

TEXAS SOUTHMOST COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

For The Years Ended August 31, 2021 and 2020

Prepared by the Office of the
Vice President of Finance and Administration

TEXAS SOUTHMOST COLLEGE DISTRICT

TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
District Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS	
Exhibit 1 - Statement of Net Position	14
Exhibit 2 - Statement of Revenues, Expenses and Changes in Net Position	15
Exhibit 3 - Statement of Cash Flows	16
Notes to the Financial Statements	18
REQUIRED SUPPLEMENTARY SECTION	
RSI 1 - Schedule of District's Share of Net Pension Liability	49
RSI 2 - Schedule of District's Pension Contributions	50
Notes to the Required Supplementary Information - Pensions	51
RSI 3 - Schedule of District's Share of Net OPEB Liability	52
Employee Retirement System of Texas - State Retiree Health Plan	
RSI 4 - Schedule of District's Pension Contributions	53
Employee Retirement System of Texas - State Retiree Health Plan	
Notes to the Required Supplementary Information - OPEB	54
SUPPLEMENTARY SECTION	
Schedule A - Schedule of Operating Revenues	55
Schedule B - Schedule of Operating Expenses by Object	56
Schedule C - Schedule of Non-Operating Revenues and Expenses	57
Schedule D - Schedule of Net Position by Source and Availability	58
SINGLE AUDIT SECTION	
Schedule E - Schedule of Expenditures of Federal Awards	60
Notes to the Schedule of Expenditures of Federal Awards	62
Schedule F - Schedule of Expenditures of State Awards	63
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	64
Independent Auditors' Report on Compliance for Each Major Federal and State Program and on Internal Control Over Compliance Required By the Uniform Guidance and the State of Texas Single Audit Circular	66
Schedule of Findings and Questioned Costs	68
Summary Schedule of Prior Audit Findings	69

FINANCIAL SECTION



Cascos & Associates, PC

Certified Public Accountants
Audit/Accounting/Tax/Consulting

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Texas Southmost College District
Brownsville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Texas Southmost College District (the "District"), as of and for the years ended August 31, 2021, and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of August 31, 2021 and 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



765 East 7th Street / Brownsville, Texas 78520
Phone (956) 544-7778 Fax (956) 544-8465
Email: ccascos@cascoscpa.com



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other post-employment benefits information on pages listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards and the schedule of expenditures of state awards are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Texas Uniform Grant Management Standards (UGMS) and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Cascos & Associates, PC
Brownsville, Texas
December 30, 2021

**TEXAS SOUTHMOST COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2021**

Management Discussion and Analysis is included to provide a narrative introduction, overview and analysis of the financial position and changes in financial position of the Texas Southmost College District (the "District") for the fiscal year ended August 31, 2021. The discussion is prepared by management and should be read in conjunction with the accompanying financial statements and notes.

USING THIS ANNUAL REPORT

The financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) and comply with reporting requirements as set by the Texas Higher Education Coordinating Board (THECB). The annual financial report is presented in a "business-type activity" format. The statements are prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided by the District and expenses and liabilities are recognized when services are provided to the District, regardless of when cash is exchanged. The notes to the financial statements are considered an integral part of the financial statements and should be read in conjunction with them. Management is responsible for both the accuracy of the data and the completeness and fairness of the presentation of the financial statements and notes.

The District's annual financial report consists of three basic financial statements: the Statement of Net Position provides a summary of assets, liabilities and net position as of August 31, 2021; the Statement of Revenues, Expenses and Changes in Net Position provides a summary of operations for the fiscal year; and the Statement of Cash Flows provides categorized information about cash inflows and outflows for the fiscal year. Fiscal years ended August 31, 2021 and 2020 are presented in the audited financial statements. The discussion and analysis is limited to the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position for the primary government and is designed to focus on current activities, the resulting change, and currently known facts.

The Statement of Net Position

The Statement of Net Position includes all the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources and change in net position as of the end of the fiscal year. The difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources is the net position. Increases and decreases to net position is one indicator of whether the overall financial condition has improved or deteriorated during the year when considered with other factors such as enrollment, contact hours of instruction, student retention, and other non-financial information. Finally, the statement of net position is useful when determining the assets available for continuing the District's operations as well as how much the District owes to vendors, bondholders, and other entities at the end of the year.

The Statement of Net Position includes assets and liabilities, current and non-current. Current assets are those which are available to satisfy current liabilities or liabilities that are due within one year. Non-current assets include capital assets, long-term investments, and other assets, not classified as current. Non-current liabilities include bonds payable and other long-term commitments.

The net position is divided into three major categories. The first category, net investment in capital assets, represents the District's net investment in property, plant and equipment owned by the institution.

The next category is restricted net position, which is further divided into two categories: nonexpendable and expendable. Expendable restricted net position are available for expenditures but must be spent in accordance with the restrictions of donors and other external entities. The District only has expendable restricted net position. The final category is unrestricted net position which are assets available to the institution for any lawful purpose of the District. Further detail regarding assets, liabilities and net position is presented in the Statement of Net Position and Notes to the financial statements.

The Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position represents the District's overall results of operations. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred regardless of when the cash is received or paid. The statement is divided into operating revenues and expenses and non-operating revenues and expenses. The District is primarily dependent upon four sources of revenues: state allocations, tuition and fees, grants and contracts and property taxes. Since state allocations and property taxes are classified as non-operating revenues (per GASB requirements), the District will generally display an operating deficit before taking into account its non-operating revenues. Therefore, total revenues and total expenses should be considered in assessing the change in the District's financial position. When total revenues exceed total expenses, the result is an increase in net position. When the contrary occurs, the result is a decrease in net position. Further detail is presented in the Statement of Revenues, Expenses and Changes in Net Position and in the notes to the financial statements.

The District's net position (the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources) provides one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, non-financial factors should be considered as well, such as changes in the District's enrollment, property tax base, and the condition of the District's facilities.

The Statement of Cash Flows

The Statement of Cash Flows provides the District's cash receipts and payments for the year. This statement is not intended to replicate, on a cash basis, the operating statement. Instead, it is intended to compliment the accrual-basis financial statements by providing functional information about financing, capital and investing activities. The cash flow approach concentrates on the underlying nature of a transaction.

The information contained in the Statement of Cash Flows assesses the District's ability to generate future net cash flows, meet obligations as they come due and needs for external financing. In addition, differences between operating income, associated cash receipts and payments, and the effects on the financial position of both its cash and its non-cash investing, capital and financing transactions can be identified.

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 49 of this report.

FINANCIAL ANALYSIS

Statement of Net Position

The following analysis focuses on the Statement of Net Position, which is condensed in Table 1. The complete Statement of Net Position can be found on page 14.

TABLE 1
CONDENSED STATEMENT OF
NET POSITION
(in millions)

	Year Ended August 31, 2021	Year Ended August 31, 2020	Year Ended August 31, 2019
Current Assets	\$ 84.6	\$ 80.2	\$ 81.7
Noncurrent Assets			
Restricted Cash and Cash Equivalents	10.5	8.5	10.3
Capital Assets (net)	<u>125.3</u>	<u>125.7</u>	<u>121.0</u>
Total Assets	<u>220.4</u>	<u>214.4</u>	<u>213.0</u>
Deferred Outflows of Resources	10.4	33.3	34.5
Current Liabilities	14.9	13.9	13.3
Noncurrent Liabilities	<u>69.9</u>	<u>82.9</u>	<u>82.4</u>
Total Liabilities	<u>84.8</u>	<u>96.8</u>	<u>95.7</u>
Deferred Inflow of Resources	6.1	8.7	7.7
Net Position			
Net Investment in Capital Assets	84.4	80.0	70.7
Restricted	31.7	21.7	32.8
Unrestricted	<u>23.8</u>	<u>40.5</u>	<u>40.6</u>
Total Net Position	<u>\$ 139.9</u>	<u>\$ 142.2</u>	<u>\$ 144.1</u>

Total Assets increased by \$6.0 million in fiscal year 2021. Current Assets increased by \$4.4 million, primarily due to an increase in Cash and cash equivalents. Noncurrent Assets increased by \$1.6 million and was primarily due to an increase in Restricted Cash and cash equivalents.

At the end of fiscal year 2021, total liabilities decreased by \$12.0 million. Current Liabilities increased by \$1.0 million primarily due to an increase in Accounts payable and Unearned revenue. Noncurrent Liabilities decreased by \$13.0 million primarily due to decreases in Net OPEB Liability.

Changes in assets, liabilities and net position are attributable to the requirements of GASB 68 and 75. Deferred outflows (an asset) decreased by \$22.9 million and deferred inflows (a liability) decreased \$2.6 million.

Total Net Position (assets and deferred outflows of resources and liabilities and deferred inflows of resources) decreased by \$4.2 million over the prior three fiscal years. The District experienced a decrease of approximately \$2.3, \$1.9 million, and an increase of approximately \$1.8 million, in fiscal years 2021, 2020 and 2019, respectively. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – represents \$23.8 million of total net position at August 31, 2021.

Statement of Revenues, Expenses and Changes in Net Position

The following analysis focuses on the Statement of Revenues, Expenses and Changes in Net Position presented in condensed form in Table 2. The complete Statement of Revenues, Expenses and Changes in Net Position can be found on page 15.

TABLE 2
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(in millions)

	Year Ended August 31, 2021	Year Ended August 31, 2020	Year Ended August 31, 2019
Operating Revenues	\$ 20.4	\$ 10.0	\$ 10.1
Operating Expenses	(63.9)	(62.4)	(51.7)
Non-operating Revenue	50.6	52.2	45.4
Non-operating Expenses	(1.5)	(1.7)	(2.0)
Increase (Decrease) in Net Position	5.6	(1.9)	1.8
Net Position - Beginning of Year	142.2	144.1	142.3
Prior Period Adjustment	(7.9)	-	-
Net Position - Beginning of Year (restated)	134.3	144.1	142.3
Net Position - End of Year	<u>\$ 139.9</u>	<u>\$ 142.2</u>	<u>\$ 144.1</u>

Table 3 details the District's sources of operating revenue. The key sources of operating revenues are: Tuition and Fees (net) and Grants and Contracts.

TABLE 3
OPERATING REVENUE
(in millions)

	Year Ended August 31, 2021		Year Ended August 31, 2020		Year Ended August 31, 2019	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Tuition and Fees (net)	\$ 3.6	17.6%	\$ 2.4	24.0%	\$ 3.2	31.7%
Grants and Contracts	16.5	80.9%	7.2	72.0%	6.6	65.3%
Auxiliary Enterprises	<u>0.3</u>	<u>1.5%</u>	<u>0.4</u>	<u>4.0%</u>	<u>0.3</u>	<u>3.0%</u>
Total Operating Revenue	<u>\$ 20.4</u>	<u>100.0%</u>	<u>\$ 10.0</u>	<u>100.0%</u>	<u>\$ 10.1</u>	<u>100.0%</u>

Operating revenues were affected by the following key factors:

- Gross Tuition & Fees revenue decreased when compared to the prior year, however, the District saw a decrease in Scholarship Allowances and Discounts (waivers) as well. As a result, Tuition and Fee (net) revenue increased overall, when compared to the prior year.
- Grants and Contracts increased significantly when compared to fiscal year 2020. Federal Grants and Contracts increased as a result of COVID 19 related funding. Title IV revenue (financial aid) is received directly by the District for the payment of tuition and fees and allocation of student aid to the District students, and is categorized as non-operating revenue.

Table 4 details the District's sources of non-operating revenues. The key sources of non-operating revenues are state appropriations and ad valorem taxes.

