

**TEXAS SOUTHMOST
COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

For The Year Ended August 31, 2018 and 2017

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

TEXAS SOUTHMOST COLLEGE DISTRICT

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INTRODUCTORY SECTION

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TEXAS SOUTHMOST COLLEGE DISTRICT

ORGANIZATIONAL DATA FOR THE FISCAL YEAR 2017-2018

Board of Trustees

Officers

Adela Garza	Chairman
Juan "Trey" Mendez III, J.D.	Vice Chairman
Ruben Herrera	Secretary

Members

		<u>Term Expires</u>
Adela Garza	Olmito, Texas	May, 2020
Art Rendon	Brownsville, Texas	May, 2020
Ruben Herrera	Brownsville, Texas	May, 2022
Juan "Trey" Mendez III, J.D.	Brownsville, Texas	May, 2022
Dr. Tony Zavaleta	Brownsville, Texas	May, 2022
Eva Alejandro	Brownsville, Texas	May, 2024
J.J. De Leon Jr.	Brownsville, Texas	May, 2024

Principal Administrative Officers

Dr. Jesus Rodriguez	President
Dr. Gisela Figueroa	Vice President of Finance and Administration
Dr. Joanna Kile	Vice President of Instruction
Dr. Larry Rideaux	Vice President of Student Services
Mrs. Melinda Rodriguez	Vice President of Institutional Advancement

FINANCIAL SECTION



PATTILLO, BROWN & HILL, L.L.P.
 CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
 Texas Southmost College District
 Brownsville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Texas Southmost College District, as of and for the year ended August 31, 2018, and 2017, and the related notes to the financial statements, which collectively comprise Texas Southmost College District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Texas Southmost College District, as of August 31, 2018, and 2017, 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.

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Change in Accounting Principle

As discussed in the notes to the financial statements, in fiscal year 2018 the District adopted the new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

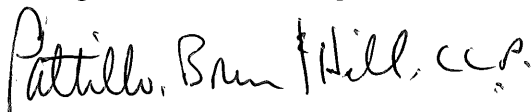
Other Information

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

The supplementary information and financial assistance section which includes the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State Awards, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and financial assistance section, is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018 on our consideration of Texas Southmost College 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 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 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 Texas Southmost College District's internal control over financial reporting and compliance.



Brownsville, Texas
December 27, 2018

TEXAS SOUTHMOST COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2018

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 (Texas Southmost College, District, or College) for the fiscal year ended August 31, 2018. 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, 2018; 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, 2018 and 2017 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 College'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 of resources and deferred outflows 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 College's operations as well as how much the College 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 College'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 College 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 College. 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 College'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 College 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 College 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 College'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 College's net position (the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources) provides one measure of the College's financial health or financial position. Over time, increases or decreases in the College's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the College, however, non-financial factors should be considered as well, such as changes in the College's enrollment, property tax base, and the condition of the College's facilities.

In this year of implementation of GASB 75, a restatement to beginning net position was required for the recording of the beginning net OPEB liability and for the recording of deferred outflows of resources for contributions made after the measurement date of the beginning net pension liability and beginning of the reporting entity's fiscal year. See the accompanying Notes to Financial Statements.

The Statement of Cash Flows

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

The information contained in the Statement of Cash Flows assesses the College'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 College's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 61 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 27.

TABLE 1
CONDENSED STATEMENT OF NET POSITION
(in millions)

	August 31, 2018	August 31, 2017	August 31, 2016
Current Assets	\$ 77.1	\$ 70.2	\$ 64.2
Noncurrent Assets			
Cash and Cash Equivalents – Restricted	13.6	19.1	19.6
Capital Assets, Net of Accumulated Depreciation	124.0	126.7	131.9
Other Noncurrent Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>214.7</u>	<u>216.0</u>	<u>215.7</u>
Deferred Outflows of Resources	4.5	4.2	2.6
Current Liabilities	15.0	14.5	7.2
Noncurrent Liabilities	<u>61.3</u>	<u>65.7</u>	<u>71.7</u>
Total Liabilities	<u>76.3</u>	<u>80.2</u>	<u>78.9</u>
Deferred Inflow of Resources	0.7	0.6	0.2
Net Position			
Net Investment in Capital Assets	69.2	67.4	62.8
Restricted Expendable	18.5	19.1	24.5
Unrestricted	<u>54.6</u>	<u>52.9</u>	<u>51.9</u>
Total Net Position	<u>\$ 142.3</u>	<u>\$ 139.4</u>	<u>\$ 139.2</u>

Total Assets increased by \$1.3 million in fiscal year 2018. Current Assets increased by \$6.9 million, primarily due to an increase in receivables. Noncurrent Assets decreased by \$8.2 million and was primarily due to a decrease in Restricted Cash and Cash Equivalents.

Statement of Net Position (Continued)

At the end of fiscal year 2018, total liabilities decreased by \$3.9 million. Current Liabilities increased by \$0.5 million primarily due to an increase in Unearned Revenue and decreases in other current liabilities. Noncurrent Liabilities decrease by \$4.4 million primarily due to Debt Service payments and offset by increases in Pension and OPEB liabilities.

Changes in assets, liabilities and net position are attributable to the requirements of GASB 68 and 75. Deferred outflows (an asset) increased by \$0.3 million and deferred inflows (a liability) increased \$0.1 million.

Total Net Position (assets and deferred outflows of resources and liabilities and deferred inflows of resources) increased by \$10.6 million over the past three fiscal years. The College experienced an increase of approximately \$3.0 million, \$0.2 million, and \$7.6 million in fiscal years 2018, 2017 and 2016, 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 \$54.6 million of total net position at August 31, 2018.

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 27.

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

	August 31, 2018	August 31, 2017	August 31, 2016
Operating Revenues	\$ 17.1	\$ 17.8	\$ 18.6
Operating Expenses	(55.5)	(55.2)	(49.6)
Non-operating Revenue	43.7	42.3	41.7
Non-operating Expenses	(2.2)	(4.7)	(3.1)
Increase in Net Position	3.1	0.2	7.6
Adjustment to Net Position	(0.3)	-	-
Net Position - Beginning of the Year	139.4	139.2	131.6
Net Position - End of the Year	\$ 142.3	\$ 139.4	\$ 139.2

Statement of Revenues, Expenses and Changes in Net Position (Continued)

Table 3 details the College's sources of operating revenue. The key sources of operating revenues are: Tuition and Fees (net of scholarship discounts) and Grants and Contract.

TABLE 3 OPERATING REVENUE
(in millions)

	Fiscal Year 2018		Fiscal Year 2017		Fiscal Year 2016	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Net Tuition and Fees	\$ 11.8	69.0%	\$ 12.4	69.7%	\$ 11.9	64.0%
Grants and Contracts	5.0	29.2%	5.0	28.1%	5.6	30.1%
Auxiliary Enterprises	0.3	1.8%	0.4	2.2%	0.8	4.3%
Other Operating Revenue	<u>0.0</u>	<u>0.0%</u>	<u>0.0</u>	<u>0.0%</u>	<u>0.3</u>	<u>1.6%</u>
Total Operating Revenue	<u>\$ 17.1</u>	<u>100.0%</u>	<u>\$ 17.8</u>	<u>100.0%</u>	<u>\$ 18.6</u>	<u>100.0%</u>

Operating revenues were affected by the following key factors:

- The cost for In-district Resident Tuition and Fees for 12 semester credit hours remained comparable to fiscal year 2017.
- Grants and Contracts remained comparable to fiscal year 2017. Title IV revenue (financial aid) is received directly by TSC for the payment of tuition and fees and allocation of student aid to TSC students, and is categorized as non-operating revenue.
- Other changes in Net Tuition and Fees are attributed to changes in scholarships, discounts and allowances.

Statement of Revenues, Expenses and Changes in Net Position (Continued)

Table 4 details the College’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)

	Fiscal Year 2018		Fiscal Year 2017		Fiscal Year 2016	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
State Appropriations	\$ 6.1	14.0%	\$ 7.3	17.2%	\$ 7.1	17.0%
Title IV	15.9	36.4%	15.4	36.3%	14.9	35.7%
Ad Valorem Taxes	19.8	45.3%	18.7	44.1%	18.7	44.8%
Investment Income	0.6	1.4%	0.2	0.5%	0.1	0.2%
Other Non-Operating Revenue	<u>1.3</u>	<u>3.0%</u>	<u>0.8</u>	<u>1.9%</u>	<u>0.9</u>	<u>2.2%</u>
Total Non-Operating Revenue	<u>\$ 43.7</u>	<u>100.0%</u>	<u>\$ 42.4</u>	<u>100.0%</u>	<u>\$ 41.7</u>	<u>100.0%</u>

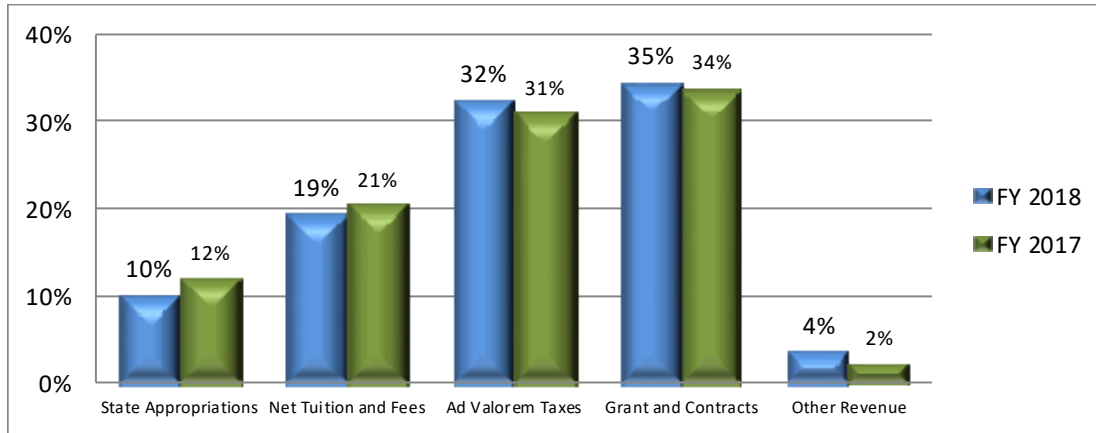
Non-operating revenues were affected by the following key factors:

- There was a decrease of \$1.2 million in State appropriations when compared to the prior fiscal year. The State of Texas finalized the allocation of appropriations during the fiscal year and management had estimated this impact and adjusted the fiscal year 2018 budget accordingly.
- The Title IV revenue increase of \$0.5 million. It represents financial aid received directly by TSC for the payment of tuition and fees and allocation of student aid to TSC students.
- Property tax revenue increased \$1.1 million from fiscal year 2017 to fiscal year 2018 as a result of an increase in current and delinquent tax collections. Property tax revenue increased by about \$0.3 million from fiscal year 2016 to fiscal year 2017. The tax rates for the Texas Southmost College are \$0.162407, \$0.158224, and \$0.164094, per \$100 valuation for the fiscal years ended 2018, 2017 and 2016, respectively.
- Other Non-Operating Revenue remained consistent for fiscal years 2018, 2017 and 2016.
- Investment income for FY 2018 increased by \$0.4 million. Late in fiscal year 2017, TSC began using LOGIC, a public funds investment pool. Investment income for FY 2017 is comparable to FY 2016.

