



TEXAS SOUTHMOST COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

for THE YEAR ENDED AUGUST 31, 2022 & 2021

TEXAS SOUTHMOST COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

For The Years Ended August 31, 2022 and 2021

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

TEXAS SOUTHMOST COLLEGE DISTRICT

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FINANCIAL SECTION



Cascos & Associates, PC

Certified Public Accountants
Audit/Accounting/Tax/Consulting

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Texas Southmost College District
Brownsville, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Texas Southmost College District (the District), as of and for the year ended August 31, 2022, and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2022, the District adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

Responsibility of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary 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, 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), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The 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 31, 2022, 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

Cascos & Associates, PC
Brownsville, Texas
December 31, 2022

**TEXAS SOUTHMOST COLLEGE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2022**

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, 2022. 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, 2022; 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, 2022 and 2021 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 cashflow 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 50 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 15.

TABLE 1
CONDENSED STATEMENT OF
NET POSITION
(in millions)

	Year Ended August 31, 2022	Year Ended August 31, 2021	Year Ended August 31, 2020
Current Assets	\$ 84.8	\$ 84.6	\$ 80.2
Noncurrent Assets			
Restricted Cash and Cash Equivalents	11.8	10.5	8.5
Capital Assets (net)	<u>126.6</u>	<u>125.3</u>	<u>125.7</u>
Total Assets	<u>223.2</u>	<u>220.4</u>	<u>214.4</u>
 Deferred Outflows of Resources	 7.9	 10.4	 33.3
Current Liabilities	16.1	14.9	13.9
Noncurrent Liabilities	<u>56.1</u>	<u>69.9</u>	<u>82.9</u>
Total Liabilities	<u>72.2</u>	<u>84.8</u>	<u>96.8</u>
 Deferred Inflow of Resources	 10.2	 6.1	 8.7
Net Position			
Net Investment in Capital Assets	90.8	84.4	80.0
Restricted	26.8	31.7	21.7
Unrestricted	<u>31.0</u>	<u>23.8</u>	<u>40.5</u>
Total Net Position	<u>\$ 148.6</u>	<u>\$ 139.9</u>	<u>\$ 142.2</u>

Total Assets increased by \$2.8 million in fiscal year 2022. Current Assets increased by \$0.2 million, primarily due to an increase in Cash and cash equivalents. Noncurrent Assets increased by \$2.6 million and was primarily due to an increase in Restricted Cash and Cash Equivalents.

At the end of fiscal year 2022, total liabilities decreased by \$12.6 million. Current Liabilities increased by \$1.2 million primarily due to an increase in Accounts payable and Unearned revenue. Noncurrent Liabilities decreased by \$13.8 million primarily due to decreases in Net Pension Liability.

Changes in assets, liabilities and net position are attributable to the requirements of GASB 68 and 75. Deferred outflows (an asset) decreased by \$2.5 million and deferred inflows (a liability) increased \$4.1 million.

Total Net Position (assets and deferred outflows of resources and liabilities and deferred inflows of resources) increased by \$8.7 million when compared to the prior year. The District experienced a decrease of approximately \$2.3, \$2.3, and \$1.9 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 \$31.0 million of total net position at August 31, 2022.

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 16.

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

	Year Ended August 31, 2022	Year Ended August 31, 2021	Year Ended August 31, 2020
Operating Revenues	\$ 23.5	\$ 20.4	\$ 10.0
Operating Expenses	(64.5)	(63.9)	(62.4)
Non-operating Revenue	50.9	50.6	52.2
Non-operating Expenses	(1.2)	(1.5)	(1.7)
Increase (Decrease) in Net Position	8.7	5.6	(1.9)
Net Position - Beginning of Year	139.9	142.2	144.1
Prior Period Adjustment	-	(7.9)	-
Net Position - Beginning of Year (restated)	139.9	134.3	144.1
Net Position - End of Year	<u>\$ 148.6</u>	<u>\$ 139.9</u>	<u>\$ 142.2</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, 2022		Year Ended August 31, 2021		Year Ended August 31, 2020	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Tuition and Fees (net)	\$ 2.2	9.4%	\$ 3.6	17.6%	\$ 2.4	24.0%
Grants and Contracts	20.9	88.9%	16.5	80.9%	7.2	72.0%
Auxiliary Enterprises	<u>0.4</u>	<u>1.7%</u>	<u>0.3</u>	<u>1.5%</u>	<u>0.4</u>	<u>4.0%</u>
Total Operating Revenue	<u>\$ 23.5</u>	<u>100.0%</u>	<u>\$ 20.4</u>	<u>100.0%</u>	<u>\$ 10.0</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 decreased overall, when compared to the prior year.
- Grants and Contracts increased significantly when compared to fiscal year 2021. 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)

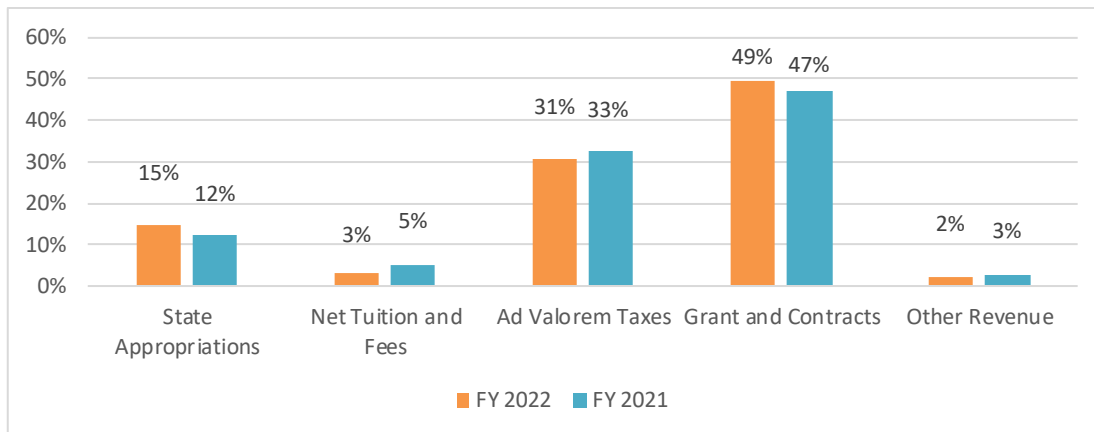
	Year Ended August 31, 2022		Year Ended August 31, 2021		Year Ended August 31, 2020	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
State Appropriations	\$ 11.0	21.6%	\$ 8.7	17.2%	\$ 8.8	16.9%
Title IV	15.9	31.2%	17.2	34.0%	19.1	36.6%
Ad Valorem Taxes	22.8	44.8%	23.1	45.7%	21.7	41.6%
Investment Income	0.3	0.6%	0.4	0.8%	1.2	2.3%
Other Non-Operating Revenue	<u>0.9</u>	<u>1.8%</u>	<u>1.2</u>	<u>2.3%</u>	<u>1.4</u>	<u>2.6%</u>
Total Non-Operating Revenue	<u>\$ 50.9</u>	<u>100.0%</u>	<u>\$ 50.6</u>	<u>100.0%</u>	<u>\$ 52.2</u>	<u>100.0%</u>

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

- State appropriations increased by \$2.3 million from fiscal year 2021. 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 2022 budget accordingly.
- The Title IV revenue decreased \$1.3 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 decreased by about \$0.3 million from fiscal year 2021 to fiscal year 2022 as a result of a decrease in delinquent tax collections. Property tax revenue increased \$1.3 million from fiscal year 2020 to fiscal year 2021. The tax rates for the District were \$0.154636, \$0.154636, and \$0.162407, per \$100 valuation for the fiscal years ended 2022, 2021 and 2020, respectively.
- Other Non-Operating Revenue remained consistent for fiscal years 2022 and 2021.
- Investment income for FY 2022 decreased by \$0.1 million. In fiscal year 2020, the District used LOGIC, a public funds investment pool. In fiscal year 2021, the District supplemented its investments with Certificates of Deposit. Fiscal year 2022 continued to see a similar approach to the investment portfolio.