TABLE 4
NON-OPERATING REVENUE
(in millions)

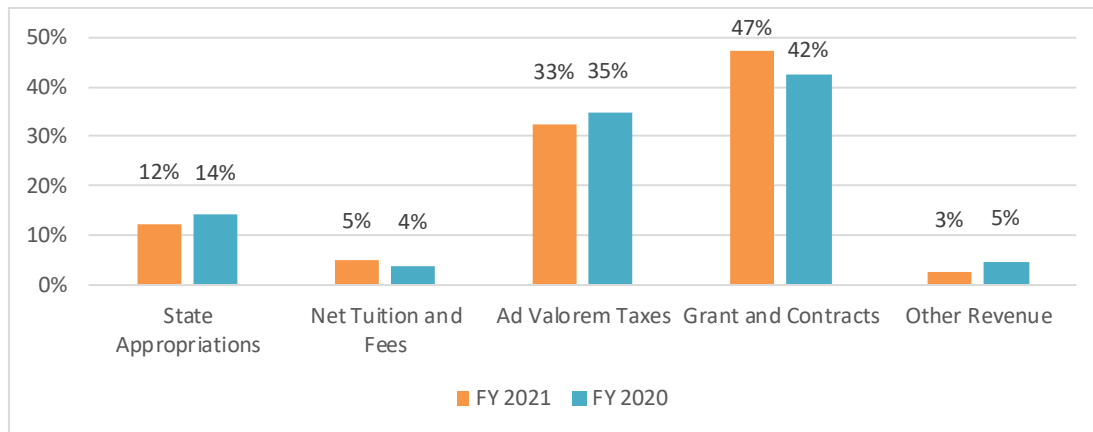
	Year Ended August 31, 2021		Year Ended August 31, 2020		Year Ended August 31, 2019	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
State Appropriations	\$ 8.7	17.2%	\$ 8.8	16.9%	\$ 6.5	14.3%
Title IV	17.2	34.0%	19.1	36.6%	15.8	34.8%
Ad Valorem Taxes	23.1	45.7%	21.7	41.6%	20.4	44.9%
Investment Income	0.4	0.8%	1.2	2.3%	1.1	2.4%
Other Non-Operating Revenue	<u>1.2</u>	<u>2.4%</u>	<u>1.4</u>	<u>2.7%</u>	<u>1.6</u>	<u>3.5%</u>
Total Non-Operating Revenue	<u>\$ 50.6</u>	<u>100.0%</u>	<u>\$ 52.2</u>	<u>100.0%</u>	<u>\$ 45.4</u>	<u>100.0%</u>

Non-operating revenues were affected by the following key factors:

- State appropriations remained comparable to the prior fiscal year. The State of Texas finalized the allocation of appropriations during the prior fiscal year and management had estimated this impact and adjusted the fiscal year 2021 budget accordingly.
- The Title IV revenue decreased \$1.9 million. It represents financial aid received directly by the District for the payment of tuition and fees and allocation of student aid to the District's students.
- Property tax revenue increased by about \$1.4 million from fiscal year 2020 to fiscal year 2021 as a result of an increase in current and delinquent tax collections. Property tax revenue increased \$1.3 million from fiscal year 2019 to fiscal year 2020. The tax rates for the District were \$0.162407, \$0.162407, and \$0.162407, per \$100 valuation for the fiscal years ended 2021, 2020 and 2019, respectively.
- Other Non-Operating Revenue remained consistent for fiscal years 2021 and 2020.
- Investment income for FY 2021 decreased by \$0.8 million. Late in fiscal year 2019, the District began using LOGIC, a public funds investment pool. In fiscal year 2021, the District supplemented its investments with Certificates of Deposit.

Key sources of revenue in total for the District are state allocations, grants and contracts, property taxes, and tuition and fees (net of scholarship discounts). Table 5 shows a comparison of the breakdown of total revenues by source for the District in Fiscal Years 2021 and 2020.

TABLE 5
TOTAL REVENUES



In fiscal year 2021 and 2020, Grant and Contracts were the largest source at 47% and 42% primarily due to federal, state and local aid received by the District in fiscal years 2021 and 2020, respectively. State Appropriations were 12% and 14% in fiscal years 2021 and 2020 of total revenues. Net Tuition and Fees in fiscal year 2021 and 2020 were 5% and 4%. Ad Valorem taxes remained consistent at 33% and 35% in fiscal years 2021 and 2020. Other Revenue was 3% and 5% in fiscal year 2021 and 2020, respectively.

Table 6 displays the breakdown of operating expenses by natural classification for the District.

TABLE 6
OPERATING EXPENSES
Natural Classification (in millions)

	Year Ended August 31, 2021	Year Ended August 31, 2020	Year Ended August 31, 2019
Salaries	\$ 18.9	\$ 19.3	\$ 18.0
Benefits	10.3	13.5	8.6
Other Expenses	30.9	25.9	21.5
Depreciation	3.8	3.7	3.6
Total Operating Expenses	<u>\$ 63.9</u>	<u>\$ 62.4</u>	<u>\$ 51.7</u>

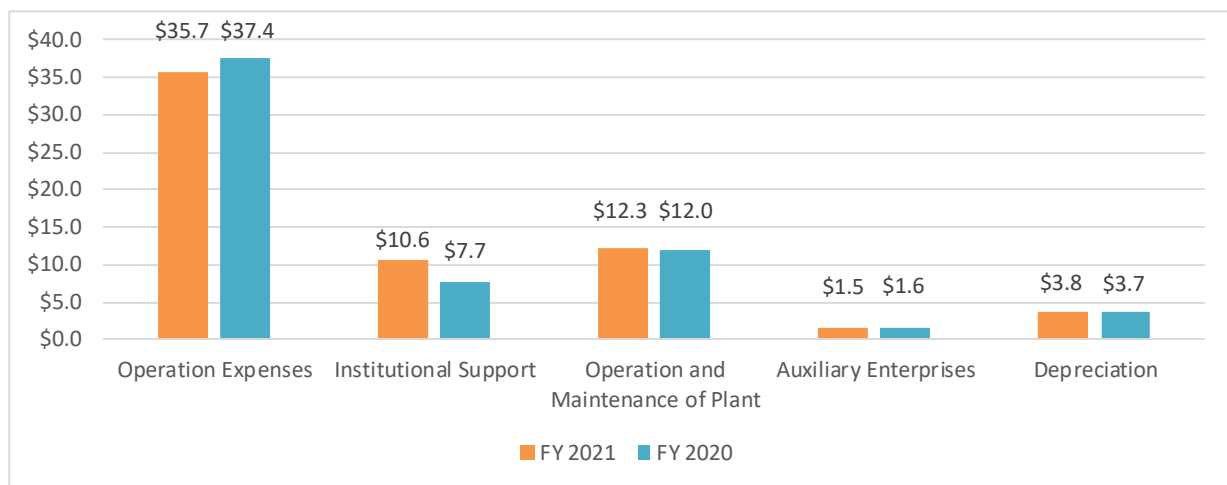
Table 7 displays the breakdown of the District's expenses by functional classification.

TABLE 7
OPERATING EXPENSES
Functional Classification (in millions)

	Year Ended August 31, 2021	Year Ended August 31, 2020	Year Ended August 31, 2019
Instruction	\$ 13.4	\$ 14.9	\$ 12.3
Public service	2.5	2.5	2.0
Academic support	3.5	3.7	3.4
Student services	4.2	5.1	4.1
Institutional support	10.6	7.7	10.9
Operations and maintenance of plant	12.3	12.0	6.6
Scholarships and fellowships	12.1	11.2	7.2
Total Educational Activities	58.6	57.1	46.5
Depreciation	3.8	3.7	3.6
Auxiliary enterprises	1.5	1.6	1.6
Total Operating Expenses	\$ 63.9	\$ 62.4	\$ 51.7

Table 8 displays a comparison of the breakdown of the expenses by functional classification for the District in fiscal years 2021 and 2020.

TABLE 8
OPERATING EXPENSES
Functional Classification (in millions)



Statement of Cash Flows

The Condensed Statement of Cash Flows appears in Table 9. The complete Statement of Cash Flows appears in page 16 and 17 of this report.

TABLE 9
CONDENSED STATEMENT OF
CASH FLOWS
(in millions)

	Year Ended August 31, 2021	Year Ended August 31, 2020	Year Ended August 31, 2019
Cash provided/ used by:			
Operating Activities	\$ (32.0)	\$ (39.0)	\$ (37.7)
Non-Capital Financing Activities	44.1	44.4	38.3
Capital and Related Financing Activities	(3.6)	(8.0)	(1.1)
Investing Activities	6.6	(31.1)	(19.3)
Net Increase (Decrease) In Cash	15.1	(33.7)	(19.8)
Cash-Beginning of the Year	19.7	53.4	73.2
Cash-End of Year	<u>\$ 34.8</u>	<u>\$ 19.7</u>	<u>\$ 53.4</u>

Total Cash and Cash Equivalents increased by \$15.1 million in fiscal year 2021 and decreased by \$33.7 million in fiscal year 2020. Major factors impacting cash and cash equivalents are described below by source, but primarily impacted by Investing Activities.

Operating Activities: During fiscal year 2021 and fiscal year 2020, cash flows from operations resulted in an outflow of \$32.0 and \$39.0 million, respectively. The major source of cash receipts was from students & customers and grants & contracts (\$3.8 / \$18.8 million in 2021 and \$2.2 / \$7.2 million in 2020). The District's major cash outlay was for payments to suppliers for goods & services (\$36.0 million in 2021 and \$31.1 million in 2020) and for payments related to employees (\$18.8 in 2021 and \$19.2 in 2020).

Non-Capital Financing Activities: The District had a positive cash flow of \$44.1 in fiscal year 2021 and \$44.4 in fiscal year 2020 from the collection of Title IV allocations, property taxes and receipt of state appropriations. Property taxes were collected at a rate of 97.63% and 96.62% of the current year's tax levy for fiscal year 2021 and fiscal year 2020, respectively. (See table 10 below for more information on property taxes.)

Capital and Related Financing Activities: Capital and related financing activities resulted in a net cash outflow of \$3.7 million and \$8.0 million, for fiscal years 2021 and 2020, respectively. Cash outflows of \$9.6 million and \$13.9 million resulted from principal & interest payments and acquisition of capital assets, for fiscal years 2021 and 2020, respectively. In addition, cash inflows of \$5.9 million were recognized from the collection of property taxes for both fiscal years 2021 and 2020.

Investing Activities: Cash flows from investing activities represent investment earnings generated from the District's various checking and certificate of deposit accounts. The District recognized cash inflow of \$6.6 million and cash outflow of \$31.1 million for fiscal years 2021 and 2020, respectively. The District participates in a public funds investment pool (LOGIC), purchases certificates of deposits and maintains demand deposit accounts.

Property taxes are an essential source of revenue for the District. The following table provides information regarding tax collection and assessed valuation for the District.

TABLE 10
PROPERTY TAX INFORMATION

	Year Ended August 31, 2021	Year Ended August 31, 2020	Year Ended August 31, 2019
Total Tax Rate per \$100	\$ 0.162407	\$ 0.162407	\$ 0.162407
Total Tax Collections	\$ 23,095,338	\$ 21,740,862	\$ 20,474,776
Tax Collection Rate	97.63%	96.62%	96.43%
Net Assessed Valuation	\$ 13,771,801,467	\$ 12,836,688,690	\$ 11,143,565,065

The District's total tax collections increased by approximately 6.2%, due to an increase in Net Assessed Valuations. The Texas Southmost College Board of Trustees adopted a \$0.162407 and \$0.162407 per \$100 valuation tax rate for fiscal year 2021 and 2020, respectively. Overall, the District's tax collection rate has remained strong over the past three years.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of Fiscal Year 2021, the District had approximately \$125.3 million (net of accumulated depreciation and amortization) invested in a broad range of capital assets, including instructional and athletic facilities, maintenance of buildings, equipment, and computer software. The decrease in capital assets primarily relates to the depreciation and amortization of existing capital assets.

Note 5 of the financial statements, which begins on page 25, provides further detailed information regarding the District's capital assets. Table 11 summarizes capital asset activity for the year ended August 31, 2021.

TABLE 11
CAPITAL ASSETS
(in millions)

	Balance September 1, 2020	Increases	Decreases	Balance August 31, 2021
Not Depreciated	\$ 13.8	\$ 2.4	\$ -	\$ 16.2
Buildings and Other Capital Assets	184.6	1.0	-	185.6
Less: Accumulated Depreciation	(72.7)	(3.8)	-	(76.5)
Net Capital Assets	<u>\$ 125.7</u>	<u>\$ (0.4)</u>	<u>\$ -</u>	<u>\$ 125.3</u>

Debt

The District's general obligation bond ratings, as assigned by *Fitch Ratings* and *Standard and Poor's* are AA- and A+ respectively. The District's revenue bond rating is A+, as assigned by *Standard and Poor's*.

At year-end, the District had approximately \$40.9 million in total bonds payable. Notes 6 through 8 of the financial statements which begin on page 27 provide further detailed information regarding the District's debt obligations. Table 12 summarizes these amounts by type of debt instrument.

TABLE 12
BONDS PAYABLE
(in millions)

	Balance September 1, 2020	Increases	Decreases	Balance August 31, 2021
General obligations	\$ 35.1	\$ -	\$ (4.0)	\$ 31.1
Revenue bonds	10.6	-	(0.8)	9.8
Unamortized premiums	5.1	-	(0.9)	4.2
Total bonds payable	<u>\$ 50.8</u>	<u>\$ -</u>	<u>\$ (5.7)</u>	<u>\$ 45.1</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board of Trustees adopted the prior year tax rate for fiscal year 2021, which is generally attributed as no increases in taxes, unless property values increase. Collections are projected to remain strong. Expenditures are expected to stay in line with the projected overall increase in revenues as the institution strives to meet instructional as well as campus improvement needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Texas Southmost College District Office at (956) 295-3600.