Statement of Revenues, Expenses and Changes in Net Position (Continued)

Key sources of revenue in total for the College 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 College in Fiscal Years 2018 and 2017.

**TABLE 5
TOTAL REVENUES**



In fiscal year 2018 and 2017, Grant and Contracts is the largest source at 35% and 34% primarily due to federal, state and local aid received by TSC in fiscal years 2018 and 2017, respectively. State Appropriations are 10% in fiscal year 2018 of total revenues as compared to 12% in fiscal year 2017. Net Tuition and Fees in fiscal year 2018 and 2017 are 19% and 21%, respectively. Ad Valorem taxes remained consistent at 32% and 31% in fiscal years 2018 and 2017 respectively. Other Revenue is 4% and 2% in fiscal year 2018 and 2017, respectively.

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

**TABLE 6
OPERATING EXPENSES
Natural Classification
(in millions)**

	August 31, 2018	August 31, 2017	August 31, 2016
Salaries	\$ 16.2	\$ 14.3	\$ 11.3
Benefits	4.5	4.1	3.3
Other Expenses	31.4	32.7	30.8
Depreciation	3.4	4.1	4.2
Total Operating Expenses	\$ 55.5	\$ 55.2	\$ 49.6

Statement of Revenues, Expenses and Changes in Net Position (Continued)

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

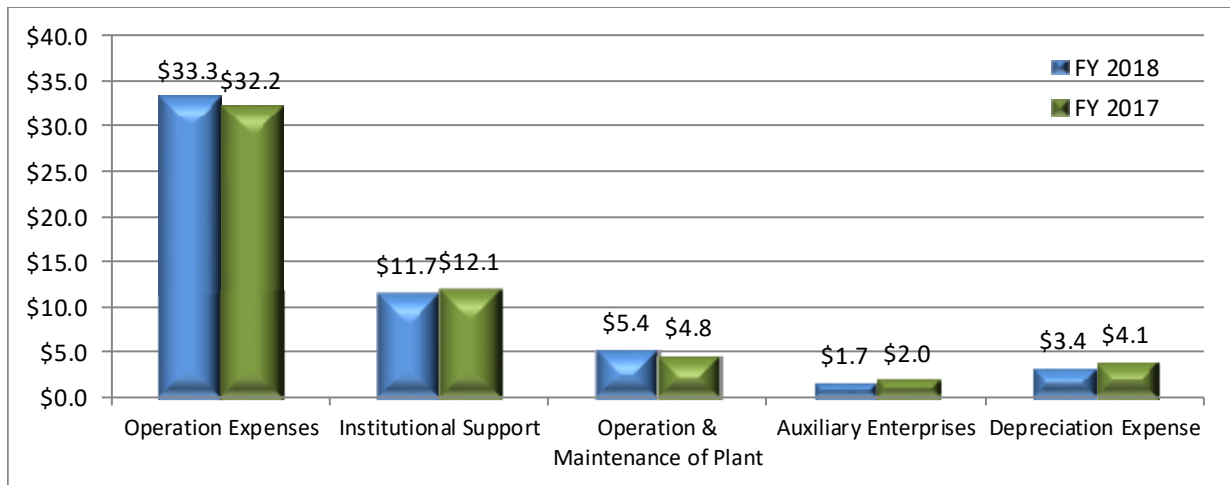
TABLE 7
OPERATING EXPENSES
Functional Classification
(in millions)

	August 31, 2018	August 31, 2017	August 31, 2016
Instruction	\$ 10.1	\$ 10.3	\$ 7.1
Public Service	0.6	0.4	0.3
Academic Support	2.8	2.3	1.8
Student Services	3.4	3.1	3.1
Institutional Support	11.7	12.1	11.7
Operations and Maintenance of Plant	5.4	4.8	4.9
Scholarships and Fellowships	16.4	16.1	15.3
Depreciation	3.4	4.1	4.2
Total Educational Activities	\$ 53.8	\$ 53.2	\$ 48.4
Auxiliary Enterprises	1.7	2.0	1.2
Total Operating Expenses	<u>\$ 55.5</u>	<u>\$ 55.2</u>	<u>\$ 49.6</u>

Statement of Revenues, Expenses and Changes in Net Position (Continued)

Table 8 displays a comparison of the breakdown of the expenses by functional classification for the College in Fiscal Years 2018 and 2017.

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 29 and 30 of this report.

TABLE 9
CONDENSED STATEMENT OF CASH FLOWS
(in millions)

	August 31, 2018	August 31, 2017	August 31, 2016
Cash provided/ used by:			
Operating Activities	\$ (39.4)	\$ (28.3)	\$ (34.6)
Noncapital Financing Activities	37.7	35.4	34.7
Capital and Related Activities	(1.9)	(3.9)	(1.7)
Investing Activities	<u>0.5</u>	<u>(2.8)</u>	<u>0.1</u>
Net Increase (Decrease) In Cash	<u>\$ (3.1)</u>	<u>\$ 0.4</u>	<u>\$ (1.5)</u>
Cash-Beginning of the Year	<u>76.3</u>	<u>75.9</u>	<u>77.4</u>
Cash-End of Year	<u><u>\$ 73.2</u></u>	<u><u>\$ 76.3</u></u>	<u><u>\$ 75.9</u></u>

Total Cash and Cash Equivalents decreased by \$3.5 million in fiscal year 2018 and increased by \$1.9 million in fiscal year 2017. Major factors impacting cash and cash equivalents are described below by source.

Statement of Cash Flows (Continued)

Operating Activities: During the fiscal year 2018 and fiscal year 2017, cash flows from operations resulted in an outflow of \$39.4 and \$28.3 million, respectively. The major source of cash receipts was from students & customers and grants & contracts (\$7.9 / \$4.6 million in 2018 and \$17.3 / \$3.3 million in 2017). The College's major cash outlay was for payments to suppliers for goods & services (\$36.1 million in 2018 and \$34.7 million in 2017) and for payments related to employees (\$16.1 in 2018 and \$14.6 in 2017).

Non-capital Financing Activities: The College had a positive cash flow of \$37.7 in fiscal year 2018 and \$35.4 million in fiscal year 2017 from the collection of Title IV allocations, property taxes and receipt of state appropriations. Property taxes were collected at a rate of 97.76% and 95.69% of the current year's tax levy for fiscal year 2018 and fiscal year 2017, respectively. (See table 10 below for more information on property taxes.)

Capital and Related Financing Activities: In fiscal year 2018, capital and related financing activities resulted in a net cash outflow of \$1.9 million. Cash outflows of \$7.2 million resulted from principal & interest payments and acquisition of capital assets. In addition, cash inflows of \$5.3 million were recognized from the collection of property taxes.

Statement of Cash Flows (continued)

Investing Activities Cash flows from investing activities represent investment earnings generated from the College’s various checking and certificate of deposit accounts. Investment opportunities are resulting in limited earning opportunities for short-term investments due to the economic downturn that exists in the current financial market. In fiscal year 2018, the college recognized \$0.5 million as an increase to cash and a related increase to investments (an asset not classified with cash & cash equivalents), due to the college’s participation in a public funds investment pool (LOGIC) and more favorable interest rates on our demand deposit accounts.

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

TABLE 10
PROPERTY TAX INFORMATION

	August 31, 2018	August 31, 2017	August 31, 2016
Total Tax Rate per \$100	\$ 0.162407	\$ 0.158224	\$ 0.164094
Total Tax Collections	\$ 19,704,173	\$ 18,720,075	\$ 18,618,665
Tax Collection Rate	97.76%	95.69%	97.09%
Net Assessed Valuation	\$ 11,143,565,065	\$ 11,014,624,283	\$ 11,471,304,518

The College’s total tax collections increased by approximately 5.3%, due to an increase in current and delinquent tax collections. For fiscal year 2018, the Texas Southmost College Board of Trustees adopted a \$0.162407 and \$0.158224 per \$100 valuation tax rate for fiscal year 2018 and 2017, respectively. Overall, the college’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 2018, the College had approximately \$124.0 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 begin on page 39, provides further detailed information regarding the College's capital assets. Table 11 summarizes capital asset activity for the year ended August 31, 2018.

TABLE 11
CAPITAL ASSETS AT FISCAL YEAR END
(in millions)

	Balance August 31, 2017	Increases and Reclassifications	Decreases	Balance August 31, 2018
Not Depreciated	\$ 6.5	\$ -	\$ -	\$ 6.5
Buildings and Other Capital Assets	190.8	0.6	-	191.4
Less: Accumulated Depreciation and Amortization	(70.6)	(3.3)	-	(73.9)
Total Capital Assets	<u>\$ 126.7</u>	<u>\$ (2.7)</u>	<u>\$ -</u>	<u>\$ 124.0</u>

Debt

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

At year-end, the College had approximately \$54.7 million in total bonds payable. Notes 6 through 8 of the financial statements which begin on page 40 provide further detailed information regarding the College's debt obligations. Table 12 summarizes these amounts by type of debt instrument.

In August 2017, the College issued various 2017 refunding bonds, at a premium, in the amounts of \$20.6 million. All proceeds from the bond issuances were used to refinance most outstanding balances of the Limited Tax Bonds, Series 2008-2009 and the Maintenance Tax Notes, Series 2007-2009 and all outstanding balances of the Wellness Center Revenue Bonds Series 2005 and the Combined Fee Revenue Bonds Series 2006.

TABLE 12
BONDS PAYABLE AT FISCAL YEAR END
(in millions)

	Balance August 31, 2017	Increase	Decrease	Balance August 31, 2018
General Obligations	\$ 46.2	\$ -	\$ (3.7)	\$ 42.5
Revenue Bonds	13.0	-	(0.8)	12.2
Total Bonds Payable	<u>\$ 59.2</u>	<u>\$ -</u>	<u>\$ (4.5)</u>	<u>\$ 54.7</u>

Debt (Continued)

On August 23, 2017, the District issued \$3,305,000 in refunding bonds with an average interest rate of 4.0% to advance refund \$3,235,000 of outstanding 2008 Limited Tax Bonds with an average interest rate of 4.45% and \$1,305,000 of outstanding 2009 Limited Tax Bonds with an average interest rate of 4.0%. The net proceeds of \$3,494,995 (after payment of \$114,292 in underwriting fees, insurance, and other issuance costs) plus an additional \$1,170,285 of unspent proceeds monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on 2008 Limited Tax Bonds and the 2009 Limited Tax Bonds starting in 2019 and 2020, respectively.

