

# ANNUAL FINANCIAL REPORT





**ANNUAL  
FINANCIAL REPORT**

**TEXAS STATE TECHNICAL COLLEGE**

**FISCAL YEAR ENDED AUGUST 31, 2023**



**Texas State Technical College  
Annual Financial Report  
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November 15, 2023

Honorable Greg Abbott, Governor  
Honorable Glenn Hegar, Texas Comptroller of Public Accounts  
Jerry McGinty, Director, Legislative Budget Board  
Lisa Collier, State Auditor

All:

We are pleased to submit the Annual Financial Report of Texas State Technical College for the year ended August 31, 2023, in compliance with Texas Government Code §2101.011 and in accordance with the requirements established by the Texas Comptroller of Public Accounts.

Due to the statewide requirements embedded in **Governmental Accounting Standards Board (GASB) Statement No. 34**, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas *Annual Comprehensive Financial Report* (ACFR); therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Anju Motwani at 254-867-3895. Jessica Montalvo may be contacted at 956-364-4058 for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,



Michael L. Reeser  
Chancellor & Chief Executive Officer

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TEXAS STATE TECHNICAL COLLEGE

ORGANIZATIONAL DATA  
For the Fiscal Year Ended August 31, 2023

**Board of Regents**

*Data as of August 31, 2023*

**Officers**

Dr. Tiffany Tremont	New Braunfels, Texas	Chairman of the Board
Ron Widup	Arlington, Texas	Vice Chair
Charles "Pat" McDonald	Richmond, Texas	Executive Committee
Keith Honey	Longview, Texas	Executive Committee

**Members**

		Term Expires
		<u>August 31,</u>
Dr. Tiffany Tremont	New Braunfels, Texas	2023
Charles "Pat" McDonald	Richmond, Texas	2023
Robert J. "Robb" Misso III	Austin, Texas	2023
		<u>August 31,</u>
Keith Honey	Longview, Texas	2025
Kathy Stewart	San Angelo, Texas	2025
Ron Widup	Arlington, Texas	2025
		<u>August 31,</u>
Curtis Cleveland	Waco, Texas	2027
Lizy de la Garza Putegnat	Harlingen, Texas	2027

**Key Officers**

Michael L. Reeser	Chancellor & Chief Executive Officer
Gail Lawrence	Deputy Chancellor
Chad Wooten	Vice Chancellor & Chief Financial Officer
Cledia Hernandez	Vice Chancellor & Chief External Relations Officer
Dale Bundy	Vice Chancellor & Chief Information Officer
Jonathan Hoekstra	Executive Vice Chancellor & Chief Operating Officer
Kevin Semien	Vice Chancellor & Chief Campus Services Officer
Michael Bettersworth	Senior Vice Chancellor & Chief Marketing Officer
Pamela Mayfield	Vice Chancellor & Chief Human Resource Officer
Rick Herrera	Senior Vice Chancellor & Chief Campus Expansion Officer

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**Texas State Technical College**  
**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

**Introduction**

Texas State Technical College (TSTC) was established in 1965 as the James Connally Technical Institute (JCTI) of Texas A&M University to meet the state's evolving workforce needs. In 1969, the JCTI separated from Texas A&M and became an independent state system with a new name, Texas State Technical Institute (TSTI), and its own Board of Regents. As the demand for quality technical education continued to grow, extension centers and new campuses were established throughout the state of Texas. TSTI was renamed to Texas State Technical College in 1991.

TSTC has been in continuous operation for almost 60 years, and has demonstrated stability and a strong financial base to support economic development in Texas. In 2015, TSTC's ten campuses were integrated to pursue single accreditation and align programs to better serve the state. TSTC is the only college in Texas to adopt a funding model based on student employment outcomes, aligning with its purpose of strengthening Texas with a highly skilled, technically competent workforce. TSTC is also the only state supported multi-campus technical college in Texas. With a statewide role and mission, TSTC is efficiently and effectively helping Texas meet the high-tech challenges of today's global economy.

**Overview of the Financial Statements**

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of TSTC as of and for the years ended August 31, 2023 and 2022, with an emphasis on the current year. Management has prepared the financial statements and related footnote disclosures, along with this MD&A. The following discussion should be read in conjunction with the accompanying transmittal letter, financial statements, and note disclosures.

TSTC's financial report includes three primary financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

The financial statements are prepared applying the following principles and standards:

- Reporting is on the full accrual basis of accounting and all current year revenues and expenses are recognized when earned and incurred, regardless of when the cash is received or disbursed.
- Depreciation and amortization expense on capital assets is reported as an operating expense on the Statement of Revenues, Expenses and Changes in Net Position. The historical cost of capital assets, net of accumulated depreciation and amortization, is reported on the Statement of Net Position.
- Revenues and expenses are categorized as operating and non-operating. Revenues from state appropriations, gifts, and investment income are reported as non-operating revenue in accordance with *GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended.