BASIC FINANCIAL STATEMENTS

**TEXAS SOUTHMOST COLLEGE DISTRICT
STATEMENT OF NET POSITION**

	August 31, 2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 24,239,656	\$ 11,232,684
Investments	49,776,668	55,930,199
Accounts receivable (net)	10,212,883	12,560,705
Prepaid expenses	383,215	478,912
Total Current Assets	<u>84,612,422</u>	<u>80,202,500</u>
Noncurrent Assets		
Restricted cash and cash equivalents	10,569,716	8,467,887
Capital assets (net)	125,260,910	125,725,660
Total Noncurrent Assets	<u>135,830,626</u>	<u>134,193,547</u>
Total Assets	<u>220,443,048</u>	<u>214,396,047</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions	7,978,194	8,858,576
Deferred outflows related to OPEB	897,352	22,505,601
Deferred refunding costs	1,499,739	1,973,800
Total Deferred Outflows of Resources	<u>10,375,285</u>	<u>33,337,977</u>
LIABILITIES		
Current Liabilities		
Accounts payable	1,722,872	1,271,595
Accrued liabilities	548,083	355,098
Accrued compensable absences	489,348	544,015
Funds held for others	18,144	15,617
Unearned revenue	7,029,278	6,868,589
Bonds payable - current portion	5,100,000	4,875,000
Total Current Liabilities	<u>14,907,725</u>	<u>13,929,914</u>
Noncurrent Liabilities		
Net pension liability	14,673,927	13,059,553
Net OPEB liability	15,275,720	23,851,840
Bonds payable	39,959,578	45,979,354
Total Noncurrent Liabilities	<u>69,909,225</u>	<u>82,890,747</u>
Total Liabilities	<u>84,816,950</u>	<u>96,820,661</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	2,213,863	2,781,906
Deferred inflows related to OPEB	3,888,729	5,950,628
Total Deferred Inflows of Resources	<u>6,102,592</u>	<u>8,732,534</u>
NET POSITION		
Net investment in capital assets	84,410,910	80,000,660
Restricted, Expendable for		
Endowment	1,255,117	1,224,018
Capital projects	9,102,777	9,542,247
Debt service	6,168,366	5,384,574
Scholarships	3,231,003	3,025,121
Institutional scholarships	256,397	256,290
Encumbrances	11,632,037	2,228,234
Unrestricted	23,842,184	40,519,685
Total Net Position (Schedule D)	<u>\$ 139,898,791</u>	<u>\$ 142,180,829</u>

The accompanying notes are an integral part of these financial statements.

TEXAS SOUTHMOST COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED

	August 31,	
	2021	2020
OPERATING REVENUES		
Tuition and fees (net of discounts of \$12,909,740 & \$15,170,516 respectively)	\$ 3,603,612	\$ 2,393,405
Federal grants and contracts	11,382,019	2,872,157
State grants and contracts	1,117,064	931,438
Local grants and contracts	3,961,705	3,407,122
Auxiliary enterprises	307,719	411,769
Total Operating Revenues (Schedule A)	<u>20,372,119</u>	<u>10,015,891</u>
OPERATING EXPENSES		
Instruction	13,433,082	14,865,383
Public service	2,445,274	2,492,728
Academic support	3,462,199	3,749,398
Student services	4,190,362	5,099,214
Institutional support	10,614,846	7,740,658
Operation and maintenance of plant	12,343,699	11,944,547
Scholarships and fellowships	12,128,309	11,212,933
Auxiliary enterprises	1,473,483	1,605,403
Depreciation	3,760,846	3,648,546
Total Operating Expenses (Schedule B)	<u>63,852,100</u>	<u>62,358,810</u>
Operating (Loss)	<u>(43,479,981)</u>	<u>(52,342,919)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	8,739,245	8,829,113
Title IV	17,135,588	19,118,799
Maintenance ad valorem taxes	17,182,877	15,796,727
Debt service ad valorem taxes	5,912,461	5,944,135
Investment income	444,309	1,177,247
Gain (Loss) on sale of asset	-	650,000
Gifts	-	59,420
Interest on capital related debt	(1,424,280)	(1,649,183)
Other non-operating revenues	1,188,176	638,095
Other non-operating expenses	(106,068)	(104,531)
Total Non-Operating Revenues (Schedule C)	<u>49,072,308</u>	<u>50,459,822</u>
Increase (Decrease) in Net Position	<u>5,592,327</u>	<u>(1,883,097)</u>
NET POSITION		
Net Position - Beginning of Year	142,180,829	144,063,926
Prior Period Adjustment	(7,874,365)	-
Net Position - Beginning of Year (Restated)	<u>134,306,464</u>	<u>144,063,926</u>
Net Position - End of Year	<u>\$ 139,898,791</u>	<u>\$ 142,180,829</u>

The accompanying notes are an integral part of these financial statements.

**TEXAS SOUTHMOST COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED**

	August 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 3,764,301	\$ 1,984,448
Receipts from grants and contracts	18,808,610	8,956,709
Payments to suppliers for goods or services	(36,044,196)	(31,115,112)
Payments to or on behalf of employees	(18,782,376)	(19,231,163)
Receipts from auxiliary services	307,719	411,769
Net cash provided (used) by operating activities	<u>(31,945,942)</u>	<u>(38,993,349)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	8,739,245	8,829,113
Receipts from Title IV allocations	17,135,588	19,118,799
Receipts from ad valorem taxes	17,182,877	15,796,727
Other non-capital financing revenue	1,188,176	745,547
Other non-capital financing expenses	(106,068)	(104,531)
Net cash provided (used) by non-capital financing activities	<u>44,139,818</u>	<u>44,385,655</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from ad valorem tax revenues	5,912,461	5,944,135
Acquisition of capital assets	(3,296,096)	(8,287,122)
Proceeds from sale of capital assets	-	650,000
Payments on capital debt - principal	(4,875,000)	(4,650,000)
Payments on capital debt - interest and issuance costs	(1,424,280)	(1,625,208)
Net cash provided (used) by capital and related financing activities	<u>(3,682,915)</u>	<u>(7,968,195)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	6,597,840	(31,129,468)
Net cash provided (used) by investing activities	<u>6,597,840</u>	<u>(31,129,468)</u>
Increase (decrease) in cash and cash equivalents	15,108,801	(33,705,357)
Total Cash and cash equivalents - September 1	<u>19,700,571</u>	<u>53,405,928</u>
Total Cash and cash equivalents - August 31	<u>\$ 34,809,372</u>	<u>\$ 19,700,571</u>
 Cash and cash equivalents	 \$ 24,239,656	 \$ 11,232,684
Restricted cash and cash equivalents	<u>10,569,716</u>	<u>8,467,887</u>
Total cash and cash equivalents	<u>\$ 34,809,372</u>	<u>\$ 19,700,571</u>

EXHIBIT 3
(Continued)

TEXAS SOUTHMOST COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED

	August 31,	
	2021	2020
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (43,479,981)	\$ (52,342,919)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation expense	3,760,846	3,648,546
Changes in assets and liabilities:		
Accounts receivable (net)	2,347,822	1,745,992
Prepaid expenses	95,697	126,364
Accounts payable	453,804	740,903
Accrued liabilities	192,985	(41,747)
Accrued compensated absences	(54,667)	142,997
Deferred inflows/outflow of resources related to pensions	1,926,713	2,905,154
Deferred inflows/outflows of resources related to OPEB	2,873,864	4,998,728
Deferred inflows/outflows of resources related to refunding costs	(223,714)	(508,410)
Unearned revenue	160,689	(408,957)
Net cash provided (used) by operating activities	<u>\$ (31,945,942)</u>	<u>\$ (38,993,349)</u>

The accompanying notes are an integral part of these financial statements.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

1. REPORTING ENTITY

Texas Southmost College was established in 1926, in accordance with the laws of the State of Texas to serve the educational needs of Brownsville and the surrounding communities. The Southmost Union Junior College District was established in 1949 and in 2005 officially changed its name to Texas Southmost College District (the “District”). The District is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the District 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Report Guidelines

The significant accounting policies followed by the District in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community Colleges*. The District applies all applicable GASB pronouncements. The District is reported as a special-purpose government engaged in business type activities.

Tuition Discounting

Texas Public Education Grants (TPEG) – Certain tuition amounts must be set aside for use as scholarships by qualifying students. This set-aside, called the TPEG, is shown with tuition and fee revenue amounts as a separate set aside amount (TEC §56.033). When the award is used by the student for tuition and fees, the District records the amount as tuition discount. If the amount is dispersed directly to the student, the District records the amount as a scholarship expense.

Title IV, Higher Education Act (HEA) Program Funds – Certain Title IV, HEA Program funds are received by the District to pass through to the student. These funds initially are received by the District and recorded as revenue. When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Other Tuition Discounts – The District awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the District records the amount as a tuition discount. If the amount is dispersed directly to the student, the District records the amount as a scholarship expense.

Basis of Accounting

The financial statements of the District 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.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and subsequent amendments must be filed with the THECB, LBB, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1.

Cash and Cash Equivalents

The District'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.

Deferred Outflows

In addition to assets, the District is aware that the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are permitted only to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on refunding debt.

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 \$7,287,335 and \$7,278,900 for fiscal years 2021 and 2020, respectively, and Certificates of Deposit comprised of \$42,230,455 and \$48,422,361 for fiscal years 2021 and 2020, 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 and swag store goods in stock. Inventories are valued at cost and are charged to expense as consumed. The District inventory carrying balance is \$25,524 and \$32,621 for fiscal years ended 2021 and 2020, respectively.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The District records capital assets at cost at the date of acquisition, or fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. The District capitalizes renovations of \$100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure. The District charges costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Employees Retirement System of Texas (ERS) State Retiree Health Plan (SRHP) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits; OPEB expense; and information about assets, liabilities and additions to/deductions from SRHP's fiduciary net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

Pensions

The District participates in the Teacher Retirement System of Texas (TRS) pension plan, a multiple-employer cost-sharing-defined benefit pension plan with a special funding situation. The fiduciary net position of TRS has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Unearned Revenue

Tuition and fees of \$6,331,462 and \$6,072,700 and federal, state, and local grants of \$697,816 and \$795,889 have been reported by the District as unearned revenue at August 31, 2021 and 2020, respectively.

Deferred Inflows

In addition to liabilities, the District is aware that the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so is not recognized as an inflow of resources (revenue) until that time. Governments are permitted only to report deferred inflows in circumstances specifically authorized by the GASB.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, the District is aware that actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expense Policy

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a Business Type Activity and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the college's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of goods and services, administrative expenses, and depreciation on capital assets. The operation of a bookstore is not performed by the District.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with current year's presentation. These reclassifications have no effect on the reported results of operations.

3. AUTHORIZED INVESTMENTS

Texas Southmost College District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas (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.

In accordance with state law and the District's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A. The District does not place a limit on the amount it may invest in any one issuer.

(The remainder of this page was intentionally left blank.)

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

4. DEPOSITS AND INVESTMENTS

Cash and Deposits included on Exhibit 1, Statement of Net Position, consist of the items reported below:

Cash and Deposits For the Year Ended		
	August 31,	
	2021	2020
Bank Deposits		
Demand Deposits - Unrestricted	\$ 25,075,328	\$ 13,090,908
Demand Deposits - Restricted	11,009,951	8,529,862
Certificates of Deposit	42,230,455	48,422,361
External investment pools	7,287,335	7,278,900
Money market	258,878	228,938
Total Bank Deposits	85,861,947	77,550,969
Cash and Cash Equivalents		
Petty Cash on Hand	500	500
Reconciling Items in Transit	(1,276,407)	(1,920,699)
Total	<u>\$ 84,586,040</u>	<u>\$ 75,630,770</u>

Reconciliation of Deposits and Investments

Type of Deposit or Investment	Fair Value 8/31/2021	Fair Value 8/31/2020
Total Cash and Deposits	\$ 34,809,372	\$ 19,700,571
Total Investments	49,776,668	55,930,199
Total Deposits and Investments	<u>\$ 84,586,040</u>	<u>\$ 75,630,770</u>
Cash and cash equivalents	\$ 24,239,656	\$ 11,232,684
Restricted cash and cash equivalents	10,569,716	8,467,887
Investments	49,776,668	55,930,199
Total Deposits and Investments	<u>\$ 84,586,040</u>	<u>\$ 75,630,770</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

4. DEPOSITS AND INVESTMENTS (CONTINUED)

As of August 31, 2021 the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	<u>W.A.M.</u>
Investment Pool - LOGIC	\$ 7,287,335	Less than 1 Yr.	33 Days
Certificates of Deposit	42,230,455	Less than 1 Yr.	30-180 Days
Endowment Donation - Common Stock	258,878	Less than 1 Yr.	33 Days
Total Fair Value	<u>\$ 49,776,668</u>		

Local Government Investment Cooperative (LOGIC) (the “Pool”) was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code, and operates as a public funds investment pool under the Public Funds Investment Act. LOGIC is organized and existing as a business trust under the laws of the State of Texas with all participant funds and all investment assets held and managed in trust by a Board of Trustees for the benefit of the participants. The Board of Trustees is LOGIC’s governing body and is comprised of employees, officers or elected officials of Participant Government Entities or individuals who do not have a business relationship with the Pool and are qualified to advise it. In order to comply with the Public Funds Investment Act, all Portfolios will maintain a AAAM or equivalent rating from at least one nationally recognized rating agency. Class A Units of LOGIC I are currently rated “AAAM” by Standard & Poor’s. LOGIC uses amortized cost to report net position to compute share prices. Accordingly, the fair value of the position in LOGIC is the same value as the value in LOGIC shares.