On August 23, 2017, the District issued \$4,300,000 in refunding bonds with an average interest rate of 4.0% to advance refund \$1,090,000 of outstanding 2007 Maintenance Tax Notes with an average interest rate of 4.50% and \$3,075,000 of outstanding 2008 Maintenance Tax Notes with an average interest rate of 4.26% and \$1,810,000 of outstanding 2009 Maintenance Tax Notes with an average interest rate of 3.82%. The net proceeds of \$4,445,781 (after payment of \$132,500 in underwriting fees, insurance, and other issuance costs) plus an additional \$1,672,126 of unspent proceeds monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on 2007 Maintenance Tax Notes, 2008 Maintenance Tax Notes and the 2009 Maintenance Tax Notes starting in 2019, 2019, and 2020, respectively.

On August 29, 2017, the District issued \$4,310,000 in refunding bonds with an average interest rate of 4.0% to advance refund \$4,560,000 of outstanding 2006 Combined Fee Revenue Refunding Bonds with an average interest rate of 4.55%. The net proceeds of \$4,584,859 (after payment of \$122,759 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006 Combined Fee Revenue Refunding Bonds.

On August 29, 2017, the District issued \$8,730,000 in refunding bonds with an average interest rate of 4.0% to advance refund \$9,330,000 of outstanding 2005 Wellness Center Revenue Bonds with an average interest rate of 4.63%. The net proceeds of \$9,382,075 (after payment of \$171,684 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2005 Wellness Center Revenue Bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board of Trustees adopted the effective tax rate for fiscal year 2016, which is generally attributed as no increases in taxes with a slight adjustment to the tax rate. Collections are projected to remain fairly 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.

In December 2015, the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) Annual Meeting in Houston, we received the news from the SACSCOC Board of Trustees that the Texas Southmost College District is now a separately accredited community college, and continues to operate as such, in fiscal years 2016, 2017 and 2018.

CONTACTING THE COLLEGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the College's finances and to show the College'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.

TEXAS SOUTHMOST COLLEGE DISTRICT
Statement of Net Position
August 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 59,609,538	\$ 57,169,470
Investments	3,226,486	3,160,966
Accounts receivable (net)	13,909,824	7,702,602
Prepaid expenses	382,696	2,138,330
Total Current Assets	77,128,544	70,171,368
Noncurrent Assets		
Restricted cash and cash equivalents	13,567,939	19,115,393
Capital assets (net)	124,031,565	126,738,813
Total Noncurrent Assets	137,599,504	145,854,206
Total Assets	214,728,048	216,025,574
Deferred Outflows of Resources		
Deferred outflows related to pensions	2,129,323	1,452,033
Deferred outflows related to OPEB	8,462	-
Deferred refunding costs	2,352,529	2,754,177
Total Deferred Outflows of Resources	4,490,314	4,206,210
LIABILITIES		
Current Liabilities		
Accounts payable	1,809,019	3,335,753
Accrued liabilities	398,348	286,272
Accrued compensable absences	318,868	277,407
Funds held for others	-	-
Unearned revenue	8,036,130	6,147,523
Bonds payable - current portion	4,470,000	4,425,000
Total Current Liabilities	15,032,365	14,471,955
Noncurrent Liabilities		
Net pension liability	4,182,006	3,749,661
Net OPEB liability	224,418	-
Unamortized premiums on bonds	-	-
Bonds payable	56,827,897	61,921,894
Total Noncurrent Liabilities	61,234,321	65,671,555
Total Liabilities	76,266,686	80,143,510
Deferred Inflows of Resources		
Deferred inflows related to pensions	639,633	621,316
Deferred inflows related to OPEB	49,620	-
Total Deferred Inflows of Resources	689,253	621,316
NET POSITION		
Net investment in capital assets	69,186,565	67,468,813
Restricted for		
Expendable		
Endowment	1,102,654	1,070,147
Capital projects	10,823,139	11,137,792
Debt service	3,402,866	3,710,926
Scholarships	2,836,079	2,869,876
Institutional scholarships	252,767	252,159
Grants	13,366	-
Unrestricted	54,644,987	52,957,245
Total Net Position (Schedule D)	\$ 142,262,423	\$ 139,466,958

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Tuition and fees (net of discounts of \$2,002,872 & \$1,663,955, respectively)	\$ 11,764,726	\$ 12,368,507
Federal grants and contracts	385,631	368,211
State grants and contracts	943,402	660,559
Local grants and contracts	3,742,075	3,988,202
Auxiliary enterprises	265,563	422,083
General operating revenues	-	-
Total Operating Revenues (Schedule A)	<u>17,101,397</u>	<u>17,807,562</u>
OPERATING EXPENSES		
Instruction	10,085,941	10,225,726
Public service	530,471	465,049
Academic support	2,796,179	2,331,056
Student services	3,393,733	3,152,196
Institutional support	11,715,949	12,129,967
Operation and maintenance of plant	5,409,990	4,826,475
Scholarships and fellowships	16,468,634	16,068,234
Auxiliary enterprises	1,717,004	1,918,405
Depreciation	3,336,863	4,163,831
Total Operating Expenses (Schedule B)	<u>55,454,764</u>	<u>55,280,939</u>
Operating (Loss)	<u>(38,353,367)</u>	<u>(37,473,377)</u>
Non-Operating Revenues (Expenses)		
State appropriations	6,128,732	7,270,390
Title IV	15,899,744	15,467,107
Maintenance ad valorem taxes	14,406,987	13,339,682
Debt service ad valorem taxes	5,297,186	5,380,393
Investment income	570,316	183,480
Interest on capital related debt	(2,127,632)	(2,505,888)
Gain (Loss) on sale of capital assets	-	(1,119,483)
Allowance for uncollectible expense	(46,667)	(445,198)
Other non-operating revenues	1,308,945	785,553
Other non-operating expenses	(26,816)	(651,591)
Total Non-Operating Revenues (Schedule C)	<u>41,410,795</u>	<u>37,704,445</u>
Increase in Net Position	<u>3,057,428</u>	<u>231,068</u>
NET POSITION		
Net Position - Beginning of Year	<u>139,466,957</u>	<u>139,235,890</u>
Cumulative Effect of Change in Accounting Principle	<u>(261,962)</u>	<u>-</u>
Net Position - End of Year	<u>\$ 142,262,423</u>	<u>\$ 139,466,958</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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 7,949,140	\$ 17,302,102
Receipts from grants and contracts	4,568,079	3,279,944
Payments to suppliers for goods or services	(36,091,919)	(34,663,660)
Payments to or on behalf of employees	(16,071,984)	(14,609,998)
Receipts from auxiliary services	265,563	422,083
Net cash (used) by operating activities	(39,381,121)	(28,269,529)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	6,128,732	7,270,390
Receipts from Title IV allocations	15,899,744	15,467,107
Receipts from ad valorem taxes	14,406,987	13,339,682
Other non-capital financing revenue	1,308,945	785,553
Other non-capital financing expenses	(90,408)	(1,495,614)
Net cash provided by non-capital financing activities	37,654,000	35,367,118
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from ad valorem tax revenues	5,297,186	5,380,393
Acquisition of capital assets	(629,615)	(1,272,527)
Proceeds from sale of capital assets	-	1,192,558
Proceeds on issuance of refunding debt	-	22,338,479
Payments on capital debt - principal	(4,425,000)	(29,035,000)
Payments on capital debt - interest and issuance costs	(2,127,632)	(2,505,888)
Net cash (used) by capital and related financing activities	(1,885,061)	(3,901,985)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	504,796	(2,830,129)
Net cash provided (used) by investing activities	504,796	(2,830,129)
Increase (decrease) in cash and cash equivalents	(3,107,386)	365,475
Cash and cash equivalents - September 1	76,284,863	75,919,388
Cash and cash equivalents - August 31	\$ 73,177,477	\$ 76,284,863
Cash and cash equivalents	\$ 59,609,538	\$ 57,169,470
Restricted cash and cash equivalents	13,567,939	19,115,393
Total cash and cash equivalents	\$ 73,177,477	\$ 76,284,863

TEXAS SOUTHMOST COLLEGE DISTRICT
Statement of Cash Flows
For The Year Ended August 31, 2017 and 2016
(Continued)

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (38,353,367)	\$ (37,473,377)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation expense	3,336,863	4,163,831
Changes in assets and liabilities:		
Receivables (net)	(6,207,222)	(1,737,028)
Prepaid expenses	1,755,634	(390,540)
Accounts payable	(1,526,734)	2,490,103
Accrued liabilities	112,076	(283,355)
Compensated absences	41,461	27,242
Deferred inflows/outflow of resources related to pensions	(226,628)	-
Deferred inflows/outflows of resources related to OPEB	282,500	-
Deferred inflows/outflows of resources related to refunding costs	(222,349)	-
Prior period adjustment due to change in accounting principle	(261,962)	-
Unearned revenue	1,888,607	4,933,595
Net cash provided (used) by operating activities	\$ (39,381,121)	\$ (28,269,529)

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

NOTES TO FINANCIAL STATEMENTS

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

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). Texas Southmost College 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 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
August 31, 2018 and 2017

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 \$3,067,197 and \$3,105,246 for fiscal years 2018 and 2017, 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 and physical plant supplies. Inventories are valued at cost and are under the charged to expense as consumed. The District inventory carrying balance is \$1,992 and \$-0- for fiscal years ended 2018 and 2017, respectively.

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.

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

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

Other Post-Employment Benefits (OPEB)

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

Pensions

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

Unearned Revenue

Tuition and fees of \$6,198,367 and \$6,140,197 and federal, state, and local grants of \$1,837,763 and \$7,326 have been reported by the District as unearned revenue at August 31, 2018 and 2017, 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.

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.

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

Operating and Non-Operating Revenue and Expense Policy

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a BTA 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

The Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had not effect on the reported results of operations.

3. Authorized Investments

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

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

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

4. Deposits and Investments

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

Cash and Deposits		August 31,	
	2018	2017	
Bank Deposits			
Demand Deposits - Unrestricted	\$ 60,688,977	\$ 56,534,673	
Demand Deposits - Restricted	13,646,901	21,073,817	
External investment pools	3,067,197	3,015,246	
Money market	159,289	145,720	
Total Bank Deposits	77,562,364	80,769,456	
Cash and Cash Equivalents			
Petty Cash on Hand	500	500	
Reconciling Items in Transit	(4,385,387)	(1,324,127)	
Total	\$ 73,177,477	\$ 79,445,829	

Reconciliation of Deposits and Investments

Type of Security	Fair Value 8/31/2018	Fair Value 8/31/2017
Total Cash and Deposits	\$ 73,177,477	\$ 76,284,863
Total Investments	3,226,486	3,160,966
Total Deposits and Investments	\$ 76,403,963	\$ 79,445,829
Cash and cash equivalents	\$ 59,609,538	\$ 57,169,470
Restricted cash and cash equivalents	13,567,939	19,115,393
Investments	3,226,486	3,160,966
Total Deposits and Investments	\$ 76,403,963	\$ 79,445,829

As of August 31, 2017 the District had the following investments:

Investment Type	Fair Value	Investment Maturities	W.A.M.
Investment Pool - LOGIC	\$ 3,067,197	Less than 1 Yr.	33 Days
Endowment Donation - Common Stock	159,289	Less than 1 Yr.	33 Days
Total Fair Value	\$ 3,226,486		

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

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

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

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

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

Custodial Credit Risk – To control custody risk, State law and the District’s adopted Investment Policy require collateral for all time and demand deposits held in the College’s name. The custodian is required to provide original safekeeping receipts and reporting of positions and position descriptions including market value. Deposits must be collateralized to 102% (with 110% on mortgaged-backed securities), and transactions are required to be executed under a written agreement. The counter-party of each type of transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis. As of August 31, 2018, 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.