**Financial Highlights**

- TSTC issued \$298.8 million in Capital Construction Assistance Projects (CCAP) / revenue financing system improvement bonds in 2023. As a result, significant capital additions were made during the year and are discussed further throughout this MD&A. See the *Debt Administration* section below for additional information on the bond issuance.
- TSTC's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources in 2023, resulting in a net position of \$138.6 million. Unrestricted net position, which may be used for future obligations, ended with a deficit balance of \$29.5 million in 2023. This is mainly due to the recognition of over \$50 million in Other Post-Employment Benefits (OPEB) expense since the implementation of GASB Statement No. 75 in fiscal year 2019. Excluding the OPEB book expense, unrestricted net position is \$21.5 million, or 11.0% of total net position as of August 31, 2023.
- TSTC ended the fiscal year with a decrease in total net position of \$8.5 million, compared to an increase of \$1.9 million in 2022. Unrestricted net position continues to materially decrease due to OPEB expense recognized each year (as discussed later, this annual expense amount is provided by the State Comptroller's Office). In 2023, the book expense for OPEB amounted to \$10.8 million, and \$11.8 million in 2022.

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**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

Additionally, in 2019, TSTC recognized revenue for the full amount of a supplemental appropriation of \$29.6 million received for the demolition and abatement of facilities on the Waco campus. Almost the entire \$29.6 million has been expended through fiscal year 2023 for capital and non-capital expenses. During the abatement period, through fiscal year 2021, most expenses were non-capital in nature, therefore reducing the unrestricted fund balance. In fiscal years 2022 and 2023, a total of \$11.7 million has been capitalized to restore and realign the Waco campus post-demolition, shifting the balance from *unrestricted net position* to *net investment in capital assets*. Excluding the expenditures associated with OPEB and the supplemental appropriation, the increase in total net position from operations amounted to \$2.4 million in 2023 and \$17.4 million in 2022.

- In 2023, TSTC added over \$63.5 million in capital assets. Additions include \$23.0 million of new construction in progress, \$15.3 million in land purchases, \$1.9 million in completed buildings and building improvements, \$8.0 million in equipment, and \$15.3 million in right to use assets (per *GASB No. 87, Leases* and *GASB No. 96, Subscription-Based Information Technology Arrangements (SBITA)*). Most of the construction in progress, facility expansions and renovation projects were funded with the Series 2020 bond issuance (\$30 million issued in 2020) and the Series 2022A CCAP / revenue financing system improvement bond issuance (\$298.8 million issued in 2023). Additionally, in 2023, about \$2.8 million of instructional equipment purchases were funded with the Coronavirus Aid, Relief, and Economic Security (CARES) Act Higher Education Emergency Relief Fund (HEERF), compared to \$14.7 million in 2022. Over the last year, TSTC has focused on growth in capacity, growth in student volume, and growing the number of campuses statewide. Given the CCAP funding, investments in capital assets are expected to significantly increase over the next five years.

### **Statement of Net Position**

The Statement of Net Position presents the financial position of TSTC at fiscal year-end. Readers of this statement are able to determine the assets available to continue operations and the amount that TSTC owes to vendors, bond holders, and lending institutions. The Statement of Net Position provides an overview of the resources that are available to cover expenses. When revenues and other support exceed expenses, the result is an increase in net position. The change in net position is one indicator of whether the financial condition has improved or worsened during the fiscal year, but many other non-financial factors, such as enrollment, student retention, and condition of facilities must also be considered when assessing the overall health of TSTC.

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**Texas State Technical College**  
**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position of TSTC as of the end of the year. The net position section of the statement is reported by three major categories: Net Investment in Capital Assets, Restricted, and Unrestricted. The Net Investment in Capital Assets section presents TSTC's equity in property, plant, and equipment, net of accumulated depreciation and amortization, capital asset related bonds and other debt. Restricted Net Position is reported for amounts subject to constraints that are either externally imposed or imposed by law. Unrestricted Net Position is available for any lawful purpose of TSTC.

The following table reflects the Condensed Comparative Statement of Net Position for TSTC as of August 31, 2023 and 2022. The section following the table includes explanations and management's analysis of significant changes within the Statement of Net Position.

**Texas State Technical College**  
**Condensed Comparative Statements of Net Position**  
As of August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>% Change</u>
<b>Assets and Deferred Outflows of Resources</b>			
Current Assets	\$ 167,163,559	\$ 122,961,952	35.9%
Non-Current Assets			
Capital Assets, Net	296,935,240	257,771,849	15.2%
Other Non-Current Assets	235,270,491	9,851,292	2288.4%
Deferred Outflows of Resources	<u>32,152,027</u>	<u>44,702,390</u>	-28.1%
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>731,521,317</u></b>	<b><u>435,287,484</u></b>	<b><u>68.1%</u></b>
<b>Liabilities and Deferred Inflows of Resources</b>			
Current Liabilities	75,311,693	59,482,957	26.6%
Non-Current Liabilities			
Long-term Debt	407,379,692	115,749,687	251.9%
Other Non-Current Liabilities	72,776,060	77,291,820	-5.8%
Deferred Inflows of Resources	<u>37,468,279</u>	<u>35,639,230</u>	5.1%
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b><u>592,935,724</u></b>	<b><u>288,163,694</u></b>	<b><u>105.8%</u></b>
<b>Net Position</b>			
Net investment in capital assets	159,256,564	142,758,322	11.6%
Restricted, expendable	8,201,639	102,623	7892.0%
Restricted, non-expendable	596,939	588,200	1.5%
Unrestricted	<u>(29,469,548)</u>	<u>3,674,645</u>	-902.0%
<b>Total Net Position</b>	<b><u>138,585,594</u></b>	<b><u>147,123,789</u></b>	<b><u>-5.8%</u></b>
<b>Total Liabilities and Net Assets</b>	<b>\$ <u>731,521,317</u></b>	<b>\$ <u>435,287,484</u></b>	<b><u>68.1%</u></b>