Interest Rate Risk – In accordance with state law and district policy, the District does not purchase any investments with maturities greater than 10 years.

Credit Risk – In accordance with state law and the District’s investment policy, investments in mutual funds and investment pools must be rated at least AAA; commercial paper must be rated at least A-1 or P-1; and investments in obligations from other states, municipalities, counties, etc., must be rated at least A as well.

Concentration of Credit Risk – The district does not place a limit on the amount the district may invest in any one issuer. Ninety-five percent (95%) of the district’s investments are in external investment pools.

Custodial Credit Risk – To control custody risk, State law and the District’s adopted Investment Policy require collateral for all time and demand deposits held in the College’s name. The custodian is required to provide original safekeeping receipts and reporting of positions and position descriptions including market value. Deposits must be collateralized to 102% (with 110% on mortgaged-backed securities), and transactions are required to be executed under a written agreement. The counter-party of each type of transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis. As of August 31, 2021, the Portfolio did not contain any repurchase agreements or certificates of deposit. All bank demand deposits were fully insured and collateralized. All pledged bank collateral for demand deposits was held by an independent institution outside the bank’s holding company.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

4. DEPOSITS AND INVESTMENTS (CONTINUED)

At August 31, 2021, and 2020, the carrying amount of the District's cash on hand & deposits was \$84,586,040 and \$75,630,770, respectively, and total bank balances equaled \$85,861,947 and \$77,550,969, respectively. Bank balances are covered by Federal depository insurance of up to \$250,000 per financial institution and \$85,611,947 and \$77,300,969 was covered by collateral pledged with securities held by the pledging financial institution's trust department or agent in the District's name for the years ended August 31, 2021 and 2020, respectively.

Fair Value of Financial Instruments – GASB Statement No. 72, Fair Value Measurement and Application, provides a framework for measuring fair value for certain investments. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets of liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy pools of investments at August 31, 2021 is as follows:

	Level 1	Level 2	Level 3	Total
External investment pools	\$ -	\$ 7,287,335	\$ -	\$ 7,287,335
Certificates of deposit	-	42,230,455	-	42,230,455
Money market	258,878	-	-	258,878
Total	<u>\$ 258,878</u>	<u>\$ 49,517,790</u>	<u>\$ -</u>	<u>\$ 49,776,668</u>

(The remainder of this page was intentionally left blank.)

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

5. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2021 was as follows:

	Balance September 1, 2020	Increases	Decreases	Balance August 31, 2021
<u>Not Depreciated:</u>				
Land	\$ 6,525,905	\$ -	\$ -	\$ 6,525,905
Construction in progress	7,293,335	2,348,921	-	9,642,256
Subtotal	<u>13,819,240</u>	<u>2,348,921</u>	<u>-</u>	<u>16,168,161</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and building improvements	158,942,429	-	-	158,942,429
Other real estate improvements	9,672,061	-	-	9,672,061
Total Buildings and Other Real Estate Improvements	<u>168,614,490</u>	<u>-</u>	<u>-</u>	<u>168,614,490</u>
Software and other intangibles	327,074	-	-	327,074
Furniture, machinery, and equipment	15,673,084	956,019	(8,844)	16,620,259
Subtotal	<u>16,000,158</u>	<u>956,019</u>	<u>(8,844)</u>	<u>16,947,333</u>
Total Buildings and Other Capital Assets	<u>184,614,648</u>	<u>956,019</u>	<u>(8,844)</u>	<u>185,561,823</u>
<u>Accumulated Depreciation:</u>				
Buildings and building improvements	(50,696,667)	(2,825,731)	-	(53,522,398)
Other real estate improvements	(8,357,756)	(168,263)	-	(8,526,019)
Total Buildings and Other Real Estate Improvements	<u>(59,054,423)</u>	<u>(2,993,994)</u>	<u>-</u>	<u>(62,048,417)</u>
Software and other intangibles	(256,972)	(31,231)	-	(288,203)
Furniture, machinery, and equipment	(13,396,833)	(735,621)	-	(14,132,454)
Subtotal	<u>(13,653,805)</u>	<u>(766,852)</u>	<u>-</u>	<u>(14,420,657)</u>
Total Accumulated Depreciation	<u>(72,708,228)</u>	<u>(3,760,846)</u>	<u>-</u>	<u>(76,469,074)</u>
Net Capital Assets	<u>\$ 125,725,660</u>	<u>\$ (455,906)</u>	<u>\$ (8,844)</u>	<u>\$ 125,260,910</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

5. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2020 was as follows:

	Balance September 1, 2019	Increases	Decreases	Balance August 31, 2020
<u>Not Depreciated:</u>				
Land	\$ 6,525,905	\$ -	\$ -	\$ 6,525,905
Construction in Progress	-	7,293,335	-	7,293,335
Subtotal	6,525,905	7,293,335	-	13,819,240
<u>Buildings and Other Capital Assets</u>				
Buildings and building improvements	158,942,429	-	-	158,942,429
Other real estate improvements	9,672,061	-	-	9,672,061
Total Buildings and Other Real Estate Improvements	168,614,490	-	-	168,614,490
Software and other intangibles	327,074	-	-	327,074
Furniture, machinery, and equipment	14,679,297	993,787	-	15,673,084
Subtotal	15,006,371	993,787	-	16,000,158
Total Buildings and Other Capital Assets	183,620,861	993,787	-	184,614,648
<u>Accumulated Depreciation:</u>				
Buildings and building improvements	(47,870,936)	(2,825,731)	-	(50,696,667)
Other real estate improvements	(8,173,515)	(184,241)	-	(8,357,756)
Total Buildings and Other Real Estate Improvements	(56,044,451)	(3,009,972)	-	(59,054,423)
Software and other intangibles	(220,859)	(36,113)	-	(256,972)
Furniture, machinery, and equipment	(12,794,372)	(602,461)	-	(13,396,833)
Subtotal	(13,015,231)	(638,574)	-	(13,653,805)
Total Accumulated Depreciation	(69,059,682)	(3,648,546)	-	(72,708,228)
Net Capital Assets	\$ 121,087,084	\$ 4,638,576	\$ -	\$ 125,725,660

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

6. NONCURRENT LIABILITIES

	Balance September 1, 2020	Increases	Decreases	Balance August 31, 2021	Current Portion
<u>Bonds</u>					
General obligation bonds	\$ 35,065,000	\$ -	\$ 4,020,000	\$ 31,045,000	\$ 4,210,000
Revenue bonds	10,660,000	-	855,000	9,805,000	890,000
Unamortized premiums	5,129,354	-	919,776	4,209,578	-
Total Bonds	<u>50,854,354</u>	<u>-</u>	<u>5,794,776</u>	<u>45,059,578</u>	<u>5,100,000</u>
Net pension liability	13,059,553	1,614,374	-	14,673,927	-
Net OPEB liability	23,851,840	-	8,576,120	15,275,720	-
Total Noncurrent Liabilities	<u>\$ 87,765,747</u>	<u>\$ 1,614,374</u>	<u>\$ 14,370,896</u>	<u>\$ 75,009,225</u>	<u>\$ 5,100,000</u>

	Balance September 1, 2019	Increases	Decreases	Balance August 31, 2020	Current Portion
<u>Bonds</u>					
General obligation bonds	\$ 38,900,000	\$ -	\$ 3,835,000	\$ 35,065,000	\$ 4,020,000
Revenue bonds	11,475,000	-	815,000	10,660,000	855,000
Unamortized premiums	5,755,122	-	625,768	5,129,354	-
Total Bonds	<u>56,130,122</u>	<u>-</u>	<u>5,275,768</u>	<u>50,854,354</u>	<u>4,875,000</u>
Net pension liability	12,692,881	366,672	-	13,059,553	-
Net OPEB liability	18,235,632	5,616,208	-	23,851,840	-
Total Noncurrent Liabilities	<u>\$ 87,058,635</u>	<u>\$ 5,982,880</u>	<u>\$ 5,275,768</u>	<u>\$ 87,765,747</u>	<u>\$ 4,875,000</u>

7. DEBT OBLIGATIONS

Debt service requirements at August 31, 2021 were as follows:

For the year ended August 31,	General Obligation Bonds			Revenue Bonds			Total Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 4,210,000	\$ 1,254,200	\$ 5,464,200	\$ 890,000	\$ 392,200	\$ 1,282,200	\$ 5,100,000	\$ 1,646,400	\$ 6,746,400
2023	4,410,000	1,052,275	5,462,275	925,000	356,600	1,281,600	5,335,000	1,408,875	6,743,875
2024	4,620,000	845,563	5,465,563	965,000	319,600	1,284,600	5,585,000	1,165,163	6,750,163
2025	4,835,000	634,250	5,469,250	1,000,000	281,000	1,281,000	5,835,000	915,250	6,750,250
2026	5,045,000	415,538	5,460,538	1,040,000	241,000	1,281,000	6,085,000	656,538	6,741,538
2027-2031	6,450,000	871,562	7,321,562	4,985,000	547,000	5,532,000	11,435,000	1,418,562	12,853,562
2032-2035	1,475,000	36,700	1,511,700	-	-	-	1,475,000	36,700	1,511,700
	<u>\$ 31,045,000</u>	<u>\$ 5,110,088</u>	<u>\$ 36,155,088</u>	<u>\$ 9,805,000</u>	<u>\$ 2,137,400</u>	<u>\$ 11,942,400</u>	<u>\$ 40,850,000</u>	<u>\$ 7,247,488</u>	<u>\$ 48,097,488</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

8. BONDS PAYABLE

General information related to bonds payable is summarized below:

Limited Tax Refunding Bond Series 2014A

- To be used for the purpose of maintenance and renovation of existing facilities
- Issued limited tax refund on November 2014
- \$30,150,000, all authorized notes have been issued
- Source of revenue for debt service-ad valorem tax levy

Bonds payable are due in annual installments varying from \$2,985,000 to \$3,195,000 with interest at 2% to 5% and the final installment due February 2026.

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 3,120,000	\$ 698,750	\$ 3,818,750
2023	3,065,000	544,125	3,609,125
2024	2,985,000	392,875	3,377,875
2025	3,170,000	239,000	3,409,000
2026	3,195,000	79,875	3,274,875
	<u>\$ 15,535,000</u>	<u>\$ 1,954,625</u>	<u>\$ 17,489,625</u>

Maintenance Tax Refunding Bonds, Series 2014B

- To be used for the purpose of maintenance and renovation of existing facilities
- Issued maintenance tax refund on November 2014
- \$3,105,000, all authorized notes have been issued
- Source of revenue for debt service-ad valorem tax levy

Bonds payable are due in annual installments varying from \$285,000 to \$365,000 with interest at 2% to 5% and the final installment due February 2026.

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 360,000	\$ 63,400	\$ 423,400
2023	285,000	49,075	334,075
2024	330,000	33,700	363,700
2025	290,000	18,200	308,200
2026	365,000	5,475	370,475
	<u>\$ 1,630,000</u>	<u>\$ 169,850</u>	<u>\$ 1,799,850</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

8. BONDS PAYABLE (CONTINUED)

Limited Tax Refunding Bonds, Series 2015

- To be used for the purpose of maintenance and renovation of existing facilities
- Issued limited tax refund on November 2015
- \$8,810,000, all authorized notes have been issued
- Source of revenue for debt service-ad valorem tax levy

Bonds payable are due in annual installments varying from \$185,000 to \$1,070,000 with interest at 2% to 5% and the final installment due February 2032.

