\$ 1,260,330	\$ 57,283	\$ 7,869,381	\$ 7,644,796
				Exhibit 2	Exhibit 2

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, 2005
With Memorandum Totals for the Year Ended August 31, 2004

	Detail By Source				Available for Current Operations		
	Unrestricted	Expendable	Non-Expendable	Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
Current							
Unrestricted	\$ 2,752,727	\$ -	\$ -	\$ -	\$ 2,752,727	\$ 2,752,727	\$ -
Restricted	82,045	-	-	-	82,045	82,045	-
Auxiliary enterprises	246,281	-	-	-	246,281	246,281	-
Endowment							
Quasi:							
Unrestricted	-	-	-	-	-	-	-
Restricted	-	-	1,610,004	-	1,610,004	-	1,610,004
Plant							
Unexpended	2,564,629	-	-	-	2,564,629	193,886	2,370,743
Investment in Plant	-	-	-	4,252,141	4,252,141	-	4,252,141
Total Net Assets, August 31, 2005	<u>5,645,682</u>	<u>-</u>	<u>1,610,004</u>	<u>4,252,141</u>	<u>11,507,827</u>	<u>3,274,939</u>	<u>8,232,888</u>
					(Exhibit 1)		
Total Net Assets, August 31, 2004	<u>5,193,657</u>	<u>-</u>	<u>1,558,672</u>	<u>4,447,081</u>	<u>11,199,410</u>	<u>3,195,903</u>	<u>8,003,507</u>
					(Exhibit 1)		
Net Increase (Decrease) in Net Assets	<u>\$ 452,025</u>	<u>-</u>	<u>\$ 51,332</u>	<u>(194,940)</u>	<u>\$ 308,417</u>	<u>79,036</u>	<u>\$ 229,381</u>
					(Exhibit 2)		

See Independent Auditor's Report on Additional Information.

PANOLA COLLEGE
SCHEDULE E
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2005

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	EP007A044092	* \$ 104,757
SEOG	84.007	EP007A054092	* 21,213
Sub- total SEOG Program			<u>125,970</u>
Federal College Workstudy	84.033	EP033A044092	* 53,217
Federal College Workstudy	84.033	EP033A054092	* 1,680
			<u>54,897</u>
Federal Pell Grant Program	84.063	EP063P042297	* 1,581,625
Federal Pell Grant Program	84.063	EP063P052297	* 384,587
			<u>1,966,212</u>
Passed Through From:			
Texas Education Agency			
Adult Basic Education -Family and Literacy	84.002A	0541000171100015	168,066
Adult Basic Education - Corrections	84.002A	0541000171100015	13,700
Texas Higher Education Coordinating Board			
Carl Perkins Voc. Ed.	84.048	54236	201,498
East Texas Tech Prep Consortium			
Carl Perkins Voc. Ed.	84.048		22,220
Texas Higher Education Coordinating Board			
Leveraging Educational Assistance Program	84.069A		2,475
Special Leveraging Educational Assistance Program	84.069B		711
Byrd Scholarship Program	84.145		1,500
			<u>2,557,249</u>
Total U. S. Department of Education			
U.S. Department of Labor			
Pass Through From			
Deep East Texas Workforce Development Board	17.267	04-137	19,921
Total U. S. Department of Labor			
			<u>19,921</u>
Department of Health and Human Services			
Pass Through From			
Texas Education Agency			
Temporary Assistance to Needy Families (TANF)	93.558	53625017110014	19,213
East Texas Council of Governments			
Temporary Assistance to Needy Families (TANF 25)	93.558	PC-TANF-PY05-04	69,908
Texas Workforce Commission			
Self Sufficiency Grant	93.558	0804SSF000	307,515
Total Department of Health and Human Services			
			* <u>396,636</u>
Total Federal Financial Assistance			
			\$ <u>2,973,806</u>
Federal Grants and Revenues -Per Schedule A			
			<u>\$ 2,973,806</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
 SCHEDULE F
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended August 31, 2005