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**Texas State Technical College**  
**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

***Current Assets***

Current assets increased by \$44.2 million, or 35.9%, in 2023, primarily due to the receipt of bond proceeds of \$72.6 million (short-term portion) from the issuance of the CCAP bonds.

This increase was offset by reductions in other current assets including the legislative appropriation balance associated with the demolition and abatement on the Waco campus decreasing by \$8.3 million, a decrease in the Series 2020 bond proceeds by \$5.9 million, and a \$14.2 million decrease in operating cash and investments. The reduction of operating cash and investments was as a result of the increased operating costs incurred in 2023, as further discussed in the *Statement of Revenues, Expense, and Changes in Net Position* section below.

***Non-Current Assets – Capital Assets, Net***

Net Capital Assets increased by \$39.2 million in 2023. Additions to capital assets of approximately \$63.5 million (see *Financial Highlights* section) were offset by the disposal of mostly fully depreciated assets during the year netting to approximately \$1.9 million, depreciation and amortization expense of \$22.1 million, and about \$300,000 of adjustments to accumulated amortization for the implementation of *GASB No. 87, Leases*. Completed additions made to buildings and facilities in 2023 totaled \$1.9 million, and land purchases include \$13.1 million for the expansion of the Fort Bend campus, \$1 million for land acquired for the Waco workforce training center, and other small acreage obtained for future expansion in Waco totaling another \$1 million. Construction in progress totaled \$29.5 million as of August 31, 2023, including: \$10.6 million for the reclamation of the Waco campus, \$7.6 million for the remodel of the Waco Welcome Center, \$7.1 million for various CCAP projects in Abilene, East Williamson County, Fort Bend, Harlingen, and Waco, approximately \$800,000 for custom built airplanes for the TSTC air pilot training program, \$1.2 million for construction of the workforce training center in Waco, and \$2.1 million for several other major repairs and renovations in progress statewide. Additionally, in 2023, over \$8.1 million in equipment used for technical training was added.

***Other Non-Current Assets***

In 2023, TSTC invested \$220 million of the CCAP bond proceeds in U.S. Treasury securities. The fair market value of those investments as of August 31, 2023 totaled \$225.9 million and are included in the non-current section of the Statement of Net Position (see Note 3).

Also included in other non-current assets are lease receivables for various revenue-producing leased properties across the state, per *GASB No. 87, Leases*, implemented in 2022 (see Note 8). Other assets classified as non-current include cash and investments from endowment funds. No new endowments were received in fiscal year 2023.

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***Deferred Outflows of Resources***

Deferred outflows of resources decreased by \$12.6 million, or 28.1%, in 2023 primarily due to the reduction of \$14.5 million in deferred outflows of resources related to pensions offset by an increase of \$2.1 million in other post-employment benefits (OPEB). Material factors that impact pension and OPEB deferred outflows amounts include changes in actuarial assumptions and a change in the proportion of the College's share of the State of Texas' total amount. The calculation for TSTC's share of the deferred outflows, deferred inflows, and related liability is calculated and provided by the State Comptroller's Office.

***Current Liabilities***

Current liabilities increased by \$15.8 million, or 26.6% in 2023. Accounts payable is about \$2.6 million higher due to the increased activity in CCAP projects. Unearned revenue, which mostly consists of tuition revenue that will be recognized in fiscal year 2024, increased by \$4.1 million in 2023. This increase is associated with a rise in enrollment for the Fall 2023 semester. Student enrollment increased by approximately 9% in Fall 2023 compared to Fall 2022. Additionally, semester credit hours billed in Fall 2023 increased by 7% compared to Fall 2022. Other increases in current liabilities include \$7.5 million in the current portion of long-term debt, including accrued interest on bonds payable, due to the issuance of \$298.8 million in CCAP bonds in 2023.

***Non-Current Liabilities***

Non-current liabilities mainly consist of non-current portions of revenue bonds payable, net pension and other post-employment benefits liabilities, employees' compensable leave payable, capital lease obligations, and right to use lease and subscription obligations.