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 185,000	\$ 281,425	\$ 466,425
2023	380,000	272,950	652,950
2024	395,000	259,350	654,350
2025	390,000	245,600	635,600
2026	395,000	232,838	627,838
2027-2031	4,745,000	697,487	5,442,487
2032-2035	1,070,000	21,400	1,091,400
	<u>\$ 7,560,000</u>	<u>\$ 2,011,050</u>	<u>\$ 9,571,050</u>

Wellness Center Revenue Refunding Bonds, Series 2017

- To refund Wellness Center Revenue Bonds Series 2005; previously issued to construct, operate, maintain, renovate, or improve a wellness, recreational, and fitness complex
- Bonds issued on August 29, 2017
- \$8,730,000, all authorized bonds have been issued
- Source of revenue for debt service-Wellness Center Fees

Bonds payable are due in annual installments varying from \$615,000 to \$840,000 with interest at 4.0% and the final installment due August 2030.

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 615,000	\$ 259,800	\$ 874,800
2023	640,000	235,200	875,200
2024	665,000	209,600	874,600
2025	690,000	183,000	873,000
2026	720,000	155,400	875,400
2027-2031	3,165,000	322,800	3,487,800
	<u>\$ 6,495,000</u>	<u>\$ 1,365,800</u>	<u>\$ 7,860,800</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

8. BONDS PAYABLE (CONTINUED)

Combined Fee Revenue Refunding Bonds, Series 2017

- To refund Combined Fee Revenue Bonds, Series 2006; previously issued to acquire land, construct and renovate buildings
- Bonds issued on August 29, 2017
- \$4,310,000 all authorized bonds have been issued
- Source of revenue for debt service - Tuition & Student Fees, interest and other investment earnings

Bonds payable are due in annual installments varying from \$275,000 to \$395,000 with interest at 4.0% and the final installment due August 2031.

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 275,000	\$ 132,400	\$ 407,400
2023	285,000	121,400	406,400
2024	300,000	110,000	410,000
2025	310,000	98,000	408,000
2026	320,000	85,600	405,600
2027-2031	1,820,000	224,200	2,044,200
	<u>\$ 3,310,000</u>	<u>\$ 771,600</u>	<u>\$ 4,081,600</u>

Maintenance Tax Refunding Bonds, Series 2017

- To refund Maintenance Tax Notes Series 2007, 2008 & 2009; previously issued for maintenance and renovation of existing facilities
- Issued August 23, 2017
- \$4,300,000, all authorized bonds have been issued
- Source of revenue for debt service – ad valorem tax levy

Bonds payable are due in annual installments varying from \$300,000 to \$535,000 with interest at 1.875% to 4.0% and the final installment due August 2029.

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 465,000	\$ 91,875	\$ 556,875
2023	485,000	72,875	557,875
2024	500,000	58,488	558,488
2025	440,000	49,400	489,400
2026	300,000	42,000	342,000
2027-2031	975,000	38,300	1,013,300
	<u>\$ 3,165,000</u>	<u>\$ 352,938</u>	<u>\$ 3,517,938</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

8. BONDS PAYABLE (CONTINUED)

Limited Tax Refunding Bonds, Series 2017

- To refund Limited Tax Bonds Series 2008 and 2009; previously issued for the construction and equipment of school buildings and the purchase of necessary sites
- Issued August 23, 2017
- \$3,305,000, all authorized bonds have been issued
- Source of revenue for debt service-ad valorem tax levy

Bonds payable are due in annual installments varying from \$80,000 to \$790,000 with interest at 3.0% to 4.0% and the final installment due August 2033.

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 80,000	\$ 118,750	\$ 198,750
2023	195,000	113,250	308,250
2024	410,000	101,150	511,150
2025	545,000	82,050	627,050
2026	790,000	55,350	845,350
2027-2031	730,000	135,775	865,775
2032-2035	405,000	15,300	420,300
	<u>\$ 3,155,000</u>	<u>\$ 621,625</u>	<u>\$ 3,776,625</u>

9. EMPLOYEES' RETIREMENT PLAN

The State of Texas has joint contributory retirement plans for almost all of its employees. One of the primary plans in which the district participates is administered by the Teacher Retirement System of Texas.

Teacher Retirement System of Texas

Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at:

https://www.trs.texas.gov/TRS%20Documents/cafr_2019.pdf

or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description, above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas 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 paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2021 through 2025.

	<u>Contribution Rates</u>	
	<u>2021</u>	<u>2020</u>
Member	8.00%	7.70%
Non-Employer Contributing Entity (State)	7.75%	7.50%
Employers	7.75%	7.50%
Current fiscal year College Contributions		\$613,118
Current fiscal year Member Contributions		1,027,035
FY 2021 State of Texas On-behalf Contributions		388,240

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies, including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers.

Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members that entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.
- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the August 31, 2021 actual valuation was determined using the following assumptions:

Valuation Date	August 31, 2020
Actuarial cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	7.250%
Long-term Expected Rate	7.250%
Municipal Bond Rate	2.330%
 Past year ending August 31 in the 2016 to 2116 Projection Period (100 years)	 2119.00%
 Inflation	 2.3%
Payroll Growth Rate	3.0%
Salary Increases Including Inflation	3.05% to 9.05% including inflation
Benefit Changes During the Year	None
Ad hoc Post-Employment Benefit Changes	None

**The municipal bond rate used is 2.33% as of August 2020 (i.e., the rate closest to but not later than the Measurement Date). Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."*

The actuarial methods and assumptions were selected by the board of trustees based upon analysis and recommendations by the system's actuary. The board of trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2017 and were adopted in July 2018. There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period. Assumptions, methods, and plan changes were not updated from the prior year's report.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The single discount rate was based on the expected rate of return on pension plan investments of 7.25. The projection of cash flows used to determine the single discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity will be made at the rates set by the Legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.25 percent. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the TRS' target asset allocation as of August 31, 2020, is summarized below:

Asset Class	FY 2020 Target Allocation	New Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity			
U.S.	18.00%	18.00%	3.90%
Non-U.S. Developed	13.00%	13.00%	5.10%
Emerging Markets	9.00%	9.00%	5.60%
Private Equity	14.00%	14.00%	6.70%
Stable Value			
Government Bonds	16.00%	16.00%	-0.70%
Absolute Return	0.00%	0.00%	1.80%
Stable Value Hedge Funds	5.00%	5.00%	5.00%
Real Return			
Real Assets	15.00%	15.00%	4.60%
Energy and Natural Resources	6.00%	6.00%	6.00%
Commodities	0.00%	0.00%	0.80%
Risk Parity			
Risk Parity	8.00%	8.00%	3.00%
Cash	2.00%	2.00%	-1.50%
Asset allocation leverage	-6.00%	-6.00%	-1.30%
Total	100.00%	100.00%	33.00%

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the 2021 Net Pension Liability.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
Entity's proportionate share of the net pension liability:	\$22,626,931	\$14,673,927	\$8,212,278

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2021, the District reported a liability of \$14,673,927 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the employer were as follows:

Employer's Proportionate share of the collective net pension liability	\$14,673,927
State's proportionate share that is associated with employer	<u>5,039,565</u>
Total	<u><u>\$19,713,492</u></u>

The net pension liability was measured as of August 31, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2019 thru August 31, 2020.

At the measurement date of August 31, 2020 the employer's proportion of the collective net pension liability was 0.027398219% which was an increase of 0.002275219% from its proportion measured as of August 31, 2019.

For the year ended August 31, 2021, the District recognized pension expense of \$1,926,712 and revenue of \$606,148 for support provided by the State.

At August 31, 2021, the College reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experiences	\$ 26,793	\$ 409,510
Changes in actuarial assumptions	3,404,873	1,447,728
Difference between projected and actual investment earnings	653,686	356,625
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,892,842	-
Contributions paid to TRS subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u><u>\$ 7,978,194</u></u>	<u><u>\$ 2,213,863</u></u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	Pension Expense Amount
2022	\$ 1,359,303
2023	1,787,669
2024	1,653,966
2025	860,289
2026	59,588
Thereafter	43,517

Optional Retirement Plan

Plan Description 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 and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67 and Texas Government Code, Title 8, Subtitle C.

Funding Policy Contribution requirements are not actuarially determined but are established and amended by the Texas Legislature. The percentages of participant salaries contributed by the state, the college, and each participant are 3.300%, 3.300%, and 6.600%, respectively. The District does not contribute for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense to the State for the District was \$115,278 and \$116,901 for the fiscal years ended August 31, 2021 and 2020, respectively. The amount represents the portion of expended appropriations made by the State Legislature on behalf of the District.

The total payroll for all District employees was \$18,920,694 and \$19,332,413 for fiscal years 2021 and 2020, respectively. The total payroll of employees covered by the Optional Retirement Program was \$3,493,277 and \$3,491,740 for fiscal years 2021 and 2020, respectively.

10. DEFERRED COMPENSATION PROGRAM

District 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. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants. As of August 31, 2021 and 2020, the District did not have any employees participating in a deferred compensation program.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

11. COMPENSABLE ABSENCES

Full-time employees earn annual leave beginning on the first day of employment at the same rate and with the same limit as state employees as published each biennium in the General Appropriations Act. The District policy is that a full-time employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number or hours up to 160 for all full time staff employees. Employees with at least six months of continuous, benefits eligible, state employment prior to separation, and terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. Upon death of an employee, one-half of the accumulated sick leave days shall be paid to the designated beneficiary at the rate of the employee's salary at the time of death up to 336 hours provided that the employee was continually employed with TSC for 6 months prior to death. Sick leave shall also be paid to an employee who terminates or retires, provided employment by the College District has been continuous full time for at least ten years up to 336 hours.

Sick leave is accrued at the rate of 8 hours for each full month of employment for benefits-eligible employees and shall accrue to a maximum of 90 workdays (720 hours). The District's policy is to recognize the cost of sick leave when paid. The liability is not shown in the financial statements because sick leave does not qualify as a compensated absence since it is contingent on a future event (namely, illness) that is beyond the control of both the employer and the employee. Compensable absences activity for the years ended August 31, 2021 and 2020 was as follows:

	Balance September 1, 2020	Increases	Decreases	Balance August 31, 2021
Compensable absences	<u>\$ 544,015</u>	<u>\$ 272,525</u>	<u>\$ (327,192)</u>	<u>\$ 489,348</u>

	Balance September 1, 2019	Increases	Decreases	Balance August 31, 2020
Compensable absences	<u>\$ 401,018</u>	<u>\$ 313,802</u>	<u>\$ (170,805)</u>	<u>\$ 544,015</u>

12. HEALTH CARE AND LIFE INSURANCE BENEFITS

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing their benefits by expending the annual insurance premiums. The state's contribution per full-time employee was \$625 per month for the year ended August 31, 2021 (\$625 per month for fiscal year 2020) and totaled \$1,164,760 for the year ended August 31, 2021 (\$1,164,760 for the year ended August 31, 2020). The cost of providing benefits was \$2,537,158 for the year ended August 31, 2021 (\$2,591,703 for the year ended August 31, 2020). The cost of providing those benefits for retirees is not separable from the cost of providing benefits for the active employees. SB 1812, effective September 1, 2013, limits the amount of the state's contribution to 50 percent of eligible employees in the reporting district.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

13. OTHER POST-EMPLOYMENT BENEFITS

OPEB Plan Description

The District participates in a cost-sharing, multiple-employer, other post-employment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain postemployment health care, life and dental insurance benefits to retired employees of participating universities, community colleges, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

OPEB Plan Fiduciary Net Position

Detailed information about the GBP's fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report (CAFR) that includes financial statements, notes to the financial statements and required supplementary information. That report may be obtained on the Internet at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at: 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377. The fiduciary net position of the plan has been determined using the same basis used by the OPEB plan.

Benefits Provided

Retiree health benefits offered through the GBP are available to most State of Texas retirees and their eligible dependents. Participants need at least ten years of service credit with an agency or institution that participates in the GBP to be eligible for GBP retiree insurance. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan and life insurance benefits to eligible retirees via a minimum premium funding arrangement. The authority under which the obligations of the plan members and employers are established and/or may be amended is Chapter 1551, Texas Insurance Code.

Contributions

Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employer and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and its consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

13. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following table summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. As the non-employer contributing entity (NECE), the State of Texas pays part of the premiums for the junior and community colleges.