Grantor Agency/ Program Title	Grant Contract Number	Expenditures
Passed Through From:		
Texas Education Agency		
Adult Basic Education GR Adult Education	50100017110015	\$ 22,770
Adult Basic Education TANF	50100017110014	11,484
Sub-Total		<u>34,254</u>
Texas Workforce Commission		
Skills Development	0804SDF000	250,768
Sub-Total		<u>250,768</u>
Texas Higher Education Coordinating Board		
Texas Grant		151,130
Dramantic Enrollment Growth-Nursing		19,445
Texas Guaranteed Student Loan		8,125
PSIG Program		3,993
Professional Nursing		1,599
Nursing Innovation Grant	NIGP BCS3	34,142
Nursing Innovation Grant	ANET CUS3	32,483
Sub-Total		<u>250,917</u>
Total State Financial Assistance		<u>\$ 535,939</u>
State Grants and Revenues -Per Schedule A		<u>\$ 535,939</u>

**PANOLA COLLEGE
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED AUGUST 31, 2005**

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 pages 45 and 46 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.

Relationship to Federal and State Financial Reports

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

**PANOLA COLLEGE
COMPREHENSIVE ANNUAL FINANCIAL REPORT**



**STATISTICAL SECTION
(UNAUDITED)**

Table 1

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

Fiscal Year	Contact Hours		Total
	Academic	Vo-Tech	
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
2004-05	588,368	383,456	971,824

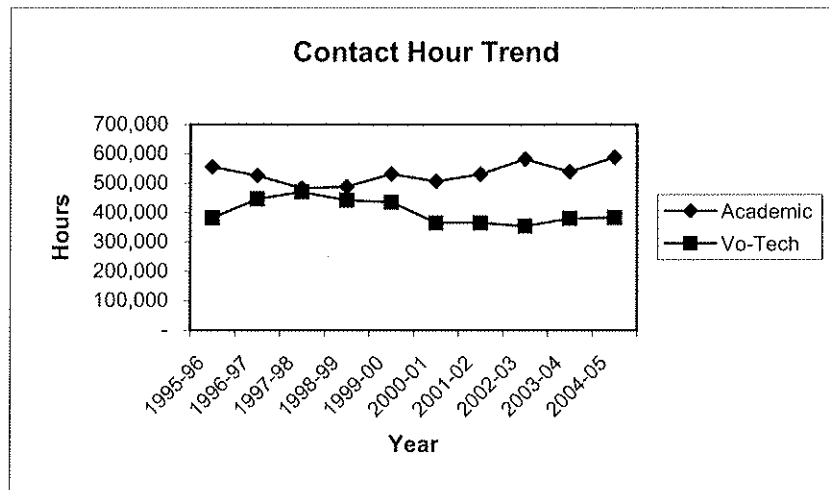
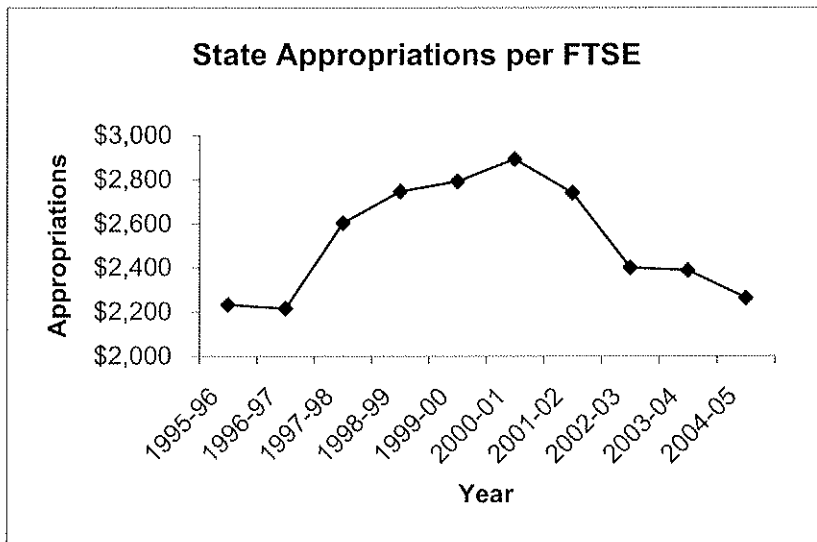


Table 2

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

Fiscal Year	State Appropriations Per FTSE
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
2004-05	\$ 2,263



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>
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
2004-05	5,311,643		368,519	1,620,323	940,144

- (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.