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 2022 and 2021.

TABLE 5
TOTAL REVENUES



In fiscal year 2022 and 2021, Grant and Contracts were the largest source at 49% and 47% primarily due to federal, state and local aid received by the District in fiscal years 2022 and 2021, respectively. State Appropriations were 15% and 12% in fiscal years 2022 and 2021 of total revenues. Net Tuition and Fees in fiscal year 2022 and 2021 were 3% and 5%. Ad Valorem taxes remained consistent at 31% and 33% in fiscal years 2022 and 2021. Other Revenue was 2% and 3% in fiscal year 2022 and 2021, 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, 2022	Year Ended August 31, 2021	Year Ended August 31, 2020
Salaries	\$ 19.6	\$ 18.9	\$ 19.3
Benefits	5.4	10.3	13.5
Other Expenses	35.5	30.9	25.9
Depreciation	4.0	3.8	3.7
Total Operating Expenses	<u>\$ 64.5</u>	<u>\$ 63.9</u>	<u>\$ 62.4</u>

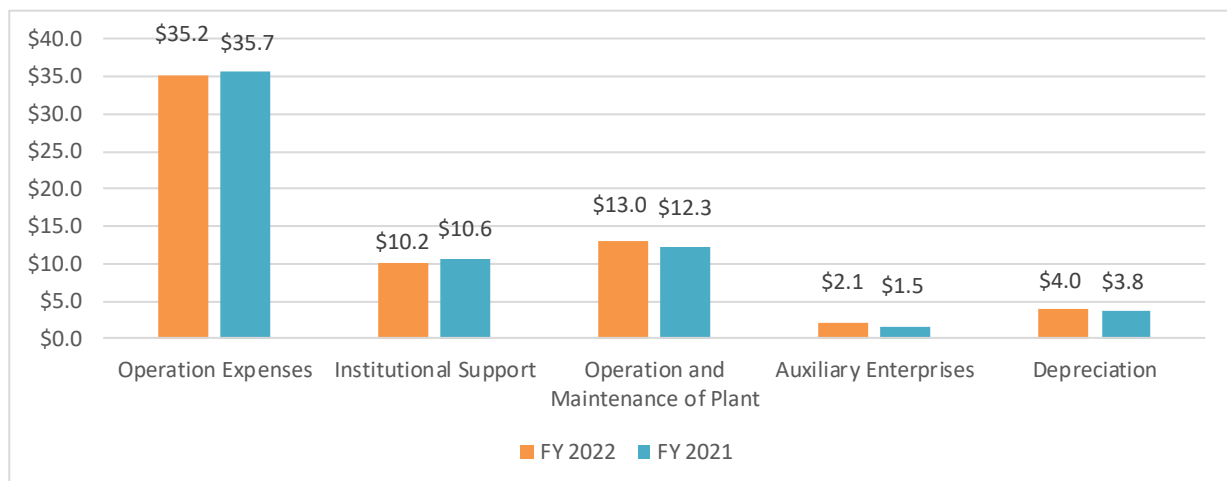
Table 7 displays the breakdown of the District's expenses by functional classification.

TABLE 7
OPERATING EXPENSES
Functional Classification (in millions)

	Year Ended August 31, 2022	Year Ended August 31, 2021	Year Ended August 31, 2020
Instruction	\$ 11.0	\$ 13.4	\$ 14.9
Public service	3.0	2.5	2.5
Academic support	2.9	3.5	3.7
Student services	3.7	4.2	5.1
Institutional support	10.2	10.6	7.7
Operations and maintenance of plant	13.0	12.3	12.0
Scholarships and fellowships	14.6	12.1	11.2
Total Educational Activities	58.4	58.6	57.1
Depreciation	4.0	3.8	3.7
Auxiliary enterprises	2.1	1.5	1.6
Total Operating Expenses	\$ 64.5	\$ 63.9	\$ 62.4

Table 8 displays a comparison of the breakdown of the expenses by functional classification for the District in fiscal years 2022 and 2021.

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 17 and 18 of this report.

TABLE 9
CONDENSED STATEMENT OF
CASH FLOWS
(in millions)

	Year Ended August 31, 2022	Year Ended August 31, 2021	Year Ended August 31, 2020
Cash provided/ used by:			
Operating Activities	\$ (37.1)	\$ (32.0)	\$ (39.0)
Non-Capital Financing Activities	45.4	44.1	44.4
Capital and Related Financing Activities	(6.4)	(3.6)	(8.0)
Investing Activities	(8.8)	6.6	(31.1)
Net Increase (Decrease) In Cash	(6.9)	15.1	(33.7)
Cash-Beginning of the Year	34.8	19.7	53.4
Cash-End of Year	\$ 27.9	\$ 34.8	\$ 19.7

Total Cash and Cash Equivalents decreased by \$6.9 million in fiscal year 2022 and increased by \$15.1 million in fiscal year 2021. Major factors impacting cash and cash equivalents are described below by source, but primarily impacted by Investing Activities.

Operating Activities: During fiscal year 2022 and fiscal year 2021, cash flows from operations resulted in an outflow of \$37.1 and \$32.0 million, respectively. The major source of cash receipts was from students & customers and grants & contracts (\$3.2 / \$22.2 million in 2022 and \$3.8 / \$18.8 million in 2021). The District's major cash outlay was for payments to suppliers for goods & services (\$43.2 million in 2022 and \$36.0 million in 2021) and for payments related to employees (\$22.2 in 2022 and \$18.8 in 2021).

Non-Capital Financing Activities: The District had a positive cash flow of \$45.4 in fiscal year 2022 and \$44.1 in fiscal year 2021 from the collection of Title IV allocations, property taxes and receipt of state appropriations. Property taxes were collected at a rate of 98.31% and 97.63% of the current year's tax levy for fiscal year 2022 and fiscal year 2021, 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 \$6.3 million and \$3.7 million, for fiscal years 2022 and 2021, respectively. Cash outflows of \$11.5 million and \$9.6 million resulted from principal & interest payments and acquisition of capital assets, for fiscal years 2022 and 2021, respectively. In addition, cash inflows of \$5.2 and \$5.9 million were recognized from the collection of property taxes for fiscal years 2022 and 2021, respectively.

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 outflow of \$8.8 million and cash inflow of \$6.6 million for fiscal years 2022 and 2021, 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, 2022	Year Ended August 31, 2021	Year Ended August 31, 2020
Total Tax Rate per \$100	\$ 0.154636	\$ 0.154636	\$ 0.162407
Total Tax Collections	\$ 22,795,549	\$ 23,095,338	\$ 21,740,862
Tax Collection Rate	98.31%	97.63%	96.62%
Net Assessed Valuation	\$ 16,591,427,292	\$ 14,666,509,824	\$ 12,836,688,690

The District's total tax collections decreased by approximately 1.32%, due to an decrease in delinquent tax collections. The Texas Southmost College Board of Trustees adopted a \$0.154636 per \$100 valuation tax rate for both fiscal year 2022 and 2021. 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 2022, the District had approximately \$126.6 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 26, provides further detailed information regarding the District's capital assets. Table 11 summarizes capital asset activity for the year ended August 31, 2022.