Maximum Monthly Employer Contribution Retiree Health and Basic Life Premium Fiscal Years Ended August 31, 2021 and 2020		
	<u>2021</u>	<u>2020</u>
Retiree only	\$ 624.82	\$ 624.82
Retiree & Spouse	1,339.90	1,340.82
Retiree & Children	1,103.58	1,104.22
Retiree & Family	1,818.66	1,820.22

Contributions of premiums to the GBP plan for the current and prior fiscal year by source is summarized in the following table:

Premium Contributions by Source Group Benefits Program Plan Fiscal Years Ended August 31, 2021 and 2020		
	<u>2021</u>	<u>2020</u>
Current fiscal year employer contributions	\$ 748,369,212	\$ 401,284,833
Current fiscal year member contributions	230,151,101	209,836,664
2019 measurement year NECE-on-behalf contributions	37,736,903	20,182,872
<i>Source: ERS 2020 Comprehensive Annual Financial Report</i>		

(The remainder of this page was intentionally left blank.)

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

13. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of August 31, 2020 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified (sourced from FY 2020 ERS CAFR):

Valuation Date	August 31, 2020
Actuarial Cost Method	Entry Age
Amortization Method	Level percent of pay, open
Remaining Amortization Period	30 Years
Asset Valuation Method	N/A
Discount Rate	2.20%
Projected Annual Salary Increase	2.30% to 9.05% (includes inflation)
Healthcare Trend Rates	8.8% for 2022, 5.25% for 2023, 5% for 2024, 4.75% for 2025, 4.6% for 2026, decreasing 10 basis points per year to an ultimate rate of 4.30% for 2029 and later years
Inflation Assumption Rate	2.3%
Ad hoc post-employment benefit changes	None
Mortality Assumptions:	
Service retirees, survivors and other inactive members	Tables based on Teachers Retirement System of Texas experience with Ultimate MP Projection Scale from the year 2018.
Disability Retirees	Tables based on Teachers Retirement System of Texas experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members.
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014.

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 1, 2010 to August 31, 2017 for higher education members.

Investment Policy

The State Retiree Health Plan is a pay-as-you-go plan and does not accumulate funds in advance of retirement. The System's Board of Trustees adopted the amendment to the investment policy in August 2017 to require that all funds in the plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments is 2.4%.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

13. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Discount Rate

Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the beginning of the measurement year was 2.97%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 2.2%, which amounted to a decrease of 0.77%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp's AA rating. Projected cash flows into the plan are equal to projected benefit payments out of the plan. Because the plan operates on a pay-as-you-go (PAYGO) basis and is not intended to accumulate assets, there is no long-term expected rate of return on plan assets and therefore the years of projected benefit payments to which the long-term expected rate of return is applicable is zero years.

Discount Rate Sensitivity Analysis

The following schedule shows the impact on the District's proportionate share of the collective net OPEB Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (2.20%) in measuring the net OPEB Liability.

	1% Decrease in Discount Rate (1.20%)	Discount Rate (2.20%)	1% Increase in Discount Rate (3.20%)
District's proportionate share of the net OPEB liability:	\$18,156,267	\$15,275,720	\$13,019,064

Healthcare Trend Rate Sensitivity Analysis

The initial healthcare trend rate is 7.3% and the ultimate rate is 4.5%. The following schedule shows the impact of the college's proportionate share of the collective net OPEB liability if the healthcare cost trend rate used was 1 percent less than 1 percent greater than the healthcare cost trend rate that was used (7.3%) in measuring the net OPEB liability.

	1% Decrease in Healthcare Cost Trend Rates 7.8% decreasing to 3.3%	Current Healthcare Cost Trend Rates 8.8% decreasing to 4.3%	1% Increase in Healthcare Cost Trend Rates 9.8% decreasing to 5.3%
District's proportionate share of the net OPEB liability:	\$12,784,773	\$15,275,720	\$18,541,092

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

13. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At August 31, 2021, the District reported a liability of \$15,275,720 for its proportionate share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to the District for OPEB. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

Employer's Proportionate share of the collective net OPEB liability	\$15,275,720
State's proportionate share that is associated with employer	<u>11,063,397</u>
Total	<u><u>\$26,339,117</u></u>

The net OPEB liability was measured as of August 31, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2019, thru August 31, 2020.

At the measurement date of August 31, 2020, the employer's proportion of the collective net OPEB liability was 0.04622754%, which is an decrease of 0.022783% over the proportionate share measured at August 31, 2019 (0.06901040%).

For the year ended August 31, 2021, the District recognized OPEB expense of \$3,095,864 and revenue of \$587,638 for support provided by the State.

Changes Since the Prior Actuarial Valuation – Changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period were as follows:

- Demographic assumptions (including rates of preretirement and post-disability mortality for all State Agency members; assumed rates of termination and retirement for certain members who are Certified Peace Officers/Custodial Officers (CPO/CO); and assumed salary aggregate payroll increases and the assumed rate of general inflation) have been updated to reflect assumptions recently adopted by the System's Board of Trustees.
- Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent experience and its effects on our short-term expectations.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence. The percentage of future female retirees assumed to be married and electing coverage for their spouse.
- The proportion of future retirees assumed to cover dependent children have been updated to reflect recent plan experience and expected trends. Moreover, the PCORI fees payable under the ACA have been updated to reflect IRS Notice 2020-44.
- The discount rate assumption was changed from 2.97% to 2.20% as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

13. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The valuation reflects the minor benefit changes that will become effective January 1, 2021, since these changes were communicated to plan members in advance of the preparation of this report. These changes, which are not expected to have a significant impact on plan costs for fiscal year 2021, are provided for in the fiscal year 2021 Assumed Per Capita Health Benefit Costs.

As of August 31, 2021, the College reported its proportionate share of the ERS plan's collective deferred outflows of resources and deferred inflows of resources related to the OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ -	\$ 597,441
Changes in actuarial assumptions	884,358	3,291,288
Difference between projected and actual investment earnings	4,559	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	-
Contributions paid to ERS subsequent to the measurement date	8,435	-
Total	<u>\$ 897,352</u>	<u>\$ 3,888,729</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended <u>August 31:</u>	Pension Expense Amount
2021	\$ -
2022	2,726,239
2023	2,726,239
2024	3,309,328
2025	2,260,618
Thereafter	-

14. PENDING LAWSUITS AND CLAIMS

On August 31, 2021, various lawsuits and claims involving Texas Southmost College District were pending. While the ultimate liability with respect to litigation and other claims asserted against the District cannot be reasonably estimated at this time. This liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the District.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

15. DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at August 31, were as follows:

	<u>2021</u>	<u>2020</u>
Taxes receivable	\$ 2,068,217	\$ 2,345,176
Grants and contracts receivable	3,447,848	7,423,102
Student receivable	2,038,229	1,030,982
Donations receivable	315,070	315,070
Accrued interest receivable	30,196	37,625
Other receivable - TSCF	274,516	206,174
Other receivable - ISDs	1,299,952	584,983
Other receivable - UTRGV	<u>1,465,987</u>	<u>1,358,573</u>
Subtotal	10,940,015	13,301,685
Allowance for doubtful accounts	<u>(727,132)</u>	<u>(740,980)</u>
Total Receivables	<u><u>\$ 10,212,883</u></u>	<u><u>\$ 12,560,705</u></u>

Payables

Payables at August 31, were as follows:

	<u>2021</u>	<u>2020</u>
Vendors payable	\$ 1,714,216	\$ 1,257,796
Student payable	<u>8,656</u>	<u>13,799</u>
Total Payables	<u><u>\$ 1,722,872</u></u>	<u><u>\$ 1,271,595</u></u>

16. 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*. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as accounts receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the District has not yet performed services are not included in the financial statements. There were no contracts or grants awarded during fiscal years 2021 and 2020, for which monies have not been received, nor expended.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

17. AD VALOREM TAX

The District's ad valorem property tax is levied each October 1st on the assessed value listed as of the prior January 1st for all real and business personal property located in the District. As of August 31:

	2021	2020
Assessed valuation of the District	\$ 16,915,600,528	\$ 15,024,791,439
Less:		
Exemptions	<u>2,249,090,704</u>	<u>1,252,989,972</u>
Net assessed valuation of the District	<u>\$ 14,666,509,824</u>	<u>\$ 13,771,801,467</u>

	2021		
	Current Operations	Debt Service	Total
Authorized tax rate per \$100 valuation	\$ 0.350000	\$ 0.500000	\$ 0.850000
Assessed tax rate per \$100 valuation	\$ 0.119694	\$ 0.034942	\$ 0.154636

	2020		
	Current Operations	Debt Service	Total
Authorized tax rate per \$100 valuation	\$ 0.350000	\$ 0.500000	\$ 0.850000
Assessed tax rate per \$100 valuation	\$ 0.118289	\$ 0.044118	\$ 0.162407

Section 130.122 of the Texas Education Code, as amended, limits a junior college district's tax rate to \$1.00 per \$100 taxable assessed valuation (of which a maximum of \$0.50 may be pledged for bond debt service), and the District is further restricted by local referendum which limits the tax rate for local maintenance to \$0.35.

Taxes levied for the years ended August 31, 2021 and 2020 amounted to \$22,247,356 and \$22,025,030, respectively including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

17. AD VALOREM TAX (CONTINUED)

<u>Taxes Collected</u>	2021		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 14,772,366	\$ 4,923,252	\$ 19,695,618
Delinquent taxes collected	2,588,852	1,008,123	3,596,975
Penalties and interest collected	354,215	162,339	516,554
Less discounts and commissions	<u>(532,556)</u>	<u>(181,253)</u>	<u>(713,809)</u>
Total Collections	<u>\$ 17,182,877</u>	<u>\$ 5,912,461</u>	<u>\$ 23,095,338</u>

<u>Taxes Collected</u>	2020		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 15,503,467	\$ 5,777,551	\$ 21,281,018
Delinquent taxes collected	438,002	190,761	628,763
Penalties and interest collected	332,825	155,022	487,847
Less discounts and commissions	<u>(477,567)</u>	<u>(179,199)</u>	<u>(656,766)</u>
Total Collections	<u>\$ 15,796,727</u>	<u>\$ 5,944,135</u>	<u>\$ 21,740,862</u>

Tax collections for the years ended August 31, 2021 and 2020 were 97.63% and 96.62%, respectively of the current tax levy. Allowance for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted for the use of maintenance and/or general obligation debt service.

18. INCOME TAXES

The District 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 tax under internal Revenue code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The District had no unrelated business income tax liability for the years ended August 31, 2021, and 2020.

19. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of purchased assets. The District carries commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three years.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020**

20. DESIGNATED ASSETS

As of August 31, 2021 and 2020, the balances of designated assets are as follows:

	2021	2020
Construction & Improvements Encumbrances	\$ 5,985,793	\$ -
Vendor Related Encumbrances	5,646,244	2,228,234
	<u>\$ 11,632,037</u>	<u>\$ 2,228,234</u>

21. RELATED PARTIES (NOT A COMPONENT UNIT)

The Texas Southmost College Foundation, Inc. is a nonprofit organization with the purpose of supporting the educational and other activities of the District. The District does not appoint a voting majority nor does it fund or is obligated to pay debt related to this association. The District does not have the ability to significantly influence the policies of this Foundation. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The District furnished certain services, such as office space, utilities and some staff assistance, at no cost to the Foundation.

22. EXCESS INTEREST AND REBATABLE ARBITRAGE

The Tax Reform Act of 1986 established arbitrage regulations that generally limit the rate or return on investment earnings of unexpended tax-exempt debt proceeds. With certain adjustments, the investment yield is limited to the interest rate on the debt itself. Federal tax code requirements now compel state and local governments to rebate defined arbitrage earnings of tax-exempt debt to the federal government every five years for as long as the bonds are outstanding. As of the audit report date, the District had received a preliminary calculation of the arbitrage amount of \$-0- and \$-0-, for the fiscal years ended August 31, 2021 and 2020, respectively.

23. CONTINGENCIES

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies. Management continues monitoring all post-appeal procedures and motions.

24. PRIOR PERIOD ADJUSTMENT

During the fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. An additional retroactive adjustment to report the effect of GASB 75 was required in fiscal year 2021. The prior period adjustment totaled (\$7,874,365), which resulted in a restated beginning net position balance of \$134,306,464.