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>
\$ 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
1,540,545	3,787,827	2,744,007 (5)	1,835,063	230,390	18,378,461

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

<u>Fiscal Year</u>	<u>State Appropriations</u>	<u>Gross Tuition & Fees</u>	<u>Taxes for Current Operations</u>	<u>Federal & State Grants & Contracts</u>	<u>Investment Income</u>
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
2004-05	4,285,098	2,893,859 (6)	3,240,504	3,490,300	250,680

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.
- (6) Tuition & fees and auxiliary enterprises excludes discounts (scholarships) of \$1,259,071 and \$680,439 respectively.

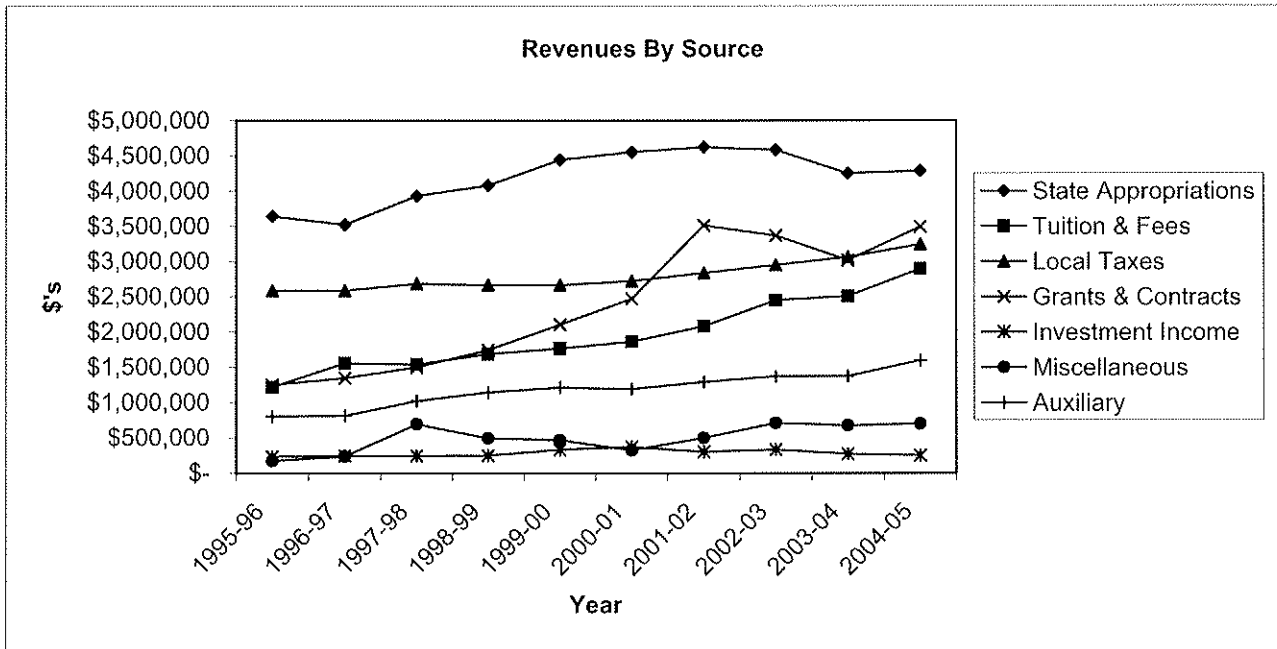


Table 4

<u>Miscellaneous</u> (2)	<u>Auxiliary Enterprises</u>	<u>Totals</u>
\$ 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
697,149	1,597,546 (6)	16,455,136

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

Fiscal year	Total Tax Levy	Current Tax Collections	% of Levy Collected	Delinquent Tax Collections	Total Tax Collections
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
2004-05	3,327,845	3,292,265	98.93%	44,019	3,336,284