TABLE 11
CAPITAL ASSETS
(in millions)

	Balance September 1, 2021	Increases	Balance August 31, 2022
Not Depreciated	\$ 16.2	\$ 3.6	\$ 19.8
Buildings and Other Capital Assets	185.6	1.7	187.3
Less: Accumulated Depreciation	<u>(76.5)</u>	<u>(4.0)</u>	<u>(80.5)</u>
Net Capital Assets	<u>\$ 125.3</u>	<u>\$ 1.3</u>	<u>\$ 126.6</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 \$35.7 million in total bonds payable. Notes 6 through 8 of the financial statements which begin on page 28 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, 2021	Decreases	Balance August 31, 2022
General obligations	\$ 31.1	\$ (4.3)	\$ 26.8
Revenue bonds	9.8	(0.9)	8.9
Unamortized premiums	<u>4.2</u>	<u>(0.6)</u>	<u>3.6</u>
Total bonds payable	<u>\$ 45.1</u>	<u>\$ (5.8)</u>	<u>\$ 39.3</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board of Trustees adopted the prior year tax rate for fiscal year 2022, 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,	
	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 16,129,234	\$ 24,239,656
Investments	58,909,624	49,776,668
Accounts receivable (net)	8,854,467	10,212,883
Prepaid expenses	863,975	383,215
Total Current Assets	<u>84,757,300</u>	<u>84,612,422</u>
Noncurrent Assets		
Restricted cash and cash equivalents	11,813,994	10,569,716
Capital assets (net)	126,549,011	125,260,910
Total Noncurrent Assets	<u>138,363,005</u>	<u>135,830,626</u>
Total Assets	<u>223,120,305</u>	<u>220,443,048</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions	5,512,555	7,978,194
Deferred outflows related to OPEB	1,088,153	897,352
Deferred refunding costs	1,310,374	1,499,739
Total Deferred Outflows of Resources	<u>7,911,082</u>	<u>10,375,285</u>
LIABILITIES		
Current Liabilities		
Accounts payable	1,737,374	1,722,872
Accrued liabilities	536,634	548,083
Accrued compensable absences	497,725	489,348
Funds held for others	19,943	18,144
Unearned revenue	7,957,966	7,029,278
Bonds payable - current portion	5,335,000	5,100,000
Total Current Liabilities	<u>16,084,642</u>	<u>14,907,725</u>
Noncurrent Liabilities		
Net pension liability	6,432,830	14,673,927
Net OPEB liability	15,711,700	15,275,720
Bonds payable	33,998,810	39,959,578
Total Noncurrent Liabilities	<u>56,143,340</u>	<u>69,909,225</u>
Total Liabilities	<u>72,227,982</u>	<u>84,816,950</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	8,077,626	2,213,863
Deferred inflows related to OPEB	2,135,322	3,888,729
Total Deferred Inflows of Resources	<u>10,212,948</u>	<u>6,102,592</u>
NET POSITION		
Net investment in capital assets	90,799,011	84,410,910
Restricted, Expendable for		
Expendable		
Endowment	1,238,702	1,255,117
Capital projects	9,119,946	9,102,777
Debt service	6,627,605	6,168,366
Scholarships	3,265,012	3,231,003
Institutional scholarships	256,932	256,397
Grants	220,823	-
Admin projects	1,108,895	-
Encumbrances	4,954,731	11,632,037
Unrestricted	<u>30,998,800</u>	<u>23,842,184</u>
Total Net Position (Schedule D)	<u>\$ 148,590,457</u>	<u>\$ 139,898,791</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,	
	2022	2021
OPERATING REVENUES		
Tuition and fees (net of discounts of \$13,670,260 & \$12,909,740 respectively)	\$ 2,230,972	\$ 3,603,612
Federal grants and contracts	14,392,297	11,382,019
State grants and contracts	1,340,753	1,117,064
Local grants and contracts	5,098,933	3,961,705
Auxiliary enterprises	402,700	307,719
Total Operating Revenues (Schedule A)	<u>23,465,655</u>	<u>20,372,119</u>
OPERATING EXPENSES		
Instruction	10,957,156	13,433,082
Public service	2,990,472	2,445,274
Academic support	2,911,537	3,462,199
Student services	3,681,263	4,190,362
Institutional support	10,217,046	10,614,846
Operation and maintenance of plant	13,032,052	12,343,699
Scholarships and fellowships	14,629,974	12,128,309
Auxiliary enterprises	2,121,940	1,473,483
Depreciation	3,961,016	3,760,846
Total Operating Expenses (Schedule B)	<u>64,502,456</u>	<u>63,852,100</u>
Operating (Loss)	<u>(41,036,801)</u>	<u>(43,479,981)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	10,973,448	8,739,245
Title IV	15,855,996	17,135,588
Maintenance ad valorem taxes	17,573,914	17,182,877
Debt service ad valorem taxes	5,221,635	5,912,461
Investment income	317,867	444,309
Interest on capital related debt	(1,212,869)	(1,424,280)
Other non-operating revenues	1,019,412	1,188,176
Other non-operating expenses	(20,936)	(106,068)
Total Non-Operating Revenues (Schedule C)	<u>49,728,467</u>	<u>49,072,308</u>
Increase (Decrease) in Net Position	<u>8,691,666</u>	<u>5,592,327</u>
NET POSITION		
Net Position - Beginning of Year	139,898,791	142,180,829
Prior Period Adjustment	-	(7,874,365)
Net Position - Beginning of Year (Restated)	<u>139,898,791</u>	<u>134,306,464</u>
Net Position - End of Year	<u>\$ 148,590,457</u>	<u>\$ 139,898,791</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, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 3,159,660	\$ 3,764,301
Receipts from grants and contracts	22,190,399	18,808,610
Payments to suppliers for goods or services	(43,239,106)	(36,044,196)
Payments to or on behalf of employees	(19,626,191)	(18,782,376)
Receipts from auxiliary services	402,700	307,719
Net cash provided (used) by operating activities	<u>(37,112,538)</u>	<u>(31,945,942)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	10,973,448	8,739,245
Receipts from Title IV allocations	15,855,996	17,135,588
Receipts from ad valorem taxes	17,573,914	17,182,877
Other non-capital financing revenue	1,019,412	1,188,176
Other non-capital financing expenses	(20,936)	(106,068)
Net cash provided (used) by non-capital financing activities	<u>45,401,834</u>	<u>44,139,818</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from ad valorem tax revenues	5,221,635	5,912,461
Acquisition of capital assets	(5,249,117)	(3,296,096)
Payments on capital debt - principal	(5,100,000)	(4,875,000)
Payments on capital debt - interest and issuance costs	(1,212,869)	(1,424,280)
Net cash provided (used) by capital and related financing activities	<u>(6,340,351)</u>	<u>(3,682,915)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	<u>(8,815,089)</u>	<u>6,597,840</u>
Net cash provided (used) by investing activities	<u>(8,815,089)</u>	<u>6,597,840</u>
Increase (decrease) in cash and cash equivalents	(6,866,144)	15,108,801
Total Cash and cash equivalents - September 1	<u>34,809,372</u>	<u>19,700,571</u>
Total Cash and cash equivalents - August 31	<u>\$ 27,943,228</u>	<u>\$ 34,809,372</u>
Cash and cash equivalents	\$ 16,129,234	\$ 24,239,656
Restricted cash and cash equivalents	11,813,994	10,569,716
Total cash and cash equivalents	<u>\$ 27,943,228</u>	<u>\$ 34,809,372</u>

EXHIBIT 3
(Continued)

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

	August 31,	
	2022	2021
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (41,036,801)	\$ (43,479,981)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation expense	3,961,016	3,760,846
Changes in assets and liabilities:		
Accounts receivable (net)	1,358,416	2,347,822
Prepaid expenses	(480,760)	95,697
Accounts payable	16,301	453,804
Accrued liabilities	(11,449)	192,985
Accrued compensated absences	8,377	(54,667)
Deferred inflows/outflow of resources related to pensions	88,305	1,926,713
Deferred inflows/outflows of resources related to OPEB	(1,508,228)	2,873,864
Deferred inflows/outflows of resources related to refunding costs	(436,403)	(223,714)
Unearned revenue	928,688	160,689
Net cash provided (used) by operating activities	<u>\$ (37,112,538)</u>	<u>\$ (31,945,942)</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, 2022 AND 2021**

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, 2022 AND 2021**

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 \$7,329,465 and \$7,287,335 for fiscal years 2022 and 2021, respectively, and Certificates of Deposit comprised of \$51,348,362 and \$42,230,455 for fiscal years 2022 and 2021, 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 \$24,675 and \$25,524 for fiscal years ended 2022 and 2021, respectively.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

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 \$1,626,504 and \$6,331,462 and federal, state, and local grants of \$5,921,189 and \$697,816 have been reported by the District as unearned revenue at August 31, 2022 and 2021, 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, 2022 AND 2021**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Lessee: The District is a lessee for a noncancellable lease of equipment. The District recognizes lease liabilities with an initial, individual value of \$50,000 or more. In fiscal year 2022 and 2021, the College did not participate in leases meeting these criteria. Had the District participated in leases that met the criteria, it would have recognized a lease liability and an intangible right-to-use lease asset in the financial statements.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Lessor: The District is a lessor for the non-renewing, annually agreed upon lease of a building space. Had the District participated in leases that met the criteria, the District would have recognized a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of fixed or minimum payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

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.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

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.