The net increase in long-term debt of \$291.6 million is primarily due to the issuance of the CCAP bonds, as well as the recognition of \$9.2 million in right to use lease and subscription obligations due the implementation of *GASB No. 87, Leases*, and *GASB No. 96, SBITA*. Other non-current liabilities decreased \$4.5 million, or 5.8%, mainly due to a \$12.2 million reduction in TSTC's OPEB liability, which was partially offset by a \$7.5 million increase in pension liability as a result of the change in the actuarial valuation calculation method.

***Deferred Inflows of Resources***

Deferred inflows of resources increased \$1.8 million, or 5.1%, in 2023 primarily relating to OPEB and pensions. Both OPEB and pensions have a netting requirement to net deferred outflows and inflows across measurement periods arising from the difference between projected and actual investment return.

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**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

***Total Net Position***

Total net position represents the residual interest in TSTC's total assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Total net position decreased by \$8.5 million, or 5.8%, in 2023, as explained in the *Financial Highlights* section above.

***Restricted Net Position***

Restricted net position includes TSTC's grants subject to externally imposed restrictions governing their use as well as interest earned on proceeds from the issuance of bonds. In total, restricted net position increased by \$8.1 million, mostly due to interest income earned on the CCAP bond proceeds.

***Unrestricted Net Position***

Unrestricted net position decreased by \$33.1 million in 2023 primarily due to the calculated OPEB expense, expenditures of the supplemental appropriation for the abatement and demolition at the Waco campus, and the reduction in Deferred Outflows of Resources related to OPEB and pensions.

**Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position presents TSTC's revenues earned and the expenses incurred, regardless of when cash is received or paid. Activities are reported as either operating or non-operating. Generally, operating revenues are earned in exchange for providing goods and services. Operating expenses are incurred in the normal course of operations, including a provision for depreciation and amortization on capital assets. Additionally, TSTC relies heavily on revenue sources such as state appropriations and certain grants, which are required to be reported as non-operating revenues per GASB Statement No. 35. Revenues are reported by major source, and expenses are reported on the face of the statement by functional categories as defined by the National Association of College and University Business Officers (NACUBO).



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**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

The following table reflects TSTC's condensed comparative Statement of Revenues, Expenses, and Changes in Net Position for the years ended August 31, 2023 and 2022:

**Texas State Technical College**  
**Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position**  
**As of August 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>	<u>% Change</u>
Operating Revenue	\$ 56,267,202	\$ 51,430,693	9.4%
Operating Expenses	(246,650,931)	(236,657,813)	4.2%
<b>Operating Income (Loss)</b>	<b>(190,383,729)</b>	<b>(185,227,119)</b>	<b>2.8%</b>
Non-Operating Revenues (Expenses)	172,476,386	181,560,103	-5.0%
<b>Income (Loss) Before Other Rev., Exp. and Transfers</b>	<b>(17,907,343)</b>	<b>(3,667,016)</b>	<b>388.3%</b>
Other Revenues, Expenses and Transfers	9,398,355	5,600,234	67.8%
<b>Change in Net Position</b>	<b>(8,508,988)</b>	<b>1,933,218</b>	<b>-540.1%</b>
<b>Net Position, Beginning of Year</b>	<u>147,094,582</u>	<u>145,190,572</u>	1.3%
<b>Net Position, End of Year</b>	<b>\$ <u>138,585,594</u></b>	<b>\$ <u>147,123,789</u></b>	<b>-5.8%</b>

***Operating Revenues***

TSTC's primary sources of operating revenues are tuition and fees and federal, state, and local grants. Net tuition and fees represent over 52% of operating revenues, and are reflected in the financial statements with associated scholarship discounts and allowances shown separately. Operating revenues totaled \$56.3 million in 2023, an increase of \$4.8 million, or 9.4%. Gross tuition revenue increased \$1.1 million in 2023, although net tuition (after discounts and allowances) decreased by \$950,000 compared to prior year. More than half of the student tuition is covered by federal, state, and local financial aid.

Although total student enrollment remained relatively consistent, the increase in gross tuition revenue is attributable to increases in enrollment in higher tier programs and shifts in tier costing. Different tiers of tuition pricing depending on the program of study properly value programs to be in line with demand. The cost of tuition per semester credit hour for programs that are more technical in nature compared to academic are priced higher. Additional factors considered in tier pricing include demand and wage trends for graduates as well as program costs.

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Due to rising interest rates in 2023, \$1.9 million of interest income was earned on TSTC's operating funds, compared to \$291,000 in 2022. Additionally, grants and other sales of goods and services combined increased by approximately \$4.2 million.

***Operating Expenses***

Operating expenses totaled \$246.7 million in 2023, an increase of almost \$10 million, or 4.2%, over 2022. Significant increases in 2023 (compared to 2022) include approximately \$17.3 million in personnel costs and \$4.6 million in depreciation and amortization expense, offset by decreases in other expenses including \$5.7 million in materials and supplies, \$2.0 million in professional fees and services, and almost \$7 million in scholarship expense. As competitive salaries are increasing nationwide, TSTC continues to make material investments in employees. Additionally, as TSTC is carefully planning for growth and future campus expansions, new full-time employees have been added to support the necessary enlargement of the two primary student-facing divisions of the College, Operations and Marketing.