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

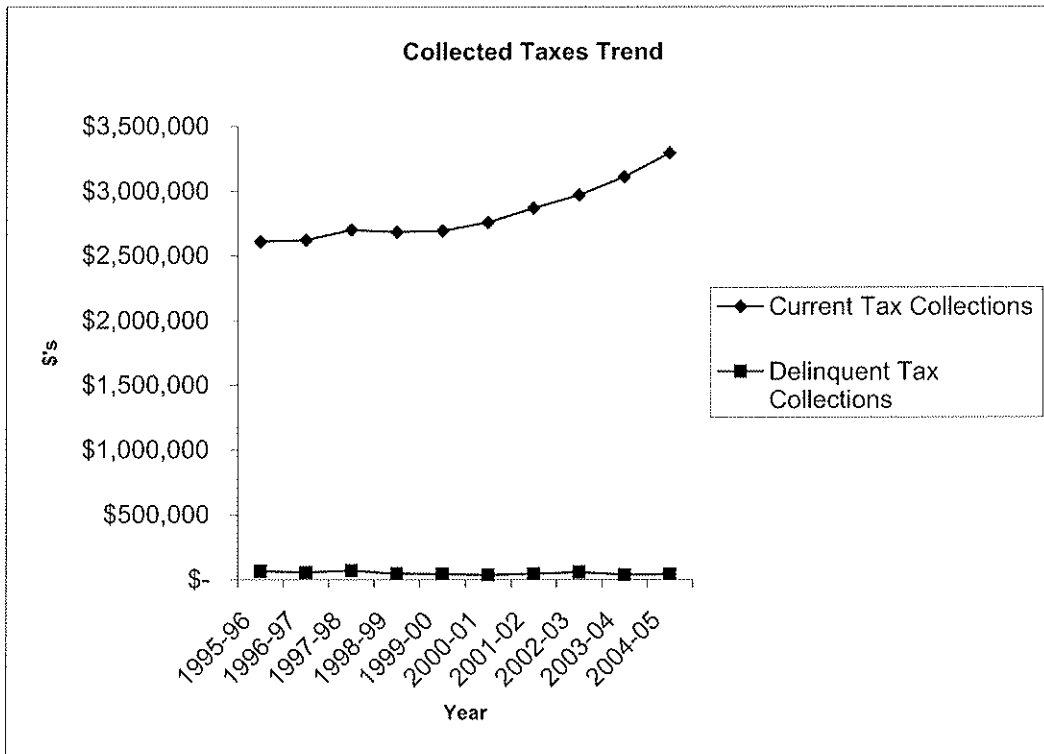


Table 5

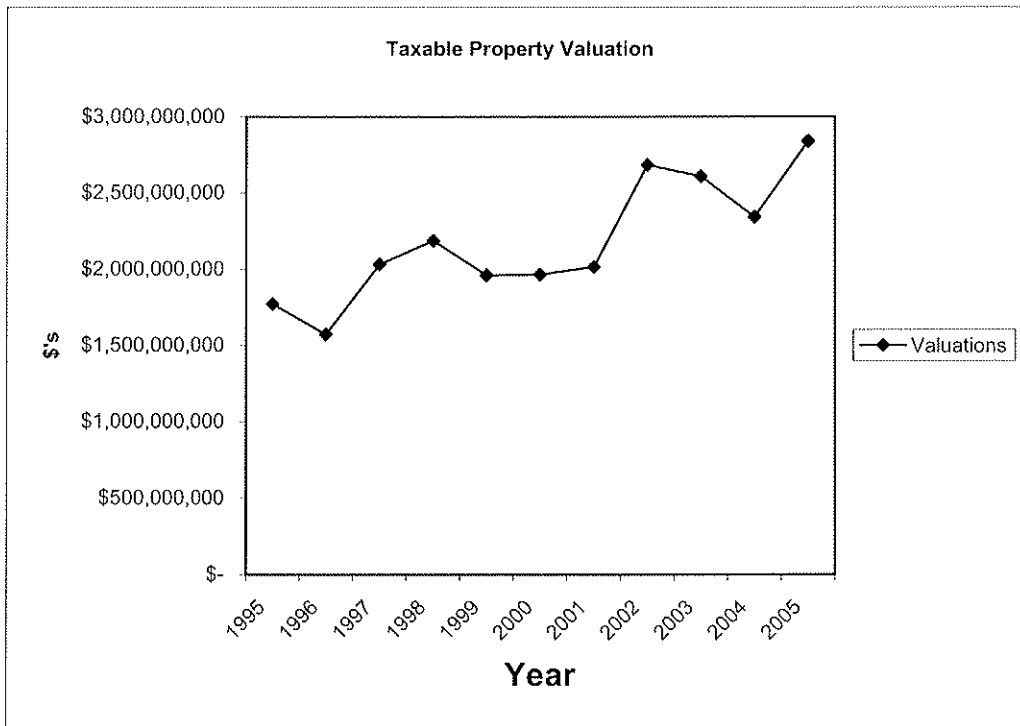
<u>% of Total Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>% of Delinquent Taxes to Levy</u>
100.62%	\$ 199,876	7.51%
100.23%	207,503	7.76%
100.83%	191,363	6.96%
99.36%	188,630	6.86%
99.35%	202,903	7.36%
99.62%	211,249	7.53%
100.22%	193,388	6.65%
99.54%	187,396	6.16%
99.61%	196,170	6.21%
100.25%	175,334	5.27%