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,	
	2022	2021
Bank Deposits		
Demand Deposits - Unrestricted	\$ 16,401,270	\$ 25,075,328
Demand Deposits - Restricted	12,330,948	11,009,951
Certificates of Deposit	51,348,362	42,230,455
External investment pools	7,329,465	7,287,335
Money market	231,797	258,878
Total Bank Deposits	87,641,842	85,861,947
Cash and Cash Equivalents		
Petty Cash on Hand	500	500
Reconciling Items in Transit	(789,490)	(1,276,407)
Total	<u>\$ 86,852,852</u>	<u>\$ 84,586,040</u>

Reconciliation of Deposits and Investments

Type of Deposit or Investment	Fair Value 8/31/2022	Fair Value 8/31/2021
Total Cash and Deposits	\$ 27,943,228	\$ 34,809,372
Total Investments	58,909,624	49,776,668
Total Deposits and Investments	<u>\$ 86,852,852</u>	<u>\$ 84,586,040</u>
Cash and cash equivalents	\$ 16,129,234	\$ 24,239,656
Restricted cash and cash equivalents	11,813,994	10,569,716
Investments	58,909,624	49,776,668
Total Deposits and Investments	<u>\$ 86,852,852</u>	<u>\$ 84,586,040</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

4. DEPOSITS AND INVESTMENTS (CONTINUED)

As of August 31, 2022 the District had the following investments:

Investment Type	Fair Value	Investment Maturities	W.A.M.
Investment Pool - LOGIC	\$ 7,329,465	Less than 1 Yr.	33 Days
Certificates of Deposit	51,348,362	Less than 1 Yr.	30-180 Days
Endowment Donation - Common Stock	231,797	Less than 1 Yr.	33 Days
Total Fair Value	<u>\$ 58,909,624</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 mortgage-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, 2022, 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, 2022 AND 2021**

4. DEPOSITS AND INVESTMENTS (CONTINUED)

At August 31, 2022, and 2021, the carrying amount of the District's cash on hand & deposits was \$86,852,852 and \$84,586,040, respectively, and total bank balances equaled \$87,641,842 and \$85,861,947, respectively. Bank balances are covered by Federal depository insurance of up to \$250,000 per financial institution and \$87,391,842 and \$85,611,947 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, 2022 and 2021, 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, 2022 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
External investment pools	\$ -	\$ 7,329,465	\$ -	\$ 7,329,465
Certificates of deposit	-	51,348,362	-	51,348,362
Money market	<u>231,797</u>	<u>-</u>	<u>-</u>	<u>231,797</u>
Total	<u><u>\$ 231,797</u></u>	<u><u>\$ 58,677,827</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 58,909,624</u></u>

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**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

5. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2022 was as follows:

	Balance September 1, 2021	Increases	Balance August 31, 2022
<u>Not Depreciated:</u>			
Land	\$ 6,525,905	\$ -	\$ 6,525,905
Construction in progress	9,642,256	3,571,369	13,213,625
Subtotal	<u>16,168,161</u>	<u>3,571,369</u>	<u>19,739,530</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	390,696	10,062,757
Total Buildings and Other Real Estate Improvements	<u>168,614,490</u>	<u>390,696</u>	<u>169,005,186</u>
Software and other intangibles	327,074	-	327,074
Furniture, machinery, and equipment	16,620,259	1,287,052	17,907,311
Subtotal	<u>16,947,333</u>	<u>1,287,052</u>	<u>18,234,385</u>
Total Buildings and Other Capital Assets	<u>185,561,823</u>	<u>1,677,748</u>	<u>187,239,571</u>
<u>Accumulated Depreciation:</u>			
Buildings and building improvements	(53,522,398)	(2,825,731)	(56,348,129)
Other real estate improvements	(8,526,019)	(186,651)	(8,712,670)
Total Buildings and Other Real Estate Improvements	<u>(62,048,417)</u>	<u>(3,012,382)</u>	<u>(65,060,799)</u>
Software and other intangibles	(288,203)	(26,513)	(314,716)
Furniture, machinery, and equipment	(14,132,454)	(922,121)	(15,054,575)
Subtotal	<u>(14,420,657)</u>	<u>(948,634)</u>	<u>(15,369,291)</u>
Total Accumulated Depreciation	<u>(76,469,074)</u>	<u>(3,961,016)</u>	<u>(80,430,090)</u>
Net Capital Assets	<u>\$ 125,260,910</u>	<u>\$ 1,288,101</u>	<u>\$ 126,549,011</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

5. CAPITAL ASSETS (Continued)

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
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FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

6. NONCURRENT LIABILITIES

	Balance September 1, 2021	Increases	Decreases	Balance August 31, 2022	Current Portion
<u>Bonds</u>					
General obligation bonds	\$ 31,045,000	\$ -	\$ 4,210,000	\$ 26,835,000	\$ 4,410,000
Revenue bonds	9,805,000	-	890,000	8,915,000	925,000
Unamortized premiums	4,209,578	-	625,768	3,583,810	-
Total Bonds	45,059,578	-	5,725,768	39,333,810	5,335,000
Net pension liability	14,673,927	-	8,241,097	6,432,830	-
Net OPEB liability	15,275,720	435,980	-	15,711,700	-
Total Noncurrent Liabilities	\$ 75,009,225	\$ 435,980	\$ 13,966,865	\$ 61,478,340	\$ 5,335,000

	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	50,854,354	-	5,794,776	45,059,578	5,100,000
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	\$ 87,765,747	\$ 1,614,374	\$ 14,370,896	\$ 75,009,225	\$ 5,100,000

7. DEBT OBLIGATIONS

Debt service requirements at August 31, 2022 were as follows:

For the year Ended	General Obligation Bonds			Revenue Bonds			Total Bonds		
<u>August 31,</u>	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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	1,565,000	275,375	1,840,375	1,080,000	199,400	1,279,400	2,645,000	474,775	3,119,775
2028-2032	6,155,000	628,788	6,783,788	3,905,000	347,600	4,252,600	10,060,000	976,388	11,036,388
2033-2035	205,000	4,100	209,100	-	-	-	205,000	4,100	209,100
	<u>\$ 26,835,000</u>	<u>\$ 3,855,889</u>	<u>\$ 30,690,889</u>	<u>\$ 8,915,000</u>	<u>\$ 1,745,200</u>	<u>\$ 10,660,200</u>	<u>\$ 35,750,000</u>	<u>\$ 5,601,089</u>	<u>\$ 41,351,089</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
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FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