The decrease in materials and supplies expense is primarily due to 2022 being unusually high for purchases relating to training equipment and furnishings (under the capitalization threshold of \$5,000) to adequately allow for pandemic-related modifications to student learning using CARES Act funding.

Scholarship expense typically has a strong positive correlation to tuition revenue, but in fiscal year 2022, a significant portion of this expense was attributable to the scholarships from The Coronavirus Aid, Relief, and Economic Security (CARES) funding. In 2023, only \$2.1 million of CARES scholarships were awarded to students, compared to \$13.4 million in 2022. Excluding CARES scholarships awards, gross scholarships increased by \$6.7 million, or 14.9% in 2023.

Professional fees and services expenses were unusually high in 2022 due to consulting fees paid for the implementation of a new ERP system, *Workday*. The finance and human resources portion of the ERP system was fully implemented in 2022, and the student portion is scheduled to go-live in 2024. Most of the implementation costs incurred in 2023 were capitalized in the Right to Use Subscription Software line item, per *GASB No. 96, SBITA*. This was optional, and TSTC opted not to capitalize any prior year implementation costs. Depreciation expense also increased and is expected to continue to increase as new facilities are added.

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**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

The table below shows the amount and percentage change of operating expenses based on natural classification for the year ended August 31, 2023:

**Texas State Technical College**  
**Operating Expenses by Natural Classification**  
For the Years Ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>% Increase (Decrease)</u>
<b>Operating Expenses</b>			
Cost of Goods Sold	\$ 2,018,934	\$ 1,658,702	21.72%
Salaries and Wages	110,146,467	97,109,147	13.43%
Payroll Related Cost	47,725,946	43,488,037	9.75%
Professional Fees and Services	2,818,201	4,819,958	-41.53%
Travel	1,821,582	1,671,678	8.97%
Materials and Supplies	15,325,281	21,054,514	-27.21%
Communications and Utilities	6,301,570	5,658,158	11.37%
Repairs and Maintenance	5,756,126	5,443,631	5.74%
Rentals and Leases	3,305,730	3,335,573	-0.89%
Printing and Reproduction	182,679	129,020	41.59%
Depreciation and Amortization	22,109,619	17,497,270	26.36%
Scholarships	20,587,474	27,551,306	-25.28%
Other Operating Expenses	8,551,321	7,240,818	18.10%
<b>Total Operating Expenses</b>	<b>\$ 246,650,931</b>	<b>\$ 236,657,813</b>	<b>4.22%</b>

The table below shows the amount and percentage change of operating expenses based on NACUBO functional (programmatic) classification for the year ended August 31, 2023:

**Texas State Technical College**  
**Operating Expenses by NACUBO Function**  
For the Years Ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>% Increase (Decrease)</u>
<b>Operating Expenses</b>			
Instruction	\$ 101,105,469	\$ 87,026,491	16.18%
Research	2,984,589	1,074,602	177.74%
Academic Support	17,056,608	20,071,045	-15.02%
Student Services	22,016,301	20,691,811	6.40%
Institutional Support	34,628,817	37,390,453	-7.39%
Operations and Maintenance of Plant	16,767,211	17,122,923	-2.08%
Scholarships and Fellowships	20,342,013	27,411,065	-25.79%
Auxiliary Enterprises	9,640,303	8,372,152	15.15%
Depreciation and Amortization	22,109,619	17,497,270	26.36%
<b>Total Operating Expenses</b>	<b>\$ 246,650,931</b>	<b>\$ 236,657,813</b>	<b>4.22%</b>

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**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

***Non-operating Revenues and Expenses***

Certain significant recurring revenues and expenses are considered non-operating. TSTC's primary non-operating revenues come from state appropriations, federal Pell grant revenue, CARES grant revenue, and gifts. TSTC's major non-operating expenses consist of interest expense and fiscal charges and other non-operating expenses. In the 2022-2023 biennium, TSTC saw an increase in legislative appropriations of approximately \$5.8 million per year compared to the 2020-2021 biennium, primarily related to increases in returned-value formula funding. Further, in 2023, TSTC received the initial debt service appropriation for the CCAP bonds totaling \$20.3 million, which is presented in the *other nonoperating revenues* line in the Statement of Revenues, Expense, and Changes in Net Position.

Other non-operating expenses totaled \$7.7 million in 2023, compared to \$6.0 million in 2022. More than half of the \$6 million in 2022 was associated with the abatement and demolition of facilities at the Waco campus using the supplemental appropriation received in 2019 as explained in the *Financial Highlights* section. As the abatement and demolition is closer to completion and the restoration of the Waco campus begins, non-capitalized expenses will continue to decrease and capitalized costs will increase. During 2023, close to \$3 million included in the \$7.7 million includes bond issuance costs associated with the issuance of the CCAP bonds. Other expenses in both years also primarily include non-capitalized repairs and maintenance costs.