At August 31, 2018, and 2017, the carrying amount of the District’s deposits was \$73,177,477 and \$79,445,829, respectively, and total bank balances equaled \$77,562,364 and \$80,769,456, respectively. Bank balances are covered by Federal depository insurance of up to \$250,000 per financial institution and \$77,312,364 and \$80,519,456 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, 2018 and 2017, respectively.

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
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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, 2018 is as follows:

	Level 1	Level 2	Level 3	Total
External Investment Pools	\$ -	\$ 3,067,197	\$ -	\$ 3,067,197
Money Market	159,289	-	-	159,289
Total	<u>\$ 159,289</u>	<u>\$ 3,067,197</u>	<u>\$ -</u>	<u>\$ 3,226,486</u>

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TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

5. Capital Assets

Capital asset activity for the year ended August 31, 2018 was as follows:

	Balance August 31, 2017	Increases	Decreases	Reclassifications	Balance August 31, 2018
<u>Not Depreciated:</u>					
Land	\$ 6,525,905	\$ -	\$ -	\$ -	\$ 6,525,905
Construction in Progress	-	-	-	-	-
Subtotal	<u>6,525,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,525,905</u>
<u>Buildings and Other Capital Assets</u>					
Buildings and Building Improvements	158,662,875	-	-	-	158,662,875
Other Real Estate Improvements	<u>9,672,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,672,061</u>
Total Buildings and Other Real Estate Improvements	<u>168,334,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,334,936</u>
Library Books	8,422,239	-	-	-	8,422,239
Software and Other Intangibles	327,074	-	-	-	327,074
Furniture, Machinery, and Equipment	<u>13,679,840</u>	<u>629,615</u>	<u>-</u>	<u>-</u>	<u>14,309,455</u>
Subtotal	<u>22,429,153</u>	<u>629,615</u>	<u>-</u>	<u>-</u>	<u>23,058,768</u>
Total Buildings and Other Capital Assets	<u>190,764,089</u>	<u>629,615</u>	<u>-</u>	<u>-</u>	<u>191,393,704</u>
<u>Accumulated Depreciation:</u>					
Buildings and Building Improvements	(42,448,918)	(2,596,287)	-	-	(45,045,205)
Other Real Estate Improvements	<u>(7,845,483)</u>	<u>(143,787)</u>	<u>-</u>	<u>-</u>	<u>(7,989,270)</u>
Total Buildings and Other Real Estate Improvements	<u>(50,294,401)</u>	<u>(2,740,074)</u>	<u>-</u>	<u>-</u>	<u>(53,034,475)</u>
Library Books	(8,422,241)	-	-	-	(8,422,241)
Software and Other Intangibles	(145,851)	(38,899)	-	-	(184,750)
Furniture, Machinery, and Equipment	<u>(11,688,688)</u>	<u>(557,890)</u>	<u>-</u>	<u>-</u>	<u>(12,246,578)</u>
Subtotal	<u>(20,256,780)</u>	<u>(596,789)</u>	<u>-</u>	<u>-</u>	<u>(20,853,569)</u>
Total Accumulated Depreciation	<u>(70,551,181)</u>	<u>(3,336,863)</u>	<u>-</u>	<u>-</u>	<u>(73,888,044)</u>
Net Capital Assets	<u>\$ 126,738,813</u>	<u>\$ (2,707,248)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,031,565</u>

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

Capital asset activity for the year ended August 31, 2017 was as follows:

	Balance August 31, 2016	Increases	Decreases	Reclassifications	Balance August 31, 2017
<u>Not Depreciated:</u>					
Land	\$ 6,525,905	\$ -	\$ -	\$ -	\$ 6,525,905
Construction in Progress	119,535	-	(97,678)	(21,857)	-
Subtotal	<u>6,645,440</u>	<u>-</u>	<u>(97,678)</u>	<u>(21,857)</u>	<u>6,525,905</u>
<u>Buildings and Other Capital Assets</u>					
Buildings and Building Improvements	161,318,099	-	(2,655,224)	-	158,662,875
Other Real Estate Improvements	<u>9,345,763</u>	<u>304,441</u>	<u>-</u>	<u>21,857</u>	<u>9,672,061</u>
Total Buildings and Other Real Estate Improvements	<u>170,663,862</u>	<u>304,441</u>	<u>(2,655,224)</u>	<u>21,857</u>	<u>168,334,936</u>
Library Books	8,422,239	-	-	-	8,422,239
Software and Other Intangibles	303,484	23,590	-	-	327,074
Furniture, Machinery, and Equipment	<u>12,735,344</u>	<u>944,496</u>	<u>-</u>	<u>-</u>	<u>13,679,840</u>
Subtotal	<u>21,461,067</u>	<u>968,086</u>	<u>-</u>	<u>-</u>	<u>22,429,153</u>
Total Buildings and Other Capital Assets	<u>192,124,929</u>	<u>1,272,527</u>	<u>(2,655,224)</u>	<u>21,857</u>	<u>190,764,089</u>
<u>Accumulated Depreciation:</u>					
Buildings and Building Improvements	(39,643,877)	(3,245,902)	440,861	-	(42,448,918)
Other Real Estate Improvements	<u>(7,571,710)</u>	<u>(273,773)</u>	<u>-</u>	<u>-</u>	<u>(7,845,483)</u>
Total Buildings and Other Real Estate Improvements	<u>(47,215,587)</u>	<u>(3,519,675)</u>	<u>440,861</u>	<u>-</u>	<u>(50,294,401)</u>
Library Books	(8,422,241)	-	-	-	(8,422,241)
Software and Other Intangibles	(106,951)	(38,900)	-	-	(145,851)
Furniture, Machinery, and Equipment	<u>(11,083,432)</u>	<u>(605,256)</u>	<u>-</u>	<u>-</u>	<u>(11,688,688)</u>
Subtotal	<u>(19,612,624)</u>	<u>(644,156)</u>	<u>-</u>	<u>-</u>	<u>(20,256,780)</u>
Total Accumulated Depreciation	<u>(66,828,211)</u>	<u>(4,163,831)</u>	<u>440,861</u>	<u>-</u>	<u>(70,551,181)</u>
Net Capital Assets	<u>\$ 131,942,158</u>	<u>\$ (2,891,304)</u>	<u>\$ (2,312,041)</u>	<u>\$ -</u>	<u>\$ 126,738,813</u>

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

6. Long – Term Liabilities

	Balance August 31, 2017	Increases	Decreases	Balance August 31, 2018	Current Portion
<u>Bonds</u>					
General obligation bonds	\$ 46,230,000	\$ -	\$ 3,650,000	\$ 42,580,000	\$ 3,680,000
Revenue bonds	13,040,000	-	775,000	12,265,000	790,000
Unamortized premiums	<u>7,076,894</u>	<u>1,770</u>	<u>625,767</u>	<u>6,452,897</u>	<u>-</u>
Total Bonds	<u>66,346,894</u>	<u>1,770</u>	<u>5,050,767</u>	<u>61,297,897</u>	<u>4,470,000</u>
Net pension liability	3,749,661	861,003	428,658	4,182,006	-
Net OPEB liability	<u>268,132</u>	<u>-</u>	<u>43,714</u>	<u>224,418</u>	<u>-</u>
Total long term liabilities	<u>\$ 70,364,687</u>	<u>\$ 862,773</u>	<u>\$ 5,523,139</u>	<u>\$ 65,704,321</u>	<u>\$ 4,470,000</u>

	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017	Current Portion
<u>Bonds</u>					
General obligation bonds	\$ 52,725,000	\$ 7,605,000.00	\$ 14,100,000	\$ 46,230,000	\$ 3,650,000
Revenue bonds	14,645,000	13,040,000	14,645,000	13,040,000	775,000
Unamortized premiums	<u>5,673,415</u>	<u>1,894,369</u>	<u>490,890</u>	<u>7,076,894</u>	<u>-</u>
Total long term liabilities	<u>73,043,415</u>	<u>22,539,369</u>	<u>29,235,890</u>	<u>66,346,894</u>	<u>4,425,000</u>
Net pension liability	2,952,356	1,198,773	401,468	3,749,661	-
Net OPEB liability	<u>-</u>	<u>268,132</u>	<u>-</u>	<u>268,132</u>	<u>-</u>
Total long term liabilities	<u>\$ 75,995,771</u>	<u>\$ 24,006,274</u>	<u>\$ 29,637,358</u>	<u>\$ 70,364,687</u>	<u>\$ 4,425,000</u>

7. Debt Obligations

Debt service requirements at August 31, 2018 were as follows:

For the year Ended	<u>General Obligation Bonds</u>			<u>Revenue Bonds</u>			<u>Total Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>August 31,</u>									
2019	\$ 3,680,000	\$ 1,802,725	\$ 5,482,725	\$ 790,000	\$ 490,600	\$ 1,280,600	\$ 4,470,000	\$ 2,293,325	\$ 6,763,325
2020	3,835,000	1,628,125	5,463,125	815,000	459,000	1,274,000	4,650,000	2,087,125	6,737,125
2021	4,020,000	1,445,650	5,465,650	855,000	426,400	1,281,400	4,875,000	1,872,050	6,747,050
2022	4,210,000	1,254,200	5,464,200	890,000	392,200	1,282,200	5,100,000	1,646,400	6,746,400
2023	4,410,000	1,052,275	5,462,275	925,000	356,600	1,281,600	5,335,000	1,408,875	6,743,875
2024-2028	17,485,000	2,389,738	19,874,738	5,210,000	1,197,200	6,407,200	22,695,000	3,586,938	26,281,938
2029-2033	<u>4,940,000</u>	<u>413,875</u>	<u>5,353,875</u>	<u>2,780,000</u>	<u>191,400</u>	<u>2,971,400</u>	<u>7,720,000</u>	<u>605,275</u>	<u>8,325,275</u>
	<u>\$ 42,580,000</u>	<u>\$ 9,986,588</u>	<u>\$ 52,566,588</u>	<u>\$ 12,265,000</u>	<u>\$ 3,513,400</u>	<u>\$ 15,778,400</u>	<u>\$ 54,845,000</u>	<u>\$ 13,499,988</u>	<u>\$ 68,344,988</u>