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>
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
2027	-	-	-
	<u>\$ 12,415,000</u>	<u>\$ 1,255,875</u>	<u>\$ 13,670,875</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>
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
2027	-	-	-
	<u>\$ 1,270,000</u>	<u>\$ 106,450</u>	<u>\$ 1,376,450</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
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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 \$380,000 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>
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	880,000	210,525	1,090,525
2028-2032	4,935,000	508,363	5,443,363
	<u>\$ 7,375,000</u>	<u>\$ 1,729,626</u>	<u>\$ 9,104,626</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 \$640,000 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>
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	745,000	126,600	871,600
2028-2032	2,420,000	196,200	2,616,200
	<u>\$ 5,880,000</u>	<u>\$ 1,106,000</u>	<u>\$ 6,986,000</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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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 \$285,000 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>
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	335,000	72,800	407,800
2028-2032	1,485,000	151,400	1,636,400
	<u>\$ 3,035,000</u>	<u>\$ 639,200</u>	<u>\$ 3,674,200</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>
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	535,000	28,300	563,300
2028-2032	440,000	10,000	450,000
	<u>\$ 2,700,000</u>	<u>\$ 261,063</u>	<u>\$ 2,961,063</u>

**TEXAS SOUTHMOST COLLEGE DISTRICT
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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 \$195,000 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>
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	150,000	36,550	186,550
2028-2032	780,000	110,425	890,425
2033-2035	205,000	4,100	209,100
	<u>\$ 3,075,000</u>	<u>\$ 502,875</u>	<u>\$ 3,577,875</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
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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 2022 through 2025.

	<u>Contribution Rates</u>	
	<u>2022</u>	<u>2021</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		\$627,160
Current fiscal year Member Contributions		1,077,332
FY 2022 State of Texas On-behalf Contributions		(62,699)

**TEXAS SOUTHMOST COLLEGE DISTRICT
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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
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9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the August 31, 2022 actual valuation was determined using the following assumptions:

Valuation Date	Aug 31, 2020 rolled forward to Aug 31, 2021
Actuarial cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	7.25%
Long-term Expected Rate	7.25%
	1.95% - The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally taxexempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Municipal Bond Rate as of August 2020	
Last year ending August 31 in Projection Period (100 years)	2120
Inflation	2.3%
Salary Increases Including Inflation	3.05% to 9.05% including inflation
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 2021 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
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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, 2021, is summarized below:

Asset Class	FY 2021 Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution To Long-Term Portfolio Returns
Global Equity			
U.S.	18.00%	3.60%	0.94%
Non-U.S. Developed	13.00%	4.40%	0.83%
Emerging Markets	9.00%	4.60%	0.74%
Private Equity	14.00%	6.30%	1.36%
Stable Value			
Government Bonds	16.00%	-0.20%	0.10%
Absolute Return	0.00%	1.10%	0.00%
Stable Value Hedge Funds	5.00%	2.20%	0.12%
Real Return			
Real Assets	15.00%	4.50%	1.00%
Energy and Natural Resources	6.00%	4.70%	0.35%
Commodities	0.00%	1.60%	0.00%
Risk Parity			
Risk Parity	8.00%	2.80%	0.28%
Asset allocation leverage			
Cash	2.00%	-0.70%	-0.03%
Asset allocation leverage	-6.00%	-0.50%	0.03%
Inflation Expectation			2.20%
Volatility Drag			-0.95%
Total	100.00%		6.97%

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

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 2022 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:	\$14,056,754	\$6,432,830	\$247,513

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

At August 31, 2022, 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	\$6,432,830
State's proportionate share that is associated with employer	<u>(374,160)</u>
Total	<u><u>\$6,058,670</u></u>

The net pension liability was measured as of August 31, 2021 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, 2020 thru August 31, 2021.

At the measurement date of August 31, 2021 the employer's proportion of the collective net pension liability was 0.0252600061% which was an decrease of 0.0021382129% from its proportion measured as of August 31, 2021.

For the year ended August 31, 2022, the District recognized pension expense of \$88,305 and revenue of \$525,219 for support provided by the State.

At August 31, 2022, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 10,765	\$ 452,876
Changes in actuarial assumptions	2,273,880	991,216
Difference between projected and actual investment earnings	399,561	5,793,405
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,828,349	840,129
Contributions paid to TRS subsequent to the measurement date	-	-
Total	<u>\$ 5,512,555</u>	<u>\$ 8,077,626</u>

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
2023	\$ 1,359,303
2024	1,787,669
2025	1,653,966
2026	860,289
2027	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 \$112,349 and \$115,278 for the fiscal years ended August 31, 2022 and 2021, 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 \$19,623,119 and \$18,920,694 for fiscal years 2022 and 2021, respectively. The total payroll of employees covered by the Optional Retirement Program was \$3,404,545 and \$3,493,277 for fiscal years 2022 and 2021, respectively.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

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, 2022 and 2021, the District did not have any employees participating in a deferred compensation program.

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, 2022 and 2021 was as follows:

	Balance September 1, 2021	Increases	Decreases	Balance August 31, 2022
Compensable absences	<u>\$ 489,348</u>	<u>\$ 298,980</u>	<u>\$ (290,603)</u>	<u>\$ 497,725</u>

	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>

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, 2022 (\$625 per month for fiscal year 2021) and totaled \$1,107,948 for the year ended August 31, 2022 (\$1,164,760 for the year ended August 31, 2021). The cost of providing benefits was \$2,421,580 for the year ended August 31, 2022 (\$2,537,158 for the year ended August 31, 2021). 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, 2022 AND 2021**

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, 2022 AND 2021**

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, 2022 and 2021		
	<u>2022</u>	<u>2021</u>
Retiree only	\$ 624.82	\$ 624.82
Retiree & Spouse	1,340.82	1,339.90
Retiree & Children	1,104.22	1,103.58
Retiree & Family	1,820.22	1,818.66

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, 2022 and 2021		
	<u>2022</u>	<u>2021</u>
Current fiscal year employer contributions	\$ 1,523,164	\$ 1,497,043
Current fiscal year member contributions	306,950	302,874
2021 measurement year NECE-on-behalf contributions	1,164,760	1,147,039

Source: ERS 2021 Comprehensive Annual Financial Report

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**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

13. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of August 31, 2021 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified (sourced from FY 2021 ERS CAFR):

Valuation Date	August 31, 2021
Actuarial Cost Method	Entry Age
Amortization Method	Level percent of pay, open
Remaining Amortization Period	30 Years
Asset Valuation Method	N/A
Discount Rate	2.14%
Projected Annual Salary Increase	2.30% to 9.05% (includes inflation)
Healthcare Trend Rates	5.25% for 2023, 5.15% for 2024, 5.00% for 2025, 4.75% for 2026, decreasing 10 basis points per year to an ultimate rate of 4.30% for 2030 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 retirement plan actuary as of August 31, 2019 and the TRS retirement plan actuary as of August 31, 2017. Several assumptions or other inputs have been updated since the prior valuation as shown in Section VI of this report.

Investment Policy

The SRHP is a pay-as-you-go plan and does not accumulate funds in advance of retirement; therefore, the assumed asset allocation and long-term expected real rate of return on investments is not applicable. The ERS's Board of Trustees adopted the amendment to the investment policy in August 2017 to require that all funds in the SRHP 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, 2022 AND 2021**

13. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Discount Rate

Because the SRHP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bond rates. The discount rate used to determine the total OPEB liability as of the end of the measurement year was 2.14% to reflect the requirements of GASB 75. 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 SRHP are equal to projected benefit payments out of the plan. Because SRHP operates on a pay-as-you-go 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 (2.14%) in measuring the net OPEB Liability.

	1% Decrease in Discount Rate (1.14%)	Discount Rate (2.14%)	1% Increase in Discount Rate (3.14%)
District's proportionate share of the net OPEB liability:	\$18,713,231	\$15,711,700	\$13,363,450

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	Current Healthcare Cost Trend Rates	1% Increase
District's proportionate share of the net OPEB liability:	\$13,156,699	\$15,711,700	\$19,059,206

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

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, 2022, 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	\$15,711,700
State's proportionate share that is associated with employer	<u>9,940,729</u>
Total	<u><u>\$25,652,429</u></u>

The net OPEB liability was measured as of August 31, 2021, 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, 2020, thru August 31, 2021.