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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)

Tax Roll Year	Taxable Value	Estimated Value	Ratio of Total Actual/ Total Estimated
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%
2005	2,840,185,064	2,840,185,064	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			
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
2004-05	0.11717		0.11717	0.3811	0.41130

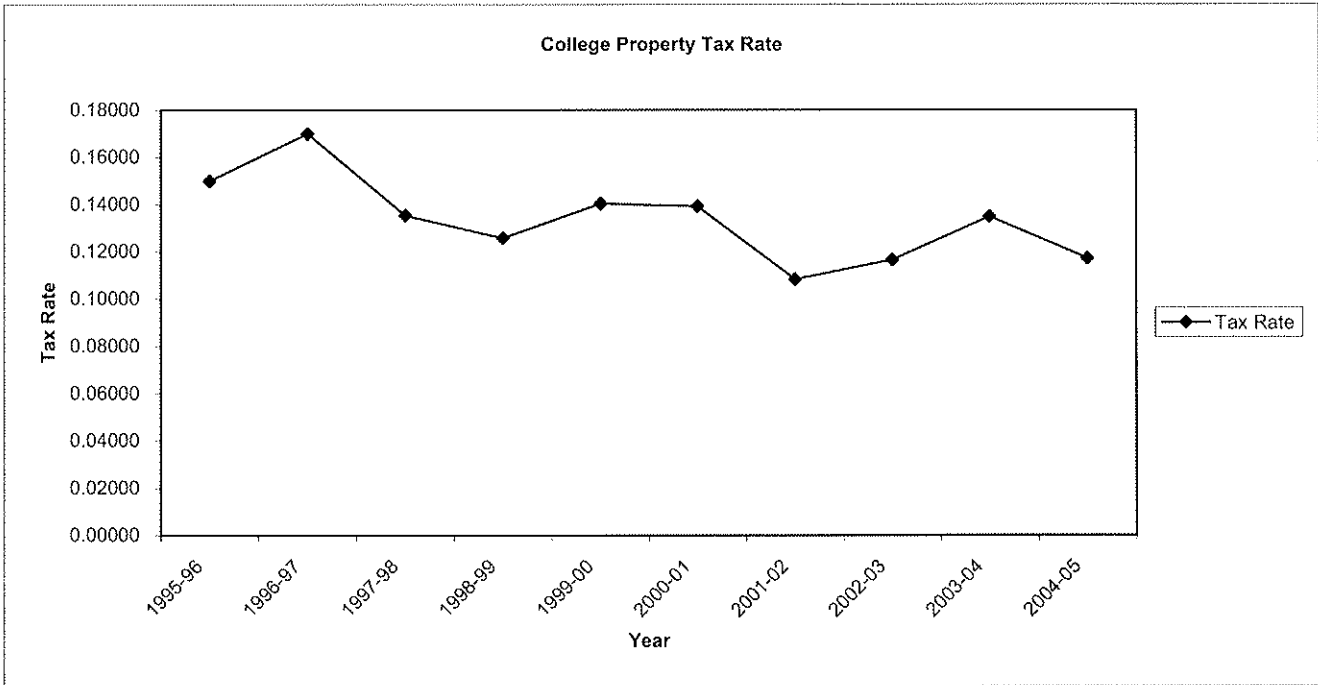


Table 7

Independent School Districts (Average)	Emergency Services District	Total
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
1.43387	0.01700	2.36044