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

8. Bonds Payable

General information related to bonds payable is summarized below:

Maintenance Tax Notes, Series 2009

- To be used for the purpose of maintenance and renovation of existing facilities
- Issued tax bonds June 18, 2009
- \$3,250,000, all authorized bonds have been issued
- Source of revenue for debt service-ad valorem tax levy

During the prior fiscal year ended August 31, 2017, the Series 2009 Bonds were refunded. The coupons which are callable in February 2019, totaling \$1,810,000, were refinanced with proceeds from the Maintenance Tax Refunding Bonds, Series 2017. The remaining debt service requirements are as follows:

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 170,000	\$ 3,400	\$ 173,400
	<u>\$ 170,000</u>	<u>\$ 3,400</u>	<u>\$ 173,400</u>

Limited Tax Bond, Series 2009

- To be used for the construction and equipment of school buildings and to acquire property
- Issued tax bonds June 18, 2009
- \$4,000,000, all authorized bonds have been issued
- Source of revenue for debt service-ad valorem tax levy

During the prior fiscal year ended August 31, 2017, the Series 2008 Bonds were refunded. The coupons which are callable in February 2019, totaling \$1,305,000, were refinanced with proceeds from the Limited Tax Refunding Bonds, Series 2017. The remaining debt service requirements are as follows:

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 70,000	\$ 1,400	\$ 71,400
	<u>\$ 70,000</u>	<u>\$ 1,400</u>	<u>\$ 71,400</u>

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
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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 \$1,460,000 to \$3,195,000 with interest at 2% to 5% and the final installment due February 2027.

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,560,000	\$ 1,130,000	\$ 3,690,000
2020	2,825,000	995,375	3,820,375
2021	2,960,000	850,750	3,810,750
2022	3,120,000	698,750	3,818,750
2023	3,065,000	544,125	3,609,125
2024-2028	9,350,000	711,750	10,061,750
	<u>\$ 23,880,000</u>	<u>\$ 4,930,750</u>	<u>\$ 28,810,750</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 \$135,000 to \$365,000 with interest at 2% to 5% and the final installment due February 2027.

<u>For the year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 295,000	\$ 99,350	\$ 394,350
2020	320,000	87,050	407,050
2021	335,000	75,625	410,625
2022	360,000	63,400	423,400
2023	285,000	49,075	334,075
2024-2028	985,000	57,375	1,042,375
	<u>\$ 2,580,000</u>	<u>\$ 431,875</u>	<u>\$ 3,011,875</u>

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
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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 \$110,000 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>
2019	\$ 340,000	\$ 300,550	\$ 640,550
2020	185,000	292,675	477,675
2021	190,000	287,050	477,050
2022	185,000	281,425	466,425
2023	380,000	272,950	652,950
2024-2028	2,970,000	1,126,375	4,096,375
2029-2033	<u>4,025,000</u>	<u>330,300</u>	<u>4,355,300</u>
	<u>\$ 8,275,000</u>	<u>\$ 2,891,325</u>	<u>\$ 11,166,325</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 \$535,000 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>
2019	\$ 545,000	\$ 327,800	\$ 872,800
2020	565,000	306,000	871,000
2021	590,000	283,400	873,400
2022	615,000	259,800	874,800
2023	640,000	235,200	875,200
2024-2028	3,595,000	771,400	4,366,400
2029-2033	<u>1,645,000</u>	<u>99,400</u>	<u>1,744,400</u>
	<u>\$ 8,195,000</u>	<u>\$ 2,283,000</u>	<u>\$ 10,478,000</u>

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
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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 \$240,000 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>
2019	\$ 245,000	\$ 162,800	\$ 407,800
2020	250,000	153,000	403,000
2021	265,000	143,000	408,000
2022	275,000	132,400	407,400
2023	285,000	121,400	406,400
2024-2028	1,615,000	425,800	2,040,800
2029-2033	1,135,000	92,000	1,227,000
	<u>\$ 4,070,000</u>	<u>\$ 1,230,400</u>	<u>\$ 5,300,400</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 \$30,000 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>
2019	\$ 245,000	\$ 141,675	\$ 386,675
2020	435,000	128,075	563,075
2021	455,000	110,275	565,275
2022	465,000	91,875	556,875
2023	485,000	72,875	557,875
2024-2028	2,185,000	187,588	2,372,588
2029-2033	30,000	600	30,600
	<u>\$ 4,300,000</u>	<u>\$ 732,963</u>	<u>\$ 5,032,963</u>

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

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 \$70,000 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>
2019	\$ -	\$ 126,350	\$ 126,350
2020	70,000	124,950	194,950
2021	80,000	121,950	201,950
2022	80,000	118,750	198,750
2023	195,000	113,250	308,250
2024-2028	1,995,000	306,650	2,301,650
2029-2033	885,000	82,975	967,975
	<u>\$ 3,305,000</u>	<u>\$ 994,875</u>	<u>\$ 4,299,875</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
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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 <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; 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 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2017</u>
Member	7.70%	7.70%
Non-Employer Contributing Entity (State)	2.89%	2.89%
Employers	3.91%	3.91%
Current fiscal year College Contributions		\$480,412
Current fiscal year Member Contributions		858,422
FY 2017 State of Texas On-behalf Contributions		247,377

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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.

Public junior colleges or junior college districts 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 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, 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.

Actuarial Assumptions

The total pension liability in the August 31, 2017 actual valuation was determined using the following assumptions:

Valuation Date	August 31, 2017
Actuarial cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Single Discount Rate	8.0%
Long-term Expected Rate	8.0%
Municipal Bond Rate*	
Last year ending August 31 in the 2017 to 2116	
Projection period (100 years)	2116
Inflation	2.5%
Payroll Growth Rate	2.0%
Salary Increases Including Inflation	3.5% to 9.5%
Ad hoc Post-Employment Benefit Changes	None

*If a municipal bond rate was to be used, the rate would be 2.84 percent as of August 2016 (i.e., the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating

TEXAS SOUTHMOST COLLEGE DISTRICT
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Actuarial methods and assumptions were updated based on a study of actual experience for the four-year period ending August 31, 2014, and adopted on September 24, 2015, by the TRS Board of Trustees, who have sole authority to determine the actuarial assumptions used for the plan. There were no changes to the actuarial assumptions, benefit terms or other inputs that affected the measurement of the total pension liability since the prior measurement period.

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those 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 8.0 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 system's target asset allocation as of August 31, 2017, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18.00%	4.60%	1.00%
Non-U.S. Developed	13.00%	5.10%	0.80%
Emerging Markets	9.00%	5.90%	0.70%
Directional Hedge Funds	4.00%	3.20%	0.10%
Private Equity	13.00%	7.00%	1.10%
State Value			
U.S. Treasuries	11.00%	0.70%	0.10%
Absolute Return	0.00%	1.80%	0.00%
Stable Value Hedge Funds	4.00%	3.00%	0.10%
Cash	1.00%	-0.20%	0.00%
Real Return			
Global Inflation Linked Bonds	3.00%	0.90%	0.00%
Real Assets	16.00%	5.10%	1.10%
Energy and Natural Resources	3.00%	6.60%	0.20%
Commodities	0.00%	1.20%	0.00%
Risk Parity			
Risk Parity	5.00%	6.70%	0.30%
Inflation Expectation			2.20%
Alpha			1.00%
Total	100.00%		8.70%

*The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

Source: Teacher Retirement System of Texas 2016 Comprehensive Annual Financial Report.

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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 (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Entity's proportionate share of the net pension liability:	\$7,050,035	\$4,182,006	\$1,793,905

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

At August 31, 2018, the District reported a liability of \$4,182,006 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	\$4,182,006
State's proportionate share that is associated with employer	2,418,491
Total	\$6,600,497

The net pension liability was measured as of August 31, 2017 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, 2016 thru August 31, 2017.

At the measurement date of August 31, 2017 the employer's proportion of the collective net pension liability was 0.013079% which was an increase of 0.003156% from its proportion measured as of August 31, 2016.

For the year ended August 31, 2018, the District recognized pension expense of \$184,473 and revenue of \$184,473 for support provided by the State.

TEXAS SOUTHMOST COLLEGE DISTRICT
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At August 31, 2018, the College reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experiences	\$ 61,185	\$ 225,530
Changes in actuarial assumptions	190,497	109,055
Difference between projected and actual investment earnings	-	304,775
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,397,229	273
Contributions paid to TRS subsequent to the measurement date	<u>480,412</u>	<u>-</u>
Total	<u>\$ 2,129,323</u>	<u>\$ 639,633</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:

<u>Year ended August 31,</u>	<u>Pension Expense Amount</u>
2018	\$ 125,817
2019	392,766
2020	105,307
2021	40,174
2022	226,581
Thereafter	118,633

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%, 3.795%, and 6.650%, 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 \$109,347 and \$88,862 for the fiscal years ended August 31, 2018 and 2017, 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 \$15,328,198 and \$13,483,560 for fiscal years 2018 and 2017, respectively. The total payroll of employees covered by the Optional Retirement Program was \$3,313,612 and \$3,167,985 for fiscal years 2018 and 2017, respectively.

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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, 2018 and 2017, 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, 2018 and 2017 was as follows:

	Balance August 31, 2017	Increases	Decreases	Balance August 31, 2018
Compensable absences	\$ 277,407	\$ 288,117	\$ (252,659)	\$ 312,865
	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017
Compensable absences	\$ 250,165	\$ 267,529	\$ (240,287)	\$ 277,407

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12. 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.

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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 Year 2018

	2018
Retiree only	\$ 617.30
Retiree & Spouse	970.98
Retiree & Children	854.10
Retiree & Family	1,207.78

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
For the Years Ended August 31, 2018

	2018
Current fiscal year employer contributions	\$ 8,396
Current fiscal year member contributions	-
2017 measurement year NECE-on-behalf contributions	5,865

TEXAS SOUTHMOST COLLEGE DISTRICT
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Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of August 31, FY1 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	August 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level percent of pay, open
Remaining Amortization Period	30 Years
Asset Valuation Method	N/A
Discount Rate	3.51%
Projected Annual Salary Increase	3.5% to 9.5% (includes inflation)
Healthcare Trend Rates	4.5% to 12.00%
Inflation Assumption Rate	2.5%
Mortality Assumptions:	
Service retirees, survivors and other inactive members	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014.
Disability Retirees	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 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 full generational projection using Scale BB.

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 1, 2010 to August 31, 2014 for higher education members.

Investment Policy

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

TEXAS SOUTHMOST COLLEGE DISTRICT
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Discount Rate

Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the beginning of the measurement year was 2.84%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 3.51%, which amounted to an increase of 0.67%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp's AA rating. Projected cash flows into the plan are equal to projected benefit payments out of the plan. Because the plan operates on a pay-as-you-go (PAYGO) basis and is not intended to accumulate assets, there is no long-term expected rate of return on plan assets and therefore the years of projected benefit payments to which the long-term expected rate of return is applicable is zero years.