REQUIRED SUPPLEMENTARY SECTION

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED AUGUST 31, 2021

	2020	2019	2018	2017	2016	2015	2014
Texas Southmost College proportionate share of collective net pension liability (%)	0.0273982190%	0.0251226778%	0.0230601763%	0.0130791436%	0.00992228%	0.0083521%	0.0078902%
Texas Southmost College proportionate share of collective net pension liability (\$)	\$ 14,673,927	\$ 13,059,553	\$ 12,692,881	\$ 4,182,006	\$ 3,749,661	\$ 2,952,356	\$ 2,107,582
Portion of NECE's total proportionate share of NPL associated with Texas Southmost College	5,039,565	-	-	2,418,491	2,273,323	2,208,258	1,733,259
Total	\$ 19,713,492	\$ 13,059,553	\$ 12,692,881	\$ 6,600,497	\$ 6,022,984	\$ 5,160,614	\$ 3,840,841
Texas Southmost College covered payroll amount	\$ 13,827,760	\$ 12,758,888	\$ 12,780,593	\$ 9,845,820	\$ 11,705,727	\$ 11,176,424	\$ 11,218,245
Ratio of: ER proportionate share of collective NPL / ER's covered payroll amount	106.12%	102.36%	99.31%	42.47%	32.03%	26.42%	18.79%
TRS net position as percentage of total pension liability	78.00%	78.00%	78.00%	82.17%	78.00%	78.43%	83.25%

Note: Only five years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS
FOR THE YEAR ENDED AUGUST 31, 2021

	2021	2020	2019	2018	2017	2016	2015
Legally required contributions	\$ 1,130,458	\$ 879,324	\$ 560,739	\$ 480,412	\$ 518,778	\$ 484,815	\$ 462,000
Actual contributions	<u>(1,130,458)</u>	<u>(879,324)</u>	<u>(560,739)</u>	<u>(480,412)</u>	<u>(518,778)</u>	<u>(484,815)</u>	<u>(462,000)</u>
Contributions deficiency (excess)	-	-	-	-	-	-	-
Texas Southmost College covered payroll amount	\$ 13,827,760	\$ 13,827,760	\$ 12,758,888	\$ 12,780,593	\$ 9,845,820	\$ 11,705,727	\$ 11,176,424
Contributions as a percentage of covered payroll	8.1753%	6.3591%	4.3949%	3.7589%	5.2690%	4.1417%	4.1337%

Note: Only five years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
FOR THE YEAR ENDED AUGUST 31, 2021**

1. Employer Contributions

Employer contributions were taken from the TRS system called TRUST for the fiscal year ended August 31, 2021. The employer contributions are the basis of the related schedules and represent what participating employers reported to TRS for the fiscal year for their reporting entity. One year of historical reported contributions was used for purposes of preparing the Schedule of Employer's Proportionate Shares (Allocations).

There may be differences in the amount an employer has in their internal records as contributions reported to TRS and the amounts show in the allocation schedules as contributions. The reasons for those differences are explained below. The column titled "Fiscal 2021 Contributions per Trust (as adjusted (column 4) in the Schedule of Pension Amounts by Employer includes contributions owed which were extracted from TRUST plus (minus) any adjustments. The amounts best represent future contribution efforts.

Adjustments are made in the following circumstances with the treatment shown below. Not all situations noted below were applicable during the current fiscal year.

Situation:	An incomplete year (less than 12 months) of reports were filed as in the case of a new reporting entity.
Adjustment:	Amounts were annualized in accordance with prior GASB guidance.
Situation:	Negative adjustments were reported during the measurement year that pertained to a previous fiscal year.
Adjustment:	These amounts were excluded from contributions. Only negative adjustments pertaining to the current year were allowed.
Situation:	Errors were made by a reporting entity during the reporting period due to the conversion to the new TRUST system but were timely reported to TRS.
Adjustment:	Adjustments were made to report the appropriate contributions.
Situation:	A reporting entity was merged with another reporting entity during the current measurement period ending 08/31/21.
Adjustment:	Contributions are reported under both RE numbers as reported to TRS.
Situation:	A reporting entity is contributing for more than one entity under the same number in TRUST
Adjustment:	The reporting entities may need to prorate the liability for their audited financial statements between the entities using their internal records. To correct this situation in the future, additional RE numbers should be requested from TRS for each legally separate entity.

TRS relies on the accuracy of the contributions reported by the reporting entities.

2. Changes in Measurement Date of the Total Pension Liability – Roll Forward

A change was made to the measurement date of the total pension liability (TPL) for the year ended August 31, 2021. The actuarial valuation was performed as of August 31, 2020. Update procedures were used to roll forward the total pension liability to August 31, 2021.

**TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF DISTRICT'S SHARE OF NET OPEB LIABILITY
EMPLOYEE RETIREMENT SYSTEM OF TEXAS
STATE RETIREE HEALTH PLAN
FOR THE YEAR ENDED AUGUST 31, 2021**

	Measurement Year Ended	
	August 31,	
	2021	2020
Fiscal year ending August 31 *		
Texas Southmost College proportionate share of collective net OPEB liability (%)	0.04622754%	0.06901040%
Texas Southmost College proportionate share of collective net OPEB liability (\$)	\$ 15,275,720	\$ 23,851,840
State's proportionate share of net OPEB liability associated with Texas Southmost College	11,063,397	4,868,932
Total	\$ 26,339,117	\$ 28,720,772
Texas Southmost College covered payroll	\$ 13,827,760	\$ 15,590,017
College's proportionate share of collective net OPEB liability as a percentage of covered payroll	110.47%	152.99%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	1.27%	1.27%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

TEXAS SOUTHMOST COLLEGE DISTRICT

SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS

EMPLOYEE RETIREMENT SYSTEM OF TEXAS

STATE RETIREE HEALTH PLAN

FOR THE YEAR ENDED AUGUST 31, 2021

	Fiscal Year Ended	
	August 31,	
	2021	2020
Legally Required Contributions	\$ 1,164,759	\$ 1,306,790
Actual Contributions	(1,164,759)	(1,306,790)
Contributions deficiency (excess)	-	-
Texas Southmost College covered payroll amount	\$ 13,827,760	\$ 15,590,017
Contributions as a percentage of covered payroll	8.4233%	8.3822%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - OPEB
FOR THE YEAR ENDED AUGUST 31, 2021**

1. Changes in Benefit Terms

Under A/A #4.107 of GASB's *Implementation Guide No. 2017-2, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, the latest valuation reflects the benefit changes that became effective September 1, 2020, since these changes were communicated to plan members in advance of the preparation of the latest valuation report. The benefit changes for HealthSelect retirees and dependents for whom Medicare is not primary include:

- an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect.

These minor benefit changes have been reflected in the FY 2021 Assumed Per Capita Health Benefit Costs.

2. Changes in Assumptions

Since the last valuation of Other Postemployment Benefits (OPEB) was prepared, the following assumptions have been changed:

Demographic Assumptions

- Demographic assumptions (including rates of retirement, disability, termination and mortality, and assumed salary increases) for Higher Education members have been updated to reflect assumptions recently adopted by the Trustees from the Teacher Retirement System of Texas.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.

Economic Assumptions

- Assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and Expense trends have been updated to reflect recent experience and its effects on our short-term expectations.
- The discount rate assumption was increased from 3.51% to 3.96% to utilize the updated yield or index rate for 20-year, tax-exempt general obligation municipals bonds rated AA/As (or equivalent) or higher in effect on the measurement date.

A current actuarial valuation is performed for the majority members in the Employees Retirement Fund, except those who are eligible to receive insurance coverage when combining their service credits from the Teachers Retirement System of Texas and the System. The actuarial valuation for this population is a roll-forward of the valuation that was performed for fiscal year 2019.

SUPPLEMENTARY SECTION

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2021
(With Memorandum Totals for the Year Ended August 31, 2020)

OPERATING REVENUES	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2021 Total	2020 Total
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 5,933,701	\$ -	\$ 5,933,701	\$ -	\$ 5,933,701	\$ 5,963,598
Out-of-district resident tuition	1,320,344	-	1,320,344	-	1,320,344	1,400,526
Non-resident tuition	137,323	-	137,323	-	137,323	191,681
TPEG - credit (set aside)*	374,024	-	374,024	-	374,024	370,904
Total Tuition	<u>7,765,392</u>	<u>-</u>	<u>7,765,392</u>	<u>-</u>	<u>7,765,392</u>	<u>7,926,709</u>
Fees:						
Non-instructional contract training fees	<u>7,252,012</u>	<u>-</u>	<u>7,252,012</u>	<u>1,495,948</u>	<u>8,747,960</u>	<u>9,637,212</u>
Total Fees	<u>7,252,012</u>	<u>-</u>	<u>7,252,012</u>	<u>1,495,948</u>	<u>8,747,960</u>	<u>9,637,212</u>
Scholarship Allowances and Discounts:						
Remissions and exemptions - Title IV	(8,617,441)	-	(8,617,441)	-	(8,617,441)	(9,713,219)
Remissions and exemptions - Local	(3,990,708)	-	(3,990,708)	-	(3,990,708)	(5,225,154)
TPEG awards	(301,591)	-	(301,591)	-	(301,591)	(232,143)
Total Scholarship Allowances	<u>(12,909,740)</u>	<u>-</u>	<u>(12,909,740)</u>	<u>-</u>	<u>(12,909,740)</u>	<u>(15,170,516)</u>
Total Net Tuition and Fees	<u>2,107,664</u>	<u>-</u>	<u>2,107,664</u>	<u>1,495,948</u>	<u>3,603,612</u>	<u>2,393,405</u>
Additional Operating Revenues:						
Federal grants and contracts	-	11,361,861	11,361,861	20,158	11,382,019	2,872,157
State grants and contracts	-	1,117,064	1,117,064	-	1,117,064	931,438
Local grants and contracts	<u>2,343,625</u>	<u>682,023</u>	<u>3,025,648</u>	<u>936,057</u>	<u>3,961,705</u>	<u>3,407,122</u>
Total Additional Operating Revenues	<u>2,343,625</u>	<u>13,160,948</u>	<u>15,504,573</u>	<u>956,215</u>	<u>16,460,788</u>	<u>7,210,717</u>
Auxiliary Enterprises:						
Student programs	-	-	-	307,719	307,719	411,769
Total Auxiliary Enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>307,719</u>	<u>307,719</u>	<u>411,769</u>
Total Operating Revenues	<u>\$ 4,451,289</u>	<u>\$ 13,160,948</u>	<u>\$ 17,612,237</u>	<u>\$ 2,759,882</u>	<u>\$ 20,372,119</u> (Exhibit 2)	<u>\$ 10,015,891</u> (Exhibit 2)

* In accordance with Education Code 56.003, \$370,904 and \$304,665 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended August 31, 2020 and 2019, respectively.

SCHEDULE B

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF OPERATING EXPENSES BY OBJECT
FOR THE YEAR ENDED AUGUST 31, 2021
(With Memorandum Totals for the Year Ended August 31, 2020)

	Operating Expenses				2021 Total	2020 Total
	Salaries and Wages	State Benefits	Local Benefits	Other Expenses		
OPERATING EXPENSES						
Unrestricted - Educational Activities:						
Instruction	\$ 8,462,900	\$ -	\$ 4,434,692	\$ 416,123	\$ 13,313,715	\$ 14,785,906
Public service	471,708	-	240,694	83,370	795,772	846,276
Academic support	1,900,990	-	1,167,333	147,650	3,215,973	3,537,523
Student services	2,241,730	-	1,528,383	155,415	3,925,528	4,760,014
Institutional support	2,444,003	-	1,385,780	738,473	4,568,256	7,740,658
Operation and maintenance of plant	1,530,859	-	1,049,515	9,600,591	12,180,965	11,930,531
Total Unrestricted Educational Activities	17,052,190	-	9,806,397	11,141,622	38,000,209	43,600,908
Restricted - Educational Activities:						
Instruction	11,326	-	3,085	104,956	119,367	79,477
Public service	587,103	-	193,321	869,078	1,649,502	1,646,452
Academic support	146,338	-	27,279	72,609	246,226	211,875
Student services	261,880	-	1,251	1,703	264,834	339,200
Institutional support	34,311	-	2,893	6,009,386	6,046,590	-
Operation and maintenance of plant	119,647	-	43,087	-	162,734	14,016
Scholarships and fellowships	-	-	-	12,128,309	12,128,309	11,212,933
Total Restricted Educational Activities	1,160,605	-	270,916	19,186,041	20,617,562	13,503,953
Total Educational Activities	18,212,795	-	10,077,313	30,327,663	58,617,771	57,104,861
Auxiliary Enterprises	707,899	-	200,667	564,917	1,473,483	1,605,403
Depreciation Expense						
Buildings and other real estate improvements	-	-	-	2,993,994	2,993,994	3,009,972
Equipment and furniture	-	-	-	766,852	766,852	638,574
Total Operating Expenses	\$ 18,920,694	\$ -	\$ 10,277,980	\$ 34,653,426	\$ 63,852,100 (Exhibit 2)	\$ 62,358,810 (Exhibit 2)

SCHEDULE C

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021
(With Memorandum Totals for the Year Ended August 31, 2020)