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

Fiscal Year	(1) 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
1995-96	22,700	1,572,994	130,000	25,517	104,483	0.007%	4.60
1996-97	23,402	2,031,345	105,000	25,517	79,483	0.004%	3.40
1997-98	23,100	2,186,981	80,000	25,517	54,483	0.002%	2.36
1998-99	23,200	1,961,427	55,000	25,517	29,483	0.002%	1.27
1999-00	22,949	1,964,306	30,000	25,517	4,483	0.000%	0.20
2000-01	22,756	2,016,246	0	0	0	0.000%	0.00
2001-02	22,689	2,683,865	0	0	0	0.000%	0.00
2002-03	22,606	2,610,848	0	0	0	0.000%	0.00
2003-04	22,855	2,342,817	0	0	0	0.000%	0.00
2004-05	22,734	2,840,185	2,500,000	0	2,500,000	0.088%	109.97

Sources: (1) 1995, 1997 & 1998 based on Sales and Marketing Management Publication.
1996 based on Texas State and Local Government Fiscal 1996 Debt Report.
2000 Federal Bureau of Census.
2002 Texas State Data Center Texas A & M University.
2003 Texas Almanac
Other years estimated.

(2) Panola County Appraisal District.

**PANOLA COLLEGE
COMPUTATION OF LEGAL DEBT MARGIN
AUGUST 31, 2005
(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, 2005, 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, 2005
 (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	\$0	100.00%	\$0
Sub total-Direct	<u>0</u>		<u>0</u>
Overlapping:			
Panola County	0	100.00%	0
City of Carthage	15,440,000	100.00%	15,440,000
City of Beckville	170,000	100.00%	170,000
Carthage ISD	6,660,000	100.00%	6,660,000
Gary ISD	1,660,000	100.00%	1,660,000
Beckville ISD	4,740,000	100.00%	4,740,000
Elysian Fields ISD	1,100,000	52.55%	578,050
Tatum ISD	4,720,000	2.27%	107,144
Tenaha ISD	0	4.75%	0
Joaquin ISD	2,395,000	5.05%	120,948
Sub total-Overlapping	<u>36,885,000</u>		<u>29,476,142</u>
Total Direct and Overlapping Debt	<u>\$36,885,000</u>		<u>\$29,476,142</u>

(1) Respective entities and auditors of respective entities.

(2) Texas Municipal Reports

Table 11

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>
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	0	0	15,590,400	0.00%
2003-04	0	0	0	14,299,512	0.00%
2004-05	0	0	0	18,378,461	0.00%

(1) Represents government wide expenditures

Table 12

PANOLA COLLEGE
 PRINCIPAL TAXPAYERS
 AUGUST 31, 2005
 (UNAUDITED)

<u>Taxpayer (1)</u>	<u>Type of Business</u>	<u>2005 Assessed Valuation (1) (in 1,000's)</u>	<u>Percentage of Total Assessed Valuation</u>
Anadarko E&P Company	Petroleum	\$318,662	11.22%
Devon Energy	Petroleum	230,103	8.10%
Chevron USA, Inc.	Petroleum	212,807	7.49%
BP Amoco Corporation	Petroleum	101,281	3.57%
Lacy R. Inc.	Petroleum	84,436	2.97%
Devon Louisiana Corporation	Petroleum	83,181	2.93%
Exxon Corp.	Petroleum	79,577	2.80%
EOG Resources	Petroleum	77,604	2.73%
Samson Lone Star	Petroleum	60,200	2.12%
TXU Mining Company LP	Coal Mining	56,168	1.98%
Totals (45.91% of Actual Value of \$2,840,185,064)		<u>\$1,304,019</u>	<u>45.91%</u>