At the measurement date of August 31, 2021, 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, 2020 (0.06901040%).

For the year ended August 31, 2022, 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, 2022 AND 2021**

13. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The valuation reflects the minor benefit changes that will become effective January 1, 2022, 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 2022, are provided for in the fiscal year 2022 Assumed Per Capita Health Benefit Costs.

As of August 31, 2022, 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	\$ -	\$ 385,390
Changes in actuarial assumptions	1,075,685	1,749,932
Difference between projected and actual investment earnings	2,783	-
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	9,685	-
Total	<u>\$ 1,088,153</u>	<u>\$ 2,135,322</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 <u>Amount</u>
2023	\$ -
2024	2,726,239
2025	3,309,328
2026	2,260,618
Thereafter	-

14. PENDING LAWSUITS AND CLAIMS

On August 31, 2022, 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, 2022 AND 2021**

15. DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at August 31, were as follows:

	<u>2022</u>	<u>2021</u>
Taxes receivable	\$ 2,023,111	\$ 2,068,217
Grants and contracts receivable	1,122,361	3,447,848
Student receivable	3,089,706	2,038,229
Donations receivable	315,070	315,070
Accrued interest receivable	30,201	30,196
Other receivable - TSCF	512,427	274,516
Other receivable - ISDs	1,301,391	1,299,952
Other receivable - UTRGV	<u>1,185,076</u>	<u>1,465,987</u>
Subtotal	9,579,343	10,940,015
Allowance for doubtful accounts	<u>(724,876)</u>	<u>(727,132)</u>
Total Receivables	<u><u>\$ 8,854,467</u></u>	<u><u>\$ 10,212,883</u></u>

Payables

Payables at August 31, were as follows:

	<u>2022</u>	<u>2021</u>
Vendors payable	\$ 1,714,496	\$ 1,714,216
Student payable	<u>22,878</u>	<u>8,656</u>
Total Payables	<u><u>\$ 1,737,374</u></u>	<u><u>\$ 1,722,872</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 2022 and 2021, for which monies have not been received, nor expended.

**TEXAS SOUTHMOST COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021**

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:

	<u>2022</u>	<u>2021</u>
Assessed valuation of the District	\$ 19,226,737,723	\$ 16,915,600,528
Less:		
Exemptions	<u>2,635,310,431</u>	<u>2,249,090,704</u>
Net assessed valuation of the District	<u>\$ 16,591,427,292</u>	<u>\$ 14,666,509,824</u>

	<u>2022</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized tax rate per \$100 valuation	\$ 0.350000	\$ 0.500000	\$ 0.850000
Assessed tax rate per \$100 valuation	\$ 0.119694	\$ 0.034942	\$ 0.154636

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

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, 2022 and 2021 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, 2022 AND 2021**

17. AD VALOREM TAX (CONTINUED)

<u>Taxes Collected</u>	2022		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current taxes collected	\$ 16,829,428	\$ 5,042,769	\$ 21,872,197
Delinquent taxes collected	957,567	179,101	1,136,668
Penalties and interest collected	339,058	161,160	500,218
Less discounts and commissions	<u>(552,139)</u>	<u>(161,395)</u>	<u>(713,534)</u>
Total Collections	<u>\$ 17,573,914</u>	<u>\$ 5,221,635</u>	<u>\$ 22,795,549</u>

<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>

Tax collections for the years ended August 31, 2022 and 2021 were 97.63% and 97.63%, 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, 2022, and 2021.

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, 2022 AND 2021**

20. DESIGNATED ASSETS

As of August 31, 2022 and 2021, the balances of designated assets are as follows:

	<u>2022</u>	<u>2021</u>
Construction & Improvements Encumbrances	\$ 3,767,651	\$ 5,985,793
Vendor Related Encumbrances	<u>1,187,080</u>	<u>5,646,244</u>
	<u>\$ 4,954,731</u>	<u>\$ 11,632,037</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, 2022 and 2021, 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.

REQUIRED SUPPLEMENTARY SECTION

**TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED AUGUST 31, 2022**

	2021	2020	2019	2018	2017	2016	2015	2014
Texas Southmost College proportionate share of collective net pension liability (%)	0.0252600061%	0.0273982190%	0.0251226778%	0.0230601763%	0.0130791436%	0.00992228%	0.0083521%	0.0078902%
Texas Southmost College proportionate share of collective net pension liability (\$)	\$ 6,432,830	\$ 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	(374,160)	5,039,565	-	-	2,418,491	2,273,323	2,208,258	1,733,259
Total	\$ 6,058,670	\$ 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	\$ 10,866,651	\$ 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	59.20%	106.12%	102.36%	99.31%	42.47%	32.03%	26.42%	18.79%
TRS net position as percentage of total pension liability	88.79%	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, 2022

	2022	2021	2020	2019	2018	2017	2016	2015
Legally required contributions	\$ 627,160	\$ 1,130,458	\$ 879,324	\$ 560,739	\$ 480,412	\$ 518,778	\$ 484,815	\$ 462,000
Actual contributions	(627,160)	(1,130,458)	(879,324)	(560,739)	(480,412)	(518,778)	(484,815)	(462,000)
Contributions deficiency (excess)	-	-	-	-	-	-	-	-
Texas Southmost College covered payroll amount	\$ 10,866,651	\$ 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	5.7714%	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, 2022**

1. Employer Contributions

Employer contributions were taken from the TRS system called TRUST for the fiscal year ended August 31, 2022. 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 2022 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, 2022. The actuarial valuation was performed as of August 31, 2021. Update procedures were used to roll forward the total pension liability to August 31, 2022.

**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, 2022**

Fiscal year ending August 31 *	Measurement Year Ended August 31,	
	2022	2021
Texas Southmost College proportionate share of collective net OPEB liability (%)	0.04379506%	0.04622754%
Texas Southmost College proportionate share of collective net OPEB liability (\$)	\$ 15,711,700	\$ 15,275,720
State's proportionate share of net OPEB liability associated with Texas Southmost College	9,940,729	11,063,397
Total	\$ 25,652,429	\$ 26,339,117
Texas Southmost College covered payroll	\$ 10,866,651	\$ 13,827,760
College's proportionate share of collective net OPEB liability as a percentage of covered payroll	144.59%	110.47%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	76.06%	42.38%

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, 2022**

	Fiscal Year Ended	
	August 31,	
	2022	2021
Legally Required Contributions	\$ 1,523,164	\$ 1,164,759
Actual Contributions	(1,523,164)	(1,164,759)
Contributions deficiency (excess)	-	-
 Texas Southmost College covered payroll amount	 \$ 10,866,651	 \$ 13,827,760
Contributions as a percentage of covered payroll	14.0169%	8.4233%

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, 2022

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, 2021, 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 2022 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 3.96% to 2.14% 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 2020.