	Unrestricted	Restricted	2021 Total	2020 Total
Non-Operating Revenues				
State Appropriations:				
Education and general state support	\$ 7,050,046	\$ -	\$ 7,050,046	\$ 7,076,716
State group insurance	-	1,164,759	1,164,759	1,164,759
State retirement matching	-	524,440	524,440	587,638
Total State allocations	<u>7,050,046</u>	<u>1,689,199</u>	<u>8,739,245</u>	<u>8,829,113</u>
Ad valorem taxes:				
Maintenance ad valorem taxes	17,182,877	-	17,182,877	15,796,727
Debt service ad valorem taxes	-	5,912,461	5,912,461	5,944,135
Gifts	-	-	-	59,420
Investment income	388,843	55,466	444,309	1,177,247
Gain (Loss) on sale of asset	-	-	-	650,000
Title IV	-	17,135,588	17,135,588	19,118,799
Other non-operating revenue	<u>1,076,574</u>	<u>111,602</u>	<u>1,188,176</u>	<u>638,095</u>
Net (decrease) in fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenues	<u>25,698,340</u>	<u>24,904,316</u>	<u>50,602,656</u>	<u>52,213,536</u>
Non-Operating Expenses				
Interest on capital related debt	-	1,424,280	1,424,280	1,649,183
Other non-operating expenses	<u>-</u>	<u>106,068</u>	<u>106,068</u>	<u>104,531</u>
Total Non-Operating Expenses	<u>-</u>	<u>1,530,348</u>	<u>1,530,348</u>	<u>1,753,714</u>
Net Non-Operating Revenues	<u>\$ 25,698,340</u>	<u>\$ 23,373,968</u>	<u>\$ 49,072,308</u> (Exhibit 2)	<u>\$ 50,459,822</u> (Exhibit 2)

SCHEDULE D

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
FOR THE YEAR ENDED AUGUST 31, 2021
(With Memorandum Totals for the Year Ended August 31, 2020)

	Detail by Source				
	Unrestricted	Restricted Expendable	Non-Expendable	Capital Assets Net of Depreciation and Related Debt	Current Year Total
Current					
Unrestricted	\$ 16,853,330	\$ -	\$ -	\$ -	\$ 16,853,330
Restricted					
Scholarships	-	3,231,003	-	-	3,231,003
Institutional scholarships	-	256,397	-	-	256,397
Encumbrances	-	\$ 11,632,037	-	-	11,632,037
Auxiliary enterprises	6,919,848	-	-	-	6,919,848
Loan	69,006	-	-	-	69,006
Endowment:					
Quasi:					
Restricted	-	1,255,117	-	-	1,255,117
Plant:					
Unexpended	-	7,566,423	-	-	7,566,423
Renewals	-	1,536,354	-	-	1,536,354
Debt Service	-	6,168,366	-	-	6,168,366
Investment in Plant	-	-	-	84,410,910	84,410,910
Total Net Position, August 31, 2021	23,842,184	31,645,697	-	84,410,910	139,898,791 (Exhibit 1)
Total Net Position, August 31, 2020	40,519,685	21,660,484	-	80,000,660	142,180,829 (Exhibit 1)
Adjustment to net position	(7,874,365)	-	-	-	(7,874,365) (Exhibit 2)
Total Net Position, August 31, 2020 (restated)	32,645,320	21,660,484	-	80,000,660	134,306,464 (Exhibit 2)
Net Increase (Decrease) in Net Position	\$ (8,803,136)	\$ 9,985,213	\$ -	\$ 4,410,250	\$ 5,592,327 (Exhibit 2)

(Continued on page 59.)

SCHEDULE D
(Continued)

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
FOR THE YEAR ENDED AUGUST 31, 2021
(With Memorandum Totals for the Year Ended August 31, 2020)

	Available for Current Operations		Prior Year Total	Available for Current Operations	
	Yes	No		Yes	No
Current					
Unrestricted	\$ 16,853,330	\$ -	\$ 33,899,495	\$ 33,899,495	\$ -
Restricted					
Scholarships	-	3,231,003	3,025,121	-	3,025,121
Institutional scholarships	-	256,397	256,290	-	256,290
Encumbrances	-	11,632,037	2,228,234	-	2,228,234
Auxiliary enterprises	6,919,848	-	6,551,307	6,551,307	-
Loan	69,006	-	68,883	68,883	-
Endowment:					
Quasi:					
Restricted	-	1,255,117	1,224,018	-	1,224,018
Plant:					
Unexpended	-	7,566,423	8,007,669	-	8,007,669
Renewals	-	1,536,354	1,534,578	-	1,534,578
Debt Service	-	6,168,366	5,384,574	-	5,384,574
Investment in Plant	-	84,410,910	80,000,660	-	80,000,660
Total Net Position, August 31, 2021	23,842,184	116,056,607	142,180,829	40,519,685	101,661,144
Total Net Position, August 31, 2020	40,519,685	101,661,144	144,063,926	40,550,378	103,513,548
Adjustment to net position	(7,874,365)	-	-	-	-
Total Net Position, August 31, 2020 (restated)	32,645,320	101,661,144	-	-	-
Net Increase (Decrease) in Net Position	\$ (8,803,136)	\$ 14,395,463	\$ (1,883,097)	\$ (30,693)	\$ (1,852,404)

(Continued from page 58.)

SINGLE AUDIT SECTION

SCHEDULE E

**TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2021**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Pass-through From Texas Department of Health and Human Services:</i>			
Child Care Food Program	10.558	75G7033	\$ 20,158
Total Texas Department of Health and Human Services			20,158
Total U.S. Department of Agriculture			20,158
NATIONAL SCIENCE FOUNDATION			
<i>Direct Programs:</i>			
National Science Foundation -Advanced Tech Ed	47.076	1801166	26,837
Total Direct Programs			26,837
Total National Science Foundation			26,837
U.S. DEPARTMENT OF EDUCATION			
<i>Direct Programs:</i>			
<i>Student Financial Aid Cluster:</i>			
SEOG	84.007		360,600
Federal Work Study Program	84.033		221,094
Federal Pell Grant Program	84.063		13,805,552
Federal Direct Student Loans	84.268		2,748,343
Total Student Financial Aid Cluster			17,135,589
COVID-19-Federal CARES HEERF Student Portion	84.425E		9,494,906
Total CARES HEERF			9,494,906
Total Direct Programs			26,630,495
<i>Pass-through From Texas Higher Education Coordinating Board (THECB):</i>			
Carl Perkins Vocational Education - Basic	84.048	1742020601	200,489
Total THECB			200,489
<i>Pass-through From Region One ESC:</i>			
Gear Up	84.334		320
Total Region One			320
<i>Pass-through From Texas 21st Century:</i>			
TX 21st CCLC Program	84.287c		1,594,493
Total 21st Century			1,594,493
Total U.S. Department of Education			28,425,797

Notes to schedule on following pages

SCHEDULE E
(Continued)

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Pass-through From Texas Workforce Commission:</i>			
<i>Pass-through to University of Texas - RGV</i>			
TANF - Governor's Summer Merit Program	93.558	2417SMP001	34,371
Total Texas Workforce Commission			34,371
<i>Pass-through From National Institute of Health:</i>			
<i>Pass-through to University of Texas - RGV</i>			
National Science Foundation Subaward	93.859	1T34GM137854	10,444
Total National Institute of Health			10,444
Total U.S. Department of Health and Human Services			44,815
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 28,517,607

Notes to schedule on following pages

TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2021

<u>Note 1: Federal Assistance Reconciliation</u>	Pass-Through Disbursements
Federal revenue received by Texas Southmost College District:	
Federal grants and contracts revenue per Schedule A	\$ 11,382,019
Federal grants and contracts revenue per Schedule C	<u>17,135,588</u>
Total Federal Revenues	<u>\$ 28,517,607</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The expenditures included in the schedule of expenditures of federal awards (the "schedule") are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the District and the University of Texas - RGV for the purpose of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 3: Expenditures not Subject to Federal Single Audit

All expenditures are subject to Federal Single Audit.

Note 4: Student Loans Processed and Administrative Costs Recovered

Department of Education	
84.268 Federal Direct Student Loans	
(includes PLUS, subsidized and unsubsidized)	
New Loans Processed	\$ 2,748,343
Administrative Costs Recovered	<u>-</u>
Total Loans Processed & Admin Costs Recovered	<u>\$ 2,748,343</u>

Note 5: Non-monetary Federal Assistance Received

The District did not receive any non-monetary federal assistance this fiscal year.

Note 6: Indirect Costs

The District did not elect to apply the 10% de minimis indirect cost rate.

SCHEDULE F

**TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2021**

Grantor Agency/ Program Title	Grant Contract Number	Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD		
<i>Direct</i>		
TWC Skill Dev - Skills for SB	2419SSD001	\$ (8,750)
TWC Skill Dev - Texas Talent Connection	2420WPB001	125,820
TWC Skill Dev	2420COS002	3,975
TWC Child Care Relief Fund	2921CCR006966	162,734
Workforce Solutions Apprenticeship Plumbing	2419AEP-TSC	1,957
TWC Self-Sufficiency Fund	2421SSF001	2,287
TWC Building Construction Trade	2419WOS001	12,596
Nursing Innovation Grant Program	23837	61,128
Nursing Shortage Reduction Program	-	97,872
Texas College Work Study	-	22,765
Texas Educational Opportunity Grant	-	483,659
60x30TX - CRSM	23113	18,562
60x30TX - CRSM	20526	131,238
Total Texas Higher Education Coordinating Board		<u>1,115,843</u>
TEXAS MILITARY DEPARTMENT		
<i>Direct</i>		
Administrative Cost Allowance Recovery - Veterans		<u>1,221</u>
Total Texas Military Department		<u>1,221</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u><u>\$ 1,117,064</u></u>
<u>Note 1: State Assistance Reconciliation</u>		
State Revenues - Per Schedule A		
State Financial Assistance per Schedule of Expenditures of State Awards		<u>\$ 1,117,064</u>
Total State Revenues		<u><u>\$ 1,117,064</u></u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The accompanying schedule of expenditures of state awards is presented using the accrual basis of accounting. See Note 2 to the financial statements for the District's significant accounting policies. These expenditures are reported on the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.



Cascos & Associates, PC

Certified Public Accountants

Audit/Accounting/Tax/Consulting

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

The Board of Trustees
Texas Southmost College District
Brownsville, Texas

We have audited, in accordance with the 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, the financial statements of the business-type activities of Texas Southmost College District (the "District"), as of and for the years ended August 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 30, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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



765 East 7th Street / Brownsville, Texas 78520
Phone (956) 544-7778 Fax (956) 544-8465
Email: ccascos@cascoscpa.com



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cascos & Associates, PC". The signature is stylized, with the first name "Cascos" being more prominent and the "& Associates, PC" following it.

Cascos & Associates, PC
Brownsville, Texas
December 30, 2021



Cascos & Associates, PC

Certified Public Accountants

Audit/Accounting/Tax/Consulting

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS

The Board of Trustees
Texas Southmost College District
Brownsville, Texas

Report on Compliance for Each Major Federal and State Program

We have audited Texas Southmost College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal and state programs for the year ended August 31, 2021. The District'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.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of Texas Uniform Grant Management Standards. Those standards, the Uniform Guidance, and the State of Texas Uniform Grant Management Standards, 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 and state program occurred. An audit includes examining, on a test basis, evidence about the District'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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2021.



765 East 7th Street / Brownsville, Texas 78520
Phone (956) 544-7778 Fax (956) 544-8465
Email: ccascos@cascoscpa.com



Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State of Texas Uniform Grant Management Standards, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the State of Texas Uniform Grant Management Standards. Accordingly, this report is not suitable for any other purpose.

Cascos & Associates, PC

Cascos & Associates, PC
Brownsville, Texas
December 30, 2021

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF FEDERAL AND STATE FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2021

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report on financial statements in accordance with GAAP:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to the basic financial statements noted?	No

Federal & State Awards

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Type of auditors' report on compliance with major programs	Unmodified.
Findings and questioned costs for federal awards as defined in Section 501(a), 2 CFR 200.510 (a) and the State of Texas Single Audit Circular	No
Dollar threshold considered between Type A and Type B federal programs	\$750,000
Dollar threshold considered between Type A and Type B state programs	\$300,000
Low risk auditee statement	Yes
Major federal programs	Student Financial Aid Cluster (CFDA #84.007, #84.033, #84.063, #84.268) COVID-19-Federal CARES HEERF Student Portion (CFDA #84.425e)
Major state program	Texas Educational Opportunity Grant

II. Financial Statement Findings

The audit disclosed no finding required to be reported.

III. Federal Awards Findings and Questioned Costs

None

IV. State Awards Findings and Questioned Costs

None

**TEXAS SOUTHMOST COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2021**

Prior Findings and Questioned Costs for Federal and State Awards

None.