Discount Rate Sensitivity Analysis

The following schedule shows the impact on the District's proportionate share of the collective net OPEB Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used 3.51% in measuring the net OPEB Liability.

	1% Decrease in Discount Rate (2.51%)	Discount Rate (3.51%)	1% Increase in Discount Rate (4.51%)
District's proportionate share of the net OPEB liability:	\$267,890	\$224,418	\$190,746

Healthcare Trend Rate Sensitivity Analysis

The initial healthcare trend rate is 8.5% and the ultimate rate is 4.5%. The following schedule shows the impact on the District's proportionate share of the collective net OPEB Liability if the healthcare cost trend rate used was 1 percent less than and 1 percent greater than the healthcare cost trend rate that was used in measuring the net OPEB Liability.

	1% Decrease in Healthcare Cost Trend Rates 7.5% decreasing to 3.5%	Current Healthcare Cost Trend Rates 8.5% decreasing to 4.5%	1% Increase in Healthcare Cost Trend Rates 9.5% decreasing to 5.5%
District's proportionate share of the net OPEB liability:	\$188,662	\$224,418	\$270,815

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

At August 31, 2018, the District reported a liability of \$224,418 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	\$ 224,418
State's proportionate share that is associated with employer	190,584
Total	<u>\$ 415,002</u>

The net OPEB liability was measured as of August 31, 2017, 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, 2017, thru August 31, 2017.

At the measurement date of August 31, 2017 the employer's proportion of the collective net OPEB liability was 0.00065864%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016. The Notes to the Financial Statements for August 31, 2016 for ERS stated that the change in proportion was immaterial and, therefore, disregarded this year.

For the year ended August 31, 2018, the District recognized OPEB expense of \$22,209 and revenue of \$10,199 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:

- Additional demographic assumptions (aggregate payroll increases and rate of general inflation) to reflect an experience study;
- The percentage of current and future retirees and retirees' spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan who will elect to participate at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends;
- Assumptions for administrative expenses, assumed per Capita Health Benefit Costs, Health Benefit Cost and Retiree Contribution trends to reflect recent health plan experience;
- Effects in short-term expectations and revised assumed rate of general inflation.

Changes of Benefit Terms Since Prior Measurement Date – The following benefit revisions have been adopted since the prior valuation:

- An increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility;
- An elimination of the copayment for virtual visits;
- A copay reduction for Airrosti and for out-of-state participants;
- Elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits

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These minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs.

At August 31, 2018, the College reported its proportionate share of the RRS's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ -	\$ 2,697
Changes in actuarial assumptions	-	46,923
Difference between projected and actual investment earnings	66	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	-
Contributions paid to ERS subsequent to the measurement date	8,396	-
Total	<u>\$ 8,462</u>	<u>\$ 49,620</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 August 31,	Pension Expense Amount
2018	\$ 11,159
2019	11,159
2020	11,159
2021	11,159
2022	4,918
Thereafter	-

13. Pending Lawsuits and Claims

On August 31, 2018, 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
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14. Disaggregation of Receivables and Payables Balances

Receivables

Receivables at August 31, were as follows:

	<u>2018</u>	<u>2017</u>
Taxes receivable	\$ 2,220,259	\$ 2,304,845
Grants and contracts receivable	8,582,332	287,153
Student receivable	908,443	1,887,306
Donations receivable	703,481	814,265
Accrued interest receivable	32,429	20,855
Other receivable - TSCF	12,474	-
Other receivable - ISDs	33,186	33,460
Other receivable - Cameron County	-	217,135
Other receivable - UTRGV	1,808,352	2,876,546
Subtotal	<u>14,300,956</u>	<u>8,441,565</u>
Allowance for doubtful accounts	<u>(391,132)</u>	<u>(738,963)</u>
Total Receivables	<u>\$ 13,909,824</u>	<u>\$ 7,702,602</u>

Payables

Payables at August 31, were as follows:

	<u>2018</u>	<u>2017</u>
Vendors payable	\$ 1,772,754	\$ 1,410,108
Student payable	<u>36,265</u>	<u>1,925,645</u>
Total Payables	<u>\$ 1,809,019</u>	<u>\$ 3,335,753</u>

15. Contract and Grant Award

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 2018 and 2017, for which monies have not been received, nor expended.

TEXAS SOUTHMOST COLLEGE DISTRICT
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16. 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>2018</u>	<u>2017</u>
Assessed valuation of the District	\$ 12,248,198,323	\$ 12,119,257,541
Less:		
Exemptions	<u>1,104,633,258</u>	<u>1,104,633,258</u>
Net assessed valuation of the District	<u>\$ 11,143,565,065</u>	<u>\$ 11,014,624,283</u>

	<u>2018</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized tax rate per \$100 valuation	<u>\$ 0.350000</u>	<u>\$ 0.500000</u>	<u>\$ 0.850000</u>
Assessed tax rate per \$100 valuation	<u>\$ 0.119310</u>	<u>\$ 0.043097</u>	<u>\$ 0.162407</u>

	<u>2017</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized tax rate per \$100 valuation	<u>\$ 0.350000</u>	<u>\$ 0.500000</u>	<u>\$ 0.850000</u>
Assessed tax rate per \$100 valuation	<u>\$ 0.115745</u>	<u>\$ 0.042479</u>	<u>\$ 0.158224</u>

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, 2018 and 2017 amounted to \$19,599,287 and \$18,909,751, 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
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<u>Taxes Collected</u>	2018		Total
	<u>Current Operations</u>	<u>Debt Service</u>	
Current taxes collected	\$ 14,046,350	\$ 5,113,081	\$ 19,159,431
Delinquent taxes collected	450,820	192,526	643,346
Penalties and interest collected	344,162	141,857	486,019
Less discounts and commissions	<u>(434,345)</u>	<u>(150,278)</u>	<u>(584,623)</u>
Total Collections	<u>\$ 14,406,987</u>	<u>\$ 5,297,186</u>	<u>\$ 19,704,173</u>

<u>Taxes Collected</u>	2017		Total
	<u>Current Operations</u>	<u>Debt Service</u>	
Current taxes collected	\$ 12,939,592	\$ 5,155,717	\$ 18,095,309
Delinquent taxes collected	466,583	229,766	696,349
Penalties and interest collected	328,734	154,415	483,149
Less discounts and commissions	<u>(395,227)</u>	<u>(159,505)</u>	<u>(554,732)</u>
Total Collections	<u>\$ 13,339,682</u>	<u>\$ 5,380,393</u>	<u>\$ 18,720,075</u>

Tax collections for the years ended August 31, 2018 and 2017 were 97.76% and 95.69%, 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.

17. 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, 2018, and 2017.

18. 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.

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Notes to the Financial Statements
August 31, 2018 and 2017

19. Restricted Assets

As of August 31, 2018 and 2017, the balances of the restricted assets are as follows:

	2018	2017
Endowment	\$ 11,584	\$ 32
Scholarships	887,194	447,121
Agency funds	12,396	11,496
Federal awards	1,232,389	6,147,523
Restricted contributions - arts center	801	796
Restricted - parking	1,493,085	1,035,109
Restricted - insurance	1,146,580	1,139,031
General obligation - debt service	4,044,143	4,395,535
Revenue bond - debt service	3,982,406	5,186,926
Revenue bond - construction account	757,361	751,824
	\$ 13,567,939	\$ 19,115,393

20. 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. Texas Southmost College 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.

21. Excess Interest and Rebatale 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 \$12,179, which are reported as part of accrued expenses on these financial statements for the fiscal years ended 2018 and 2017, respectively.

22. Post Employment Benefits Other than Pensions

Plan Description. In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the state. The District contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple- employer, defined benefit postemployment healthcare plan administered by the ERS. SRHP provides medical benefits to retired employees of participating universities, community colleges, and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Texas Legislature.

TEXAS SOUTHMOST COLLEGE DISTRICT
Notes to the Financial Statements
August 31, 2018 and 2017

The ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us/>.

Funding Policy. 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. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution.

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy and is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS Board of Trustees sets the employer contribution rate based on the implicit rate subsidy, which is actuarially determined in accordance with the parameters of GASB Statement 45.

The employer contribution rate represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years.

Beginning September 1, 2013, SB 1812 limited the state's contribution to 50 percent of eligible employees for community colleges.

The college's contributions to SRHP for the years ended August 31, 2018, 2017, and 2016, were \$7,040, \$7,040 and \$7,040, respectively, which equaled the required contributions each year.

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.

Subsequent to year end, a trial was held in November 2018 where a jury returned an adverse verdict against TSC in the amount of \$13,174,878.66. The Trial Court has not yet entered judgment, and posttrial motions are being prepared and filed. No hearing date has been set on the post-trial motions filed thus far. Management is responding aggressively and is currently pursuing all available pre-appeal procedures and motions.

24. Prior Period Adjustment

During the fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Employees Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled (\$261,962). Which resulted in a restated beginning net position balance of \$139,204,996.

REQUIRED SUPPLEMENTARY INFORMATION

TEXAS SOUTHMOST COLLEGE DISTRICT

**Schedule of Texas Southmost College's Share of Net Pension Liability
For the Year Ended August 31, 2018**

Fiscal year ending August 31 *	2017**	2016**	2015**	2014**
Texas Southmost College proportionate share of collective net pension liability (%)	0.0130791436%	0.0099228%	0.0083521%	0.0078902%
Texas Southmost College proportionate share of collective net pension liability (\$)	\$ 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	<u>2,418,491</u>	<u>2,273,323</u>	<u>2,208,258</u>	<u>1,733,259</u>
Total	<u>\$ 6,600,497</u>	<u>\$ 6,022,984</u>	<u>\$ 5,160,614</u>	<u>\$ 3,840,841</u>
Texas Southmost College covered payroll amount	\$ 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	42.47%	32.03%	26.42%	18.79%
TRS net position as percentage of total pension liability	82.17%	78.00%	78.43%	83.25%

Note: Only four 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 Texas Southmost College's Contributions
For the Year Ended August 31, 2018

Fiscal year ending August 31, *	2018**	2017**	2016**	2015**
Legally required contributions	\$ 480,412	\$ 518,778	\$ 484,815	\$ 462,000
Actual contributions	(480,412)	(518,778)	(484,815)	(462,000)
Contributions deficiency (excess)	-	-	-	-
Texas Southmost College covered employee payroll amount	\$ 12,780,593	\$ 11,705,727	\$ 11,176,424	\$ 11,192,750
Ratio of: Actual contributions / ER covered payroll amount	3.7589%	4.4318%	4.3378%	4.1277%

* The amounts presented above are as of the District's respective fiscal year-end.