(1) Panola County Appraisal District

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

<u>Calendar Year</u>	<u>Popula- tion (1)</u>	<u>Median Age (2)</u>	<u>Median Household Effective Buying Income (2)</u>	<u>Unemploy- ment Rate (3)</u>
1995	22,700	36.1	\$21,027	12.9%
1996	23,402	36.1	\$22,899	8.5%
1997	23,100	36.1	\$21,027	9.8%
1998	23,200	36.1	\$25,781	10.6%
1999	22,949	36.1	\$23,651	9.5%
2000	22,756	36.1	\$25,059	5.7%
2001	22,689	37.1	\$31,909	6.9%
2002	22,606	37.1	\$32,209	6.6%
2003	22,855	39.0	\$30,230	8.1%
2004	22,734	39.0	\$30,505	6.1%

Sources: (1) 1995, 1997 & 1998 based on Sales and Marketing Management Publication.
 1996 based on Texas State and Local Government Fiscal 1996 Debt Report.
 2000 Federal Bureau of Census.
 2002 Texas State Data Center Texas A & M University.
 2003 Texas Almanac
 Other years estimated.

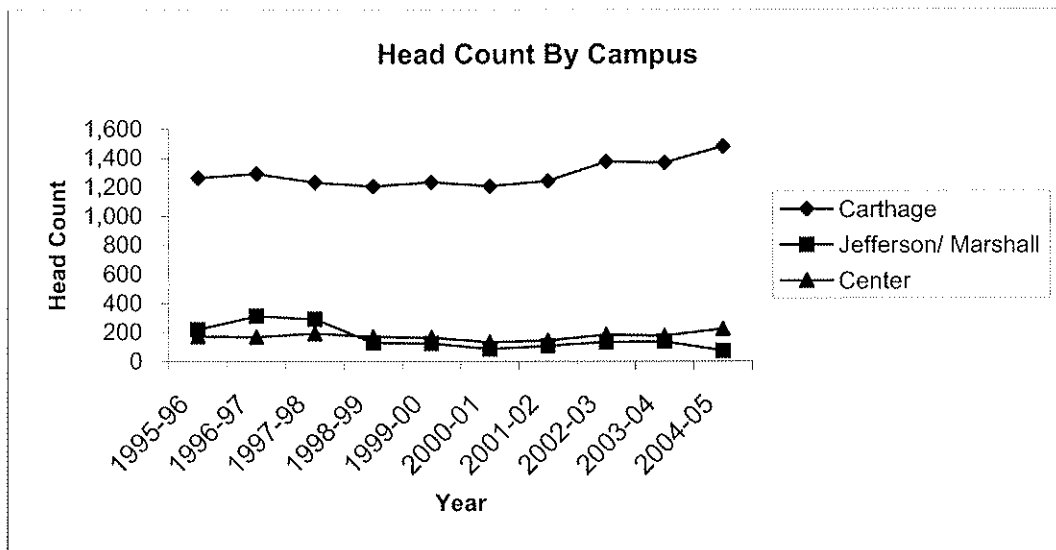
(2) Federal Bureau of Census, East Texas Council of Governments, Regional
 Economic Information System Bureau of Economic Analysis and
 Estimates.

(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>
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
2004-05	1,481	75	224	1,780