Federal revenues decreased by \$27.6 million in 2023, and most of this decrease is associated with the majority of CARES funding being fully recognized in prior years. TSTC was awarded a total of \$72.6 million in CARES act grants, of all but \$5.1 million was recognized between 2020-2022. Other significant increases to non-operating revenues include non-operating investment income of \$10.4 million earned on bond proceeds in 2023, offset by a large increase in interest expense and fiscal charges by almost \$12.2 million, mostly due the interest paid on the newly issued CCAP bonds.

***Other Revenues, Expenses, and Transfers***

Other revenues, expenses, and transfers is comprised of capital contributions, annual Higher Education Fund (HEF) capital appropriations, and net transfers for leased equipment from the Texas Public Finance Authority (TPFA).

In 2022, TSTC paid off the remaining balance owed to TPFA, therefore no expense was incurred in 2023 for the transfers to other state agencies line item. HEF capital appropriations remained consistent with the prior year.

UNAUDITED  
**Texas State Technical College**  
**Management's Discussion and Analysis**  
For the Year Ended August 31, 2023

**Debt Administration**

As of August 31, 2023, and 2022, TSTC had \$417.6 million and \$126.9 million in net outstanding debt, respectively. Bonds payable represents the largest portion of the College's indebtedness. All bonds relate to the financing of capital building projects and program expansions, and over half of the debt is funded by debt service appropriations. During 2023, TSTC issued \$298.8 million in CCAP / revenue financing system improvement bonds, Series 2022A, of which \$195 million is supported by state appropriations, and the remaining \$103.8 million is supported with local funds. These bonds were issued at a premium, thus the bond proceeds received were higher than the gross bonds payable by \$14.1 million. The premium is included in the net debt balance and is recognized over the life of the bond.

The General Obligation (HEF) Bonds maintain a credit rating of "AAA" and "Aaa" from two major bond rating agencies, Fitch and Moody's, respectively. The Revenue Financing System Bonds maintain a credit rating of "A+" and "A2" from the same bond rating agencies. More detailed information regarding the College's bonded indebtedness is provided in Note 5, *Long-Term Liabilities*, and Note 6, *Bonded Indebtedness*, in the accompanying Notes to the Financial Statements.

**The TSTC Foundation**

TSTC receives financial and other support through The TSTC Foundation, a 501(c) (3) non-profit foundation created to support TSTC. The Foundation has financed several debt-related projects for the construction or purchase of buildings at various campuses. The Foundation also assists TSTC by providing funding for scholarships and investing gifts and donations.

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TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
Statement of Net Position  
August 31, 2023

	TOTAL
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	
Cash on Hand	\$ 25,095.00
Cash in Bank	11,351,210.86
Cash in State Treasury	1,356,755.93
Short-term Investments	26,873,087.67
Restricted Cash and Cash Equivalents	
Cash in Bank	1,202,610.40
Restricted Investments	79,035,673.34
Legislative Appropriations	12,831,102.59
Accounts Receivable, Net	9,288,035.43
Federal Receivables	21,088,266.09
Accrued Interest Receivable	10,314.69
Due From Other Agencies	1,607,236.71
Lease Receivable	1,001,549.17
Merchandise Inventories	1,492,620.72
Total Current Assets	167,163,558.60
Non-Current Assets:	
Restricted	
Cash and Cash Equivalents	
Cash in Bank	296,149.76
Short-term Investments	300,788.90
Long-term Investments	225,936,197.91
Lease Receivable	8,737,354.63
Capital Assets, Non-Depreciable or Non-Amortizable	
Land and Land Improvements	38,428,955.07
Other Capital Assets	1,248,093.83
Construction in Progress	29,465,039.31
Capital Assets, Depreciable or Amortizable	
Buildings and Building Improvements	329,454,906.12
Less Accumulated Depreciation	(166,359,257.52)
Infrastructure	28,728,694.55
Less Accumulated Depreciation	(13,026,530.17)
Facilities and Other Improvements	7,255,687.98
Less Accumulated Depreciation	(4,596,385.59)
Furniture and Equipment	79,909,296.39
Less Accumulated Depreciation	(50,329,929.54)
Vehicles, Boats, and Aircraft	12,787,710.52
Less Accumulated Depreciation	(9,561,839.50)
Other Capital Assets	3,468,046.17
Less Accumulated Depreciation	(2,219,797.45)
Computer Software	401,956.20
Less Accumulated Amortization	(268,023.80)
Right to Use Assets: Land	887,920.95
Less Accumulated Amortization	(310,772.33)
Right to Use Assets: Buildings & Building Improvements	1,057,842.61
Less Accumulated Amortization	(305,983.04)
Right to Use Assets: Subscription Software	13,390,625.34
Less Accumulated Amortization	(2,571,015.66)
Total Non-Current Assets	532,205,731.64
TOTAL ASSETS	\$ 699,369,290.24

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TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
Statement of Net Position  
August 31, 2023