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

TEXAS SOUTHMOST COLLEGE DISTRICT

**Notes to Required Supplementary Information - Pension
For the Year Ended August 31, 2018**

Change of Benefit Terms include:

A 2.0% COLA, effective September 1, 2018.

Change of Assumptions:

There were no changes of assumptions for the year ended August 31, 2018

TEXAS SOUTHMOST COLLEGE DISTRICT

**Schedule of Texas Southmost College's Share of Net OPEB Liability
Employee Retirement System of Texas
State Retiree Health Plan
For the Year Ended August 31, 2018**

	Measurement Year Ended August 31, <u>2017</u>
Fiscal year ending August 31 *	
Texas Southmost College proportionate share of collective net OPEB liability (%)	0.0006586400%
Texas Southmost College proportionate share of collective net OPEB liability (\$)	\$ 224,418
State's proportionate share of net OPEB liability associated with Texas Southmost College	<u>190,584</u>
Total	<u>\$ 415,002</u>
Texas Southmost College covered payroll	\$ 9,845,820
College's proportionate share of collective net OPEB liability as a percentage of covered payroll	2.28%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	2.04%

TEXAS SOUTHMOST COLLEGE DISTRICT

**Schedule of Texas Southmost College's Contributions
Employee Retirement System of Texas
State Retiree Health Plan
For the Year Ended August 31, 2018**

	Fiscal Year Ended August 31, <u>2018</u>
Contractually Required Contribution	\$ 8,396
Contribution in Relation to the Contractually Required Contribution	<u>(8,396)</u>
Contributions deficiency (excess)	-
Texas Southmost College covered employee payroll amount	\$ 14,429,421
Ratio of: Actual contributions / ER covered payroll amount	0.0582%

Note: Only one year 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 Required Supplementary Information For the Year Ended August 31, 2018

Changes in Benefit Terms

Under Q/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, 2017, 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 cost applicable to services obtained at a free-standing emergency facility;
- elimination of the copayment for virtual visits;
- a reduction in the copayment for Airrosti; and
- for out-of-state participants, (i) elimination of the deductible for in-network services and (ii) application of a copayment rather than coinsurance to certain services like primary care and specialist office visits.

These minor benefit changes are provided for in the FY 2018 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is Primary.

Changes in Assumptions

Demographic Assumptions

Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, assumed salary increases and assumed age difference for future retirees and their spouses for selected classes of State Agency employees), assumed aggregate payroll increases and the assumed rate of general inflation have been updated to reflect assumptions recently adopted by the ERS Trustees. These new assumptions were adopted to reflect an experience study on the ERS retirement plan performed by the ERS retirement plan actuary.

In addition, the following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

- Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- Proportion of future retirees covering dependent children.
- Percentage of future retirees assumed to be married and electing coverage for their spouse.

Economic Assumptions

The assumed rate of general inflation has been updated since the previous valuation to remain consistent with the ERS retirement plan assumption previously adopted by the ERS Trustees.

Assumptions for Expenses, Assumed Per Capita Health Benefit Costs and Health Benefit Cost, Retiree Contribution and Expense trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations and the revised assumed rate of general inflation.

The discount rate was lowered 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.

Minor benefit changes have been reflected in the FY 2018 Assumed Per Capita Health Benefit Costs.

SUPPLEMENTARY SECTION

TEXAS SOUTHMOST COLLEGE DISTRICT
Schedule of Operating Revenues
For the Year Ended August 31, 2018
(With Memorandum Totals for the Year Ended August 31, 2017)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2018 Total	2017 Total
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 4,304,505	\$ -	\$ 4,304,505	\$ -	\$ 4,304,505	\$ 3,645,885
Out-of-district resident tuition	1,051,250	-	1,051,250	-	1,051,250	649,626
Non-resident tuition	137,100	-	137,100	-	137,100	142,073
TPEG - credit (set aside)*	337,590	-	337,590	-	337,590	248,429
State funded continuing education						
TPEG - non-credit (set aside)*	-	-	-	-	-	-
Non-state funded educational programs	-	-	-	-	-	-
Total Tuition	<u>5,830,445</u>	<u>-</u>	<u>5,830,445</u>	<u>-</u>	<u>5,830,445</u>	<u>4,686,013</u>
Fees:						
Distance learning fee	-	-	-	-	-	-
Installment plan fees	-	-	-	-	-	-
Non-instructional contract training fees	6,359,948	-	6,359,948	1,776,132	8,136,080	9,519,890
Prior year tuition and fees	-	-	-	-	-	-
Total Fees	<u>6,359,948</u>	<u>-</u>	<u>6,359,948</u>	<u>1,776,132</u>	<u>8,136,080</u>	<u>9,519,890</u>
Scholarship Allowances and Discounts:						
Remissions and exemptions - state	-	-	-	-	-	-
Remissions and exemptions - local	(2,002,872)	-	(2,002,872)	-	(2,002,872)	(1,633,955)
Reduced tuition pilot	-	-	-	-	-	-
Other federal grants	-	-	-	-	-	-
TPEG awards	(198,927)	-	(198,927)	-	(198,927)	(203,441)
UTB Commitments	-	-	-	-	-	-
Other state grants	-	-	-	-	-	-
Rising star program	-	-	-	-	-	-
Other local grants	-	-	-	-	-	-
Total Scholarship Allowances	<u>(2,201,799)</u>	<u>-</u>	<u>(2,201,799)</u>	<u>-</u>	<u>(2,201,799)</u>	<u>(1,837,396)</u>
Total Net Tuition and Fees	<u>9,988,594</u>	<u>-</u>	<u>9,988,594</u>	<u>1,776,132</u>	<u>11,764,726</u>	<u>12,368,507</u>
Additional Operating Revenues:						
Federal grants and contracts	-	331,021	331,021	54,610	385,631	368,211
State grants and contracts	194,672	748,730	943,402	-	943,402	660,559
Local grants and contracts	-	2,854,078	2,854,078	887,997	3,742,075	3,988,202
Non-governmental grants and contracts	-	-	-	-	-	-
Sales and services of educational activities	-	-	-	-	-	-
Investment income (program restricted)	-	-	-	-	-	-
General operating revenues	-	-	-	-	-	-
Total Additional Operating Revenues	<u>194,672</u>	<u>3,933,829</u>	<u>4,128,501</u>	<u>942,607</u>	<u>5,071,108</u>	<u>5,016,972</u>
Auxiliary Enterprises:						
Bookstore	-	-	-	-	-	-
Less discounts	-	-	-	-	-	-
Food service	-	-	-	-	-	-
Center for educational telecommunications	-	-	-	-	-	-
Business incubation center	-	-	-	-	-	-
Student programs	-	-	-	265,563	265,563	422,083
Net Bookstore	<u>-</u>	<u>-</u>	<u>-</u>	<u>265,563</u>	<u>265,563</u>	<u>422,083</u>
Food service	-	-	-	-	-	-
Facilities rentals	-	-	-	-	-	-
Total Net Auxiliary Enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>265,563</u>	<u>265,563</u>	<u>422,083</u>
Total Operating Revenues	<u>\$ 10,183,266</u>	<u>\$ 3,933,829</u>	<u>\$ 14,117,095</u>	<u>\$ 2,984,302</u>	<u>\$ 17,101,397</u>	<u>\$ 17,807,562</u>
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.003, \$337,590 and \$248,429 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended August 31, 2018 and 2017, respectively.

TEXAS SOUTHMOST COLLEGE DISTRICT
Schedule of Operating Expenses by Object
For the Year Ended August 31, 2018
(With Memorandum Totals for the Year Ended August 31, 2017)

	Operating Expenses				2018 Total	2017 Total
	Salaries and Wages	Benefits		Other Expenses		
		State Benefits	Local Benefits			
Unrestricted - Educational Activities						
Instruction	\$ 7,685,279	\$ -	\$ 2,002,514	\$ 294,256	\$ 9,982,049	\$ 10,219,093
Public service	160,381	-	54,571	146,851	361,803	318,060
Academic support	1,500,506	-	443,870	476,109	2,420,485	1,923,045
Student services	2,239,077	-	712,667	206,747	3,158,491	2,935,199
Institutional support	2,362,082	-	663,620	8,690,247	11,715,949	10,137,020
Operation and maintenance of plant	923,458	-	345,040	3,804,634	5,073,132	4,826,475
Scholarships and fellowships	-	-	-	-	-	-
Contract services - UTB	-	-	-	-	-	-
Total Unrestricted Educational Activities	<u>14,870,783</u>	<u>-</u>	<u>4,222,282</u>	<u>13,618,844</u>	<u>32,711,909</u>	<u>30,358,892</u>
Restricted - Educational Activities						
Instruction	15,319	-	3,650	84,923	103,892	6,633
Public service	69,480	-	20,467	78,721	168,668	146,989
Academic support	137,374	-	19,135	219,185	375,694	408,011
Student services	235,242	-	-	-	235,242	216,997
Institutional support	-	-	-	-	-	1,992,947
Operation and maintenance of plant	-	-	-	336,858	336,858	-
Scholarships and fellowships	-	-	-	16,468,634	16,468,634	16,068,234
Total Restricted Educational Activities	<u>457,415</u>	<u>-</u>	<u>43,252</u>	<u>17,188,321</u>	<u>17,688,988</u>	<u>18,839,811</u>
Total Educational Activities	15,328,198	-	4,265,534	30,807,165	50,400,897	49,198,703
Auxiliary Enterprises	897,323	-	274,625	545,056	1,717,004	1,918,405
Depreciation Expense						
Buildings and other real estate improvements	-	-	-	2,740,074	2,740,074	3,519,675
Equipment and furniture	-	-	-	596,789	596,789	644,156
Total Operating Expenses	<u>\$ 16,225,521</u>	<u>\$ -</u>	<u>\$ 4,540,159</u>	<u>\$ 34,689,084</u>	<u>\$ 55,454,764</u> (Exhibit 2)	<u>\$ 55,280,939</u> (Exhibit 2)

TEXAS SOUTHMOST COLLEGE DISTRICT
Schedule of Non-Operating Revenues and Expenses
For the Year Ended August 31, 2018
(With Memorandum Totals for the Year Ended August 31, 2017)