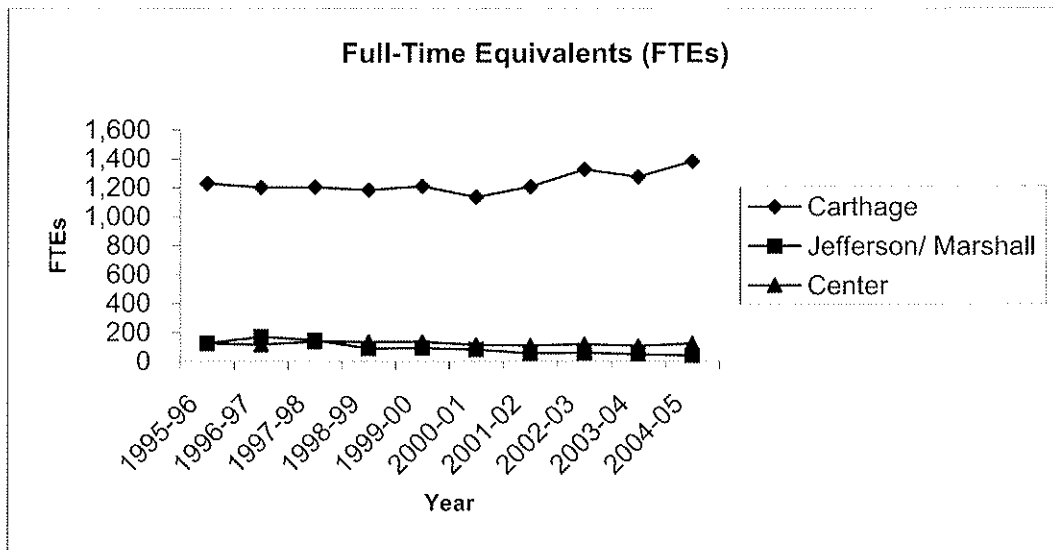


The above information reflects the fall semester statistics for the respective fiscal years.

Table 14

Full-Time Equivalents (FTEs):

<u>Fiscal Year</u>	<u>Carthage</u>	<u>Jefferson/ Marshall</u>	<u>Center</u>	<u>Total</u>
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
2004-05	1,383	40	124	1,547



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

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
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%
2004-05	52%	47%	33%	67%	31%	68%	1%

Fiscal Year	Average Age of Student	Ethnic Background				
		Asian	Black	Hispanic	White	Other
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	0.5%	17%	2%	80%	0.5%
2001-02	23.6	1.0%	18%	2%	78%	1.0%
2002-03	24.1	1.0%	19%	3%	76%	1.0%
2003-04	23.5	0.0%	19%	3%	77%	1.0%
2004-05	23.0	0.0%	18%	4%	77%	1.0%

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>
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%
2004-05	\$252	\$252	\$504	7.7%

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

Out-of-District Fees	\$23 per Semester Hour
Out-of-State Fees	\$36 per Semester Hour
Regular Laboratory Fees	\$20
Special Laboratory Fees: Photography, Welding, Cosmetology, and Nursing	\$5-\$185
Private Music Lessons	\$50-\$75
Building use fee for off campus sites	\$3 per Semester Hour

Table 17

PANOLA COLLEGE
 FACULTY STATISTICS
 AUGUST 31, 2005
 (UNAUDITED)

<u>Years of Experience</u>	<u>Number of Full Time Faculty</u>	<u>Percentage of Total</u>
0-5 years	26	42.62%
6-10 years	12	19.67%
11-15 years	8	13.11%
16-20 years	8	13.11%
More than 21 years	7	11.48%
	<u>61</u>	<u>100.00%</u>

	<u>Number of Full Time Faculty</u>	<u>Percentage of Total</u>
Less than Bachelor's	5	8.20%
Bachelor's	10	16.39%
Master's	40	65.57%
Doctorate	6	9.84%
	<u>61</u>	<u>100.00%</u>

PANOLA COLLEGE COMPREHENSIVE ANNUAL FINANCIAL REPORT



SINGLE AUDIT SECTION

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ROBINSON & WILLIAMS, P.L.L.C.

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CARTHAGE, TEXAS 75633

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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**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, 2005, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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*.

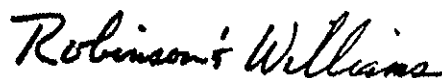
Internal Control Over Financial Reporting

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, 2005, 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 and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



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

November 4, 2005

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

Board of Trustees
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 and state programs for the year ended August 31, 2005. Panola College's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations contracts and grants applicable to each of its major federal and state 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 Organization*, and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133, and the State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or major state program occurred. An audit includes examining, on a test basis, evidence about 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 and state programs for the year ended August 31, 2005.

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 and state 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 or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular.

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

This report is intended for the information of the administration, trustees, the Texas Higher Education Coordination Board, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Robinson & Williams

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

November 4, 2005

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**PANOLA COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2005**

- 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 federal 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. **Major state programs of Panola College consisted of the Texas Grant Program.**
 - i. **The dollar threshold used to distinguish between Type A Type B programs for federal and state programs was \$300,000.**
 - j. **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 and State Awards**
- NONE
- IV. **Status of Prior Audit Findings**
- There are no outstanding findings.**

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