	<u>TOTAL</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension	\$ 5,361,979.00
Other Post Employment Benefits (OPEB)	25,692,310.00
Bond Refunding	<u>1,097,738.12</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ <u>32,152,027.12</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$ 8,164,767.22
Payroll Payables	10,380,351.76
Federal Payables	875,107.42
Due to Other Agencies	20,587.64
Unearned Revenue	28,879,530.13
Employees' Compensable Leave	1,114,687.94
Right to Use Lease Obligations	227,980.72
Right to Use Subscription Obligations	1,935,465.74
Capital Lease Obligations - Direct Borrowings	614,818.45
Deposits Payable	1,122,924.76
General Obligation Bonds Payable, Net	3,057,239.36
Revenue Bonds Payable, Net	10,774,516.78
Revenue Bonds Payable - Direct Borrowings	2,810,000.00
Accrued Interest Payable - Bonds	2,386,008.20
Funds Held for Others	817,587.65
Net Other Post Employment Benefits (OPEB) Liability	<u>2,130,119.00</u>
Total Current Liabilities	<u>75,311,692.77</u>
Non-Current Liabilities:	
Employees' Compensable Leave	6,242,492.90
Right to Use Lease Obligations	1,146,617.45
Right to Use Subscription Obligations	5,906,931.41
Capital Lease Obligations - Direct Borrowings	20,714,453.08
General Obligation Bonds Payable, Net	6,102,239.21
Revenue Bonds Payable, Net	351,729,450.77
Revenue Bonds Payable - Direct Borrowings	21,780,000.00
Net Other Post Employment Benefits (OPEB) Liability	53,626,847.00
Net Pension Liability	<u>12,906,720.00</u>
Total Non-Current Liabilities	<u>480,155,751.82</u>
TOTAL LIABILITIES	\$ <u>555,467,444.59</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension	\$ 2,960,736.00
Other Post Employment Benefits (OPEB)	25,042,360.00
Leases	<u>9,465,183.00</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ <u>37,468,279.00</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 159,256,564.05
Restricted for:	
Capital Projects	5,961,998.15
Other	2,239,641.11
True and Other Endowments	
Non-Expendable	596,938.66
Unrestricted	<u>(29,469,548.20)</u>
TOTAL NET POSITION	\$ <u>138,585,593.77</u>

TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
Statement of Revenues, Expenses, and Changes in Net Position  
For The Fiscal Year Ended August 31, 2023

	<u>TOTAL</u>
OPERATING REVENUES:	
Sales of Goods and Services:	
Tuition and Fees	\$ 9,576,070.38
Tuition and Fees - Pledged	49,103,994.77
Discounts and Allowances	(29,232,767.64)
Auxiliary Enterprises	1,419,494.08
Auxiliary Enterprises - Pledged	8,070,337.49
Discounts and Allowances	(3,930,064.78)
Other Sales of Goods and Services - Pledged	6,062,348.89
Interest and Investment Income	3,563.48
Interest and Investment Income - Pledged	1,883,456.66
Federal Revenue	1,949,336.45
Federal Pass-Through Revenue	5,478,405.05
State Grant Pass-Through Revenue	2,928,383.78
Other Contracts and Grants	2,951,527.88
Other Operating Revenues	3,115.22
Total Operating Revenues	<u>56,267,201.71</u>
OPERATING EXPENSES:	
Instruction	101,105,468.68
Research	2,984,589.24
Academic Support	17,056,608.46
Student Services	22,016,301.38
Institutional Support	34,628,817.25
Operations and Maintenance of Plant	16,767,210.73
Scholarships and Fellowships	20,342,012.85
Auxiliary Enterprises	9,640,302.80
Depreciation and Amortization	22,109,619.41
Total Operating Expenses	<u>246,650,930.80</u>
Operating Income (Loss)	<u>(190,383,729.09)</u>
NONOPERATING REVENUES (EXPENSES):	
Legislative Appropriation Revenue	125,665,336.67
Gifts	370,453.78
Contracts and Grants - Pledged	1,155,485.00
Investment Income	379,444.12
Investment Income - Pledged	10,157,840.33
Federal Revenue	36,399,296.52
Gain (Loss) on Disposal of Assets	255,162.58
Interest Expense and Fiscal Charges	(16,016,744.60)
Settlement of Claims	1,564,373.61
Other Nonoperating Revenues	20,260,989.28
Other Nonoperating (Expenses)	(7,715,251.42)
Total Nonoperating Revenues (Expenses)	<u>172,476,385.87</u>
Income (Loss) Before Other Revenues, Expenses, Gains/(Losses), and Transfers	<u>(17,907,343.22)</u>



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TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Statement of Revenues, Expenses, and Changes in Net Position  
 For The Fiscal Year Ended August 31, 2023

	TOTAL
OTHER REVENUES, EXPENSES, GAINS (LOSSES) AND TRANSFERS:	
Capital Contributions	644,069.71
Capital Appropriations (HEAF)	8,662,500.00
Transfers from Other State Agencies	51,387.00
Transfers to Other State Agencies	-
Legislative Transfers In	73,993.00
Legislative Appropriation Lapses	(33,594.99)
Total Other Revenues, Expenses, Gains/(Losses) and Transfers	9,398,354.72
CHANGE IN NET POSITION	(8,508,988.50)
Net Position - September 1, 2022	147,123,789.48
Restatements	(29,207.21)
Net Position - September 1, 2022 - As Restated	147,094,582.27
NET POSITION - August 31, 2023	\$ 138,585,593.77