SUPPLEMENTARY SECTION

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2022
(With Memorandum Totals for the Year Ended August 31, 2021)

OPERATING REVENUES	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2022 Total	2021 Total
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 5,376,004	\$ -	\$ 5,376,004	\$ -	\$ 5,376,004	\$ 5,933,701
Out-of-district resident tuition	1,170,388	-	1,170,388	-	1,170,388	1,320,344
Non-resident tuition	151,779	-	151,779	-	151,779	137,323
TPEG - credit (set aside)*	334,064	-	334,064	-	334,064	374,024
Total Tuition	<u>7,032,235</u>	<u>-</u>	<u>7,032,235</u>	<u>-</u>	<u>7,032,235</u>	<u>7,765,392</u>
Fees:						
Non-instructional contract training fees	6,918,047	-	6,918,047	1,950,950	8,868,997	8,747,960
Total Fees	<u>6,918,047</u>	<u>-</u>	<u>6,918,047</u>	<u>1,950,950</u>	<u>8,868,997</u>	<u>8,747,960</u>
Scholarship Allowances and Discounts:						
Remissions and exemptions - Title IV	(8,798,498)	-	(8,798,498)	-	(8,798,498)	(8,617,441)
Remissions and exemptions - Local	(4,417,455)	-	(4,417,455)	-	(4,417,455)	(3,990,708)
TPEG awards	(454,307)	-	(454,307)	-	(454,307)	(301,591)
Total Scholarship Allowances	<u>(13,670,260)</u>	<u>-</u>	<u>(13,670,260)</u>	<u>-</u>	<u>(13,670,260)</u>	<u>(12,909,740)</u>
Total Net Tuition and Fees	<u>280,022</u>	<u>-</u>	<u>280,022</u>	<u>1,950,950</u>	<u>2,230,972</u>	<u>3,603,612</u>
Additional Operating Revenues:						
Federal grants and contracts	-	14,378,667	14,378,667	13,630	14,392,297	11,382,019
State grants and contracts	-	1,340,753	1,340,753	-	1,340,753	1,117,064
Local grants and contracts	3,978,880	620,053	4,598,933	500,000	5,098,933	3,961,705
Total Additional Operating Revenues	<u>3,978,880</u>	<u>16,339,473</u>	<u>20,318,353</u>	<u>513,630</u>	<u>20,831,983</u>	<u>16,460,788</u>
Auxiliary Enterprises:						
Student programs	-	-	-	402,700	402,700	307,719
Total Auxiliary Enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>402,700</u>	<u>402,700</u>	<u>307,719</u>
Total Operating Revenues	<u>\$ 4,258,902</u>	<u>\$ 16,339,473</u>	<u>\$ 20,598,375</u>	<u>\$ 2,867,280</u>	<u>\$ 23,465,655</u> (Exhibit 2)	<u>\$ 20,372,119</u> (Exhibit 2)

* In accordance with Education Code 56.003, \$334,064 and \$374,024 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended August 31, 2022 and 2021, respectively.

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF OPERATING EXPENSES BY OBJECT
FOR THE YEAR ENDED AUGUST 31, 2022
(With Memorandum Totals for the Year Ended August 31, 2021)

	Operating Expenses				2022 Total	2021 Total
	Salaries and Wages	State Benefits	Local Benefits	Other Expenses		
OPERATING EXPENSES						
Unrestricted - Educational Activities:						
Instruction	\$ 8,290,817	\$ -	\$ 2,128,355	\$ 340,840	\$ 10,760,012	\$ 13,313,715
Public service	396,611	-	93,126	232,457	722,194	795,772
Academic support	1,797,923	-	530,455	215,091	2,543,469	3,215,973
Student services	2,325,328	-	752,700	247,292	3,325,320	3,925,528
Institutional support	2,669,565	-	782,646	1,742,577	5,194,788	4,568,256
Operation and maintenance of plant	1,633,250	-	548,144	10,439,550	12,620,944	12,180,965
Total Unrestricted Educational Activities	17,113,494	-	4,835,426	13,217,807	35,166,727	38,000,209
Restricted - Educational Activities:						
Instruction	19,804	-	4,462	172,878	197,144	119,367
Public service	676,038	-	207,565	1,384,675	2,268,278	1,649,502
Academic support	104,524	-	24,295	239,249	368,068	246,226
Student services	328,287	-	-	27,656	355,943	264,834
Institutional support	63,460	-	17,170	4,941,628	5,022,258	6,046,590
Operation and maintenance of plant	268,837	-	98,213	44,058	411,108	162,734
Scholarships and fellowships	8,076	-	2,343	14,619,555	14,629,974	12,128,309
Total Restricted Educational Activities	1,469,026	-	354,048	21,429,699	23,252,773	20,617,562
Total Educational Activities	18,582,520	-	5,189,474	34,647,506	58,419,500	58,617,771
Auxiliary Enterprises	1,040,599	-	223,731	857,610	2,121,940	1,473,483
Depreciation Expense						
Buildings and other real estate improvements	-	-	-	-	3,012,382	2,993,994
Equipment and furniture	-	-	-	-	948,634	766,852
Total Operating Expenses	\$ 19,623,119	\$ -	\$ 5,413,205	\$ 35,505,116	\$ 64,502,456 (Exhibit 2)	\$ 63,852,100 (Exhibit 2)

SCHEDULE C

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2022
(With Memorandum Totals for the Year Ended August 31, 2021)

	Unrestricted	Restricted	2022 Total	2021 Total
Non-Operating Revenues				
State Appropriations:				
Education and general state support	\$ 9,340,281	\$ -	\$ 9,340,281	\$ 7,050,046
State group insurance	-	1,107,948	1,107,948	1,164,759
State retirement matching	-	525,219	525,219	524,440
Total State allocations	<u>9,340,281</u>	<u>1,633,167</u>	<u>10,973,448</u>	<u>8,739,245</u>
Ad valorem taxes:				
Maintenance ad valorem taxes	17,573,914	-	17,573,914	17,182,877
Debt service ad valorem taxes	-	5,221,635	5,221,635	5,912,461
Investment income	267,607	50,260	317,867	444,309
Title IV	-	15,855,996	15,855,996	17,135,588
Other non-operating revenue	<u>1,019,412</u>	<u>-</u>	<u>1,019,412</u>	<u>1,188,176</u>
Total Non-Operating Revenues	<u>28,201,214</u>	<u>22,761,058</u>	<u>50,962,272</u>	<u>50,602,656</u>
Non-Operating Expenses				
Interest on capital related debt	-	1,212,869	1,212,869	1,424,280
Other non-operating expenses	<u>-</u>	<u>20,936</u>	<u>20,936</u>	<u>106,068</u>
Total Non-Operating Expenses	<u>-</u>	<u>1,233,805</u>	<u>1,233,805</u>	<u>1,530,348</u>
Net Non-Operating Revenues	<u>\$ 28,201,214</u>	<u>\$ 21,527,253</u>	<u>\$ 49,728,467</u> (Exhibit 2)	<u>\$ 49,072,308</u> (Exhibit 2)

SCHEDULE D

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
FOR THE YEAR ENDED AUGUST 31, 2022
(With Memorandum Totals for the Year Ended August 31, 2021)

	Detail by Source				
	Unrestricted	Restricted Expendable	Non-Expendable	Capital Assets Net of Depreciation and Related Debt	Current Year Total
Current					
Unrestricted	\$ 23,565,645	\$ -	\$ -	\$ -	\$ 23,565,645
Restricted					
Scholarships	-	3,265,012	-	-	3,265,012
Institutional scholarships	-	256,932	-	-	256,932
Grants	-	220,823	-	-	220,823
Admin Projects	-	1,108,895	-	-	1,108,895
Encumbrances	-	\$ 4,954,731	-	-	4,954,731
Auxiliary enterprises	7,363,916	-	-	-	7,363,916
Loan	69,239	-	-	-	69,239
Endowment:					
Quasi:					
Restricted	-	1,238,702	-	-	1,238,702
Plant:					
Unexpended	-	7,575,216	-	-	7,575,216
Renewals	-	1,544,730	-	-	1,544,730
Debt Service	-	6,627,605	-	-	6,627,605
Investment in Plant	-	-	-	90,799,011	90,799,011
Total Net Position, August 31, 2022	30,998,800	26,792,646	-	90,799,011	148,590,457
					(Exhibit 1)
Total Net Position, August 31, 2021	23,842,184	31,645,697	-	84,410,910	139,898,791
					(Exhibit 1)
Net Increase (Decrease) in Net Position	\$ 7,156,616	\$ (4,853,051)	\$ -	\$ 6,388,101	\$ 8,691,666
					(Exhibit 2)

(Continued on page 60.)