	Unrestricted	Restricted	Auxiliary Enterprises	2018 Total	2017 Total
Non-Operating Revenues					
State Appropriations:					
Education and general state support	\$ 5,239,321	\$ -	\$ -	\$ 5,239,321	\$ 6,162,649
State group insurance	-	454,396	37,364	491,760	771,232
State retirement matching	-	378,884	18,767	397,651	336,509
Professional nursing shortage reduction	-	-	-	-	-
Total State allocations	<u>5,239,321</u>	<u>833,280</u>	<u>56,131</u>	<u>6,128,732</u>	<u>7,270,390</u>
Ad valorem taxes:					
Maintenance ad valorem taxes	14,406,987	-	-	14,406,987	13,339,682
Debt service ad valorem taxes	5,297,186	-	-	5,297,186	5,380,393
Investment income	302,094	228,773	39,449	570,316	183,480
Gain (Loss) on sale of investments	-	-	-	-	-
Title IV	-	15,899,744	-	15,899,744	15,467,107
Other non-operating revenue	<u>1,220,508</u>	<u>88,437</u>	<u>-</u>	<u>1,308,945</u>	<u>785,553</u>
Net (decrease) in fair value of investments	-	-	-	-	-
Total Non-Operating Revenues	<u>26,466,096</u>	<u>17,050,234</u>	<u>95,580</u>	<u>43,611,910</u>	<u>42,426,605</u>
Non-Operating Expenses					
Interest on capital related debt	2,127,632	-	-	2,127,632	2,505,888
(Gain) Loss on sale of capital assets	-	-	-	-	1,119,483
Allowance for uncollectible expense	46,667	-	-	46,667	445,198
Other non-operating expenses	-	26,816	-	26,816	651,591
Total Non-Operating Expenses	<u>2,174,299</u>	<u>26,816</u>	<u>-</u>	<u>2,201,115</u>	<u>4,722,160</u>
Net Non-Operating Revenues	<u>\$ 24,291,797</u>	<u>\$ 17,023,418</u>	<u>\$ 95,580</u>	<u>\$ 41,410,795</u> (Exhibit 2)	<u>\$ 37,704,445</u> (Exhibit 2)

SCHEDULE D

TEXAS SOUTHMOST COLLEGE DISTRICT
Schedule of Net Position by Source and Availability
For the Year Ended August 31, 2018

(With Memorandum Totals for the Year Ended August 31, 2017)

	Detail by Source				Current Year Total
	Unrestricted	Restricted		Capital Assets Net of Depreciation and Related Debt	
		Expendable	Non-Expendable		
Current					
Unrestricted	\$ 48,510,332	\$ -	\$ -	\$ -	\$ 48,510,332
Restricted					
Scholarships	-	2,836,079	-	-	2,836,079
Institutional scholarships	252,767	-	-	-	252,767
Grants	-	13,366	-	-	13,366
Auxiliary enterprises	6,097,338	-	-	-	6,097,338
Loan	37,317	-	-	-	37,317
Endowment:					
Quasi:					
Restricted	-	1,102,654	-	-	1,102,654
Plant:					
Unexpended	-	9,328,796	-	-	9,328,796
Renewals	-	1,494,343	-	-	1,494,343
Debt Service	-	3,402,866	-	-	3,402,866
Investment in Plant	-	-	-	69,186,565	69,186,565
Total Net Position, August 31, 2018	54,897,754	18,178,104	-	69,186,565	142,262,423
Total Net Position, August 31, 2017	53,209,405	18,788,739	-	67,468,813	139,466,957
Adjustment to net position	(261,962)	-	-	-	(261,962)
Net Increase (Decrease) in Net Position	\$ 1,950,311	\$ (610,635)	\$ -	\$ 1,717,752	\$ 3,057,428

(Continued on page 76.)

Schedule of Net Position by Source and Availability
For the Year Ended August 31, 2018 - CONTINUED
(With Memorandum Totals for the Year Ended August 31, 2017)

	Available for Current Operations		Prior Year Total	Available for Current Operations	
	Yes	No		Yes	No
Current					
Unrestricted	\$ 48,510,332	\$ -	\$ 47,560,852	\$ 47,560,852	\$ -
Board designated	-	-	-	-	-
Restricted					
Scholarships	-	2,836,079	2,869,876	-	2,869,876
Institutional scholarships	-	252,767	252,159	-	252,159
Grants	-	13,366	-	-	-
Auxiliary enterprises	6,097,338	-	5,359,331	5,359,331	-
Loan	37,317	-	37,062	37,062	-
Endowment:					
Quasi:					
Unrestricted	-	-	-	-	-
Restricted	-	1,102,654	1,070,147	-	1,070,147
Endowment:					
True	-	-	-	-	-
Term (per instructions at maturity)	-	-	-	-	-
Life income contracts	-	-	-	-	-
Annuities	-	-	-	-	-
Plant:					
Unexpended	-	9,328,796	9,652,627	-	9,652,627
Renewals	-	1,494,343	1,485,165	-	1,485,165
Debt Service	-	3,402,866	3,710,926	-	3,710,926
Investment in Plant	-	69,186,565	67,468,813	-	67,468,813
Total Net Position, August 31, 2018	54,644,987	87,617,436	139,466,958	52,957,245	86,509,713
Total Net Position, August 31, 2017	52,957,245	86,509,713	139,235,890	51,959,564	87,276,326
			(Exhibit 1)		
Adjustment to net position	(261,962)	-	-	-	-
			(Exhibit 2)		
Net Increase (Decrease) in Net Position	\$ 1,949,704	\$ 1,107,723	\$ 231,068	\$ 997,681	\$ (766,613)
			(Exhibit 2)		

(Continued from page 75.)

STATISTICAL SECTION

This part of the Texas Southmost College District’s comprehensive annual financial report represents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government’s overall financial health.

Contents	Page
Financial Trends	71
<i>These schedules contain trend information to help the reader understand how the District’s financial performance and well-being have changed over time.</i>	
Revenue Capacity	72
<i>These schedules contain information to help the reader assess the District’s most significant local revenue source, the property tax.</i>	
Debt Capacity	79
<i>These schedules contain trend information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.</i>	
Demographic and Economic Information	82
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place.</i>	
Operating Information	84
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the services the District provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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SINGLE AUDIT SECTION

SCHEDULE E

TEXAS SOUTHMOST COLLEGE DISTRICT

**Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Pass-Through Disbursements and Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Pass-through from Texas Department of Human Services:</i>			
Child Care Food Program	10.558	75G7033	\$ 24,917
Total U.S. Department of Agriculture			<u>24,917</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Student Financial Aid Cluster:</i>			
SEOG	84.007		246,500
Federal Work Study Program	84.033		195,522
Federal Pell Grant Program	84.063		11,658,737
Federal Pell Grant Program ACA	84.063		15,385
Federal Direct Student Loans	84.268		3,783,600
Total Student Financial Aid Cluster			<u>15,899,744</u>
<i>Passed through Texas Higher Education Coordinating Board:</i>			
Carl Perkins Vocational Education - Basic	84.048	1742020601	239,036
Total THECB			<u>239,036</u>
<i>Pass-through From Region One ESC:</i>			
Region One Gear Up	84.334		89,820
Total Region One			<u>89,820</u>
<i>Pass-through From Texas 21st Century:</i>			
TX 21st CCLC Program	84.287c		1,630
Total 21st Century			<u>1,630</u>
Total U.S. Department of Education			<u>16,230,230</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through from Texas Workforce Commission:</i>			
TANF - Governor's Summer Merit Program	93.667	2417SMP001	535
Total Texas Workforce Commission			<u>535</u>
<i>Pass-through from Texas Migrant Authority, Inc.:</i>			
Child Day Care Center	93.667	031-0006	29,693
Total Texas Migrant Authority, Inc.			<u>29,693</u>
Total U.S. Department of Health and Human Services			<u>30,228</u>
Total Federal Financial Assistance			<u>\$ 16,285,375</u>

Notes to schedule on following pages

TEXAS SOUTHMOST COLLEGE DISTRICT

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2018

<u>Note 1: Federal Assistance Reconciliation</u>	Pass-Through Disbursements
Federal revenue received by Texas Southmost College District:	
Federal grants and contracts revenue per Schedule A	\$ 385,631
Federal grants and contracts revenue per Schedule C	<u>15,899,744</u>
 Total Federal Revenues	 <u>\$ 16,285,375</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The expenditures included in 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 - Brownsville 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)	
<hr/>	
New Loans Processed	\$ 3,783,600
Administrative Costs Recovered	<u>15,385</u>
Total Loans Processed & Admin Costs Recovered	<u>\$ 3,798,985</u>

Note 5: Non-monetary Federal Assistance Received

Texas Southmost College 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.

TEXAS SOUTHMOST COLLEGE DISTRICT

Schedule of Expenditures of State Awards
For the Year Ended August 31, 2018

Grantor Agency/ Program Title	Grant Contract Number	Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD		
<i>Direct</i>		
TWC Skill Dev - CK Tech	-	28,564
Texas College Work Study	-	26,555
Texas Educational Opportunity Grant	-	576,105
60x30TX	-	102,170
Workstudy Mentorship Program	-	13,418
Total Texas Higher Education Coordinating Board		<u>746,812</u>
TEXAS MILITARY DEPARTMENT		
<i>Direct</i>		
Administrative Cost Allowance Recovery - Veterans		<u>1,918</u>
Total Texas Military Department		<u>1,918</u>
Total State Financial Assistance		<u>\$ 748,730</u>
<u>Note 1: State Assistance Reconciliation</u>		
State Revenues - Per Schedule A		
State Financial Assistance per Schedule of Expenditures of State Awards		\$ 943,402
State Revenue Recognized - Pension & OPEB		<u>(194,672)</u>
Total State Revenues		<u>\$ 748,730</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

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



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

To the Board of Trustees
Texas Southmost College District
Brownsville, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities of Texas Southmost College as of the year ended August 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Texas Southmost College's basic financial statements, and have issued our report thereon dated December 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Texas Southmost College's internal control over financial reporting (internal control) to determine the 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 Texas Southmost College's internal control. Accordingly, we do not express an opinion on the effectiveness of Texas Southmost College'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Texas Southmost College'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Governmental Audit
Quality Center

Public Funds Investment Act

We have performed tests designed to verify the Texas Southmost College's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2018, no instances of noncompliance were found. However, providing an opinion on compliance with Public Funds Investment Act was not an objective of our audit, and accordingly, we do not express an opinion.

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 black ink that reads "Patricia Brown Hill, C.C.P.". The signature is written in a cursive style with a vertical line separating the name from the initials.

Brownsville, Texas
December 27, 2018



P A T T I L L O , B R O W N & H I L L , L . L . P .
 CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
 AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
 IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Trustees
 Texas Southmost College District
 Brownsville, Texas

Report on Compliance for Each Major Federal Program

We have audited Texas Southmost College’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Texas Southmost College’s major federal programs for the year ended August 31, 2018. Texas Southmost College’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for each of Texas Southmost College’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Texas Southmost College’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Texas Southmost College’s compliance.

Opinion on Each Major Federal Program

In our opinion, Texas Southmost College 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 programs for the year ended August 31, 2018.

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Report on Internal Control over Compliance

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

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

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

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



Brownsville, Texas
December 27, 2018

TEXAS SOUTHMOST COLLEGE DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2018

I. Summary of Auditors' Results

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

**II. Findings Relating to the Financial Statements which are Required to be Reported
in Accordance with Generally Accepted Government Auditing Standards**

The audit disclosed no finding required to be reported.

III. Findings and Questioned Costs for Federal Awards

None

IV. Findings and Questioned Costs for State Awards

None