SCHEDULE D
(Continued)

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
FOR THE YEAR ENDED AUGUST 31, 2022
(With Memorandum Totals for the Year Ended August 31, 2021)

	Available for Current Operations		Prior Year Total	Available for Current Operations	
	Yes	No		Yes	No
Current					
Unrestricted	\$ 23,565,645	\$ -	\$ 16,853,330	\$ 16,853,330	\$ -
Restricted					
Scholarships	-	3,265,012	3,231,003	-	3,231,003
Institutional scholarships	-	256,932	256,397	-	256,397
Grants	-	220,823	-	-	-
Admin Projects	-	1,108,895	-	-	-
Encumbrances	-	4,954,731	11,632,037	-	11,632,037
Auxiliary enterprises	7,363,916	-	6,919,848	6,919,848	-
Loan	69,239	-	69,006	69,006	-
Endowment:					
Quasi:					
Restricted	-	1,238,702	1,255,117	-	1,255,117
Plant:					
Unexpended	-	7,575,216	7,566,423	-	7,566,423
Renewals	-	1,544,730	1,536,354	-	1,536,354
Debt Service	-	6,627,605	6,168,366	-	6,168,366
Investment in Plant	-	90,799,011	84,410,910	-	84,410,910
Total Net Position, August 31, 2022	30,998,800	117,591,657	139,898,791	23,842,184	116,056,607
Total Net Position, August 31, 2021	23,842,184	116,056,607	142,180,829	40,519,685	101,661,144
Adjustment to net position	-	-	(7,874,365)	(7,874,365)	-
Total Net Position, August 31, 2021 (restated)	23,842,184	116,056,607	134,306,464	32,645,320	101,661,144
Net Increase (Decrease) in Net Position	\$ 7,156,616	\$ 1,535,050	\$ 5,592,327	\$ (8,803,136)	\$ 14,395,463

(Continued from page 59.)

SINGLE AUDIT SECTION

SCHEDULE E

**TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2022**

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing 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	\$ 7,621
Total Texas Department of Health and Human Services			7,621
Total U.S. Department of Agriculture			7,621
U.S. DEPARTMENT OF LABOR			
<i>Pass Through From Texas Workforce Commission:</i>			
TWC Texas Talent Connection	17.207	2422WPB001	228,563
TWC Building Construction Trade	17.258	2421WOS001	73,671
Total Texas Workforce Commission			302,234
Total U.S. Department of Labor			302,234
NATIONAL ENDOWMENT FOR THE HUMANITIES			
<i>Direct Programs:</i>			
XIV Binational Literary Conference Letras en el Estuario	45.129	2020-6145	1,086
Total Direct Programs			1,086
Total National Endowment for the Humanities			1,086
NATIONAL SCIENCE FOUNDATION			
<i>Direct Programs:</i>			
NSF -Advanced Technological Education	47.076	1801166	14,091
Total Direct Programs			14,091
Total National Science Foundation			14,091
U.S. DEPARTMENT OF EDUCATION			
<i>Direct Programs:</i>			
<i>Student Financial Aid Cluster:</i>			
SEOG	84.007	P007A218017	269,828
SEOG	84.007	P007A228017	246,972
Federal Work Study Program	84.033	P033A218017	288,179
Federal Pell Grant Program	84.063	P063P214633	12,705,901
Federal Direct Student Loans	84.268	P268K224633	2,345,116
Total Student Financial Aid Cluster			15,855,996
<i>GEER ESF:</i>			
GEER Work-based Learning Opportunity Grants – Interns	84.425C	26553	124,726
GEER Tx Completion Repayment	84.425C	27212	23,348
GEER Tx Reporting Modernization I	84.425C	25505	44,799
GEER Tx Reporting Modernization II	84.425C	27587	8,685
Accelerating Student Success	84.425C	27362	11,916
GEER TRUE Tx Reskilling&Upskilling	84.425C	25771	667,923
Total GEER ESF			881,397

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, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Direct Programs:</i>			
<i>CARES HEERF:</i>			
COVID-19-Federal CARES HEERF - Student	84.425E	P425E202046	6,155,796
COVID-19-Federal CARES HEERF - Institutional	84.425F	P425F202562	5,213,203
Total CARES HEERF			11,368,999
Total Direct Programs			28,106,392
<i>Pass-through From Texas Higher Education Coordinating Board (THECB):</i>			
Carl Perkins Career & Tech Ed - Basic Grants	84.048	2142020271	272,239
Total THECB			272,239
<i>Pass-through From Texas 21st Century:</i>			
TX 21st CCLC Program	84.287c	226950267110048	1,485,177
Total TX 21st CCLC			1,485,177
Total U.S. Department of Education			29,863,808
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>			
TWC Self-Sufficiency Fund	93.558	2421SSF001	47,891
Total Texas Workforce Commission			47,891
<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	11,562
Total National Institute of Health			11,562
Total U.S. Department of Health and Human Services			59,453
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 30,248,293

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, 2022

	Pass-Through Disbursements
<u>Note 1: Federal Assistance Reconciliation</u>	
Federal revenue received by Texas Southmost College District:	
Federal grants and contracts revenue per Schedule A	\$ 14,392,297
Federal grants and contracts revenue per Schedule C	<u>15,855,996</u>
Total Federal Revenues	<u>\$ 30,248,293</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	\$ 2,345,116
Administrative Costs Recovered	<u>-</u>
Total Loans Processed & Admin Costs Recovered	<u>\$ 2,345,116</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, 2022**

Grantor Agency/ Program Title	Grant Contract Number	Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD		
<i>Direct</i>		
Nursing Innovation Grant Program	23837	\$ 12,473
Nursing Shortage Reduction Program	-	24,921
Texas College Work Study	-	32,712
Texas Educational Opportunity Grant	-	679,267
60x30TX - CRSM	23113	24,586
60x30TX - CRSM	-	32,107
Total Texas Higher Education Coordinating Board		<u>806,066</u>
TEXAS MILITARY DEPARTMENT		
<i>Direct</i>		
Administrative Cost Allowance Recovery - Veterans		<u>2,172</u>
Total Texas Military Department		<u>2,172</u>
TEXAS WORKFORCE COMMISSION		
<i>Direct</i>		
TWC Skill Dev - Skills for SB	2421SSD001	27,650
TWC Skill Dev	2421SDF006	93,757
TWC Child Care Relief Fund	2921CCR006966	411,108
Total Texas Workforce Commission		<u>532,515</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u><u>\$ 1,340,753</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>\$ 1,340,753</u>
Total State Revenues		<u><u>\$ 1,340,753</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 of
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 the Texas Southmost College District (the District), as of and for the year ended August 31, 2022, 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 31, 2022.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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*.

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 "Casco & Associates, PC". The signature is written in a cursive, flowing style.

Casco & Associates, PC
Brownsville, Texas
December 31, 2022



Cascos & Associates, PC

Certified Public Accountants

Audit/Accounting/Tax/Consulting

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR 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 of
Texas Southmost College District
Brownsville, Texas

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited Texas Southmost College District's (the District) compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal and State Program

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. Our responsibilities under those standards, Uniform Guidance, and the State of Texas Uniform Grant Management Standards are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of the district's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and the provisions of contracts or grant agreements applicable to the District's federal and state programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above have occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, Uniform Guidance, and the State of Texas Uniform Grant Management Standards will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, Uniform Guidance, and the State of Texas Uniform Grant Management Standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 and 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 and 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 and 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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
Brownsville, Texas
December 31, 2022

TEXAS SOUTHMOST COLLEGE DISTRICT
SCHEDULE OF FEDERAL AND STATE FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2022

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	\$910,166
Dollar threshold considered between Type A and Type B state programs	\$300,000
Low risk auditee statement	Yes
Major federal programs	COVID-19-Federal CARES HEERF (CFDA #84.425c, 84.425e, 84.425f)
Major state program	TWC - Child Care Relief Funds

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, 2022**

Prior Findings and Questioned Costs for Federal and State Awards

None.