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TEXAS STATE TECHNICAL COLLEGE (Agency 719)

Matrix of Operating Expenses

Reported by Function

For the Fiscal Year Ended August 31, 2023

Operating Expenses	Instruction	Research	Academic Support	Student Services
Cost of Goods Sold	\$ 90.85	-	-	-
Salaries and Wages	52,431,315.02	2,094,708.19	11,781,161.84	15,044,832.70
Payroll Related Cost	38,076,946.41	699,532.14	1,755,541.55	2,178,547.92
Professional Fees and Services	835,667.40	106,360.01	235,278.67	72,314.90
Travel	355,611.18	14,020.55	312,032.18	516,688.89
Materials and Supplies	6,736,695.38	51,681.63	1,859,473.30	1,098,723.56
Communications and Utilities	523,871.72	5,741.41	48,437.74	69,074.99
Repairs and Maintenance	443,053.73	859.12	457,143.06	63,257.27
Rentals and Leases	898,348.29	242.05	148,402.14	390,828.16
Printing and Reproduction	39,336.57	-	5,662.20	64,805.74
Depreciation and Amortization	-	-	-	-
Bad Debt Expense	-	-	-	(2.10)
Interest	296.24	-	67.76	-
Scholarships	191,413.63	-	-	36,550.00
Less: Tuition Discounting	-	-	-	-
Other Operating Expenses	572,822.26	11,444.14	453,408.02	2,480,679.35
Claims & Judgments	-	-	-	-
Capital	7,046,053.99	95,852.00	582,732.88	241,034.20
Less: Capital Additions	(7,046,053.99)	(95,852.00)	(582,732.88)	(241,034.20)
Total Operating Expenses	\$ 101,105,468.68	\$ 2,984,589.24	\$ 17,056,608.46	\$ 22,016,301.38

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<u>Institutional Support</u>	<u>Operation and Maintenance of Plant</u>	<u>Scholarships and Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation and Amortization</u>	<u>Total Expenditures</u>
-	-	-	2,018,842.69	-	\$ 2,018,933.54
20,643,756.33	5,976,643.76	-	2,174,049.59	-	110,146,467.43
2,995,097.32	966,221.84	-	1,054,058.83	-	47,725,946.01
1,301,043.65	145,736.77	-	121,799.24	-	2,818,200.64
515,670.00	62,744.64	-	44,815.05	-	1,821,582.49
2,803,981.26	1,490,707.55	1,755.00	1,282,263.15	-	15,325,280.83
166,229.35	4,665,440.63	-	822,773.93	-	6,301,569.77
994,167.20	2,138,177.32	-	1,659,468.75	-	5,756,126.45
906,148.58	932,792.88	-	28,967.81	-	3,305,729.91
43,149.77	4,523.20	-	25,201.58	-	182,679.06
-	-	-	-	22,109,619.41	22,109,619.41
-	-	-	(1,712.27)	-	(1,714.37)
81.15	6.67	-	192.00	-	643.82
19,252.92	-	53,503,090.27	-	-	53,750,306.82
-	-	(33,162,832.42)	-	-	(33,162,832.42)
4,240,135.97	384,215.47	-	409,582.45	-	8,552,287.66
103.75	-	-	-	-	103.75
28,676.48	484,014.23	-	-	-	8,478,363.78
(28,676.48)	(484,014.23)	-	-	-	(8,478,363.78)
<u>\$ 34,628,817.25</u>	<u>\$ 16,767,210.73</u>	<u>\$ 20,342,012.85</u>	<u>\$ 9,640,302.80</u>	<u>\$ 22,109,619.41</u>	<u>\$ 246,650,930.80</u>

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## Statement of Cash Flows

For the Fiscal Year Ended August 31, 2023

	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Proceeds from Tuition and Fees	\$ 33,081,656.24
Proceeds from Customers (Other Sales and Services)	6,190,897.13
Proceeds from Grants and Contracts	15,296,004.91
Proceeds from Auxiliaries	5,595,290.42
Proceeds from Other Revenues	8.22
Proceeds from a Defined Benefit Pension Plan	603,986.00
Proceeds from a Defined Benefit OPEB Plan	10,806,248.00
Payments to Suppliers for Goods and Services	(42,656,768.03)
Payments to Employees for Salaries and Wages	(109,098,913.28)
Payments to Employees for Benefits	(38,261,947.06)
Payments to Pension Benefits to Plan Members	(603,986.00)
Payments to OPEB Benefits to Plan Members	(10,806,248.00)
Payments for Other Expenses	(22,192,003.83)
	<u>(152,045,775.28)</u>
Net Cash Provided (Used) by Operating Activities	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from State Appropriations	143,339,070.05
Proceeds from Grants and Contracts	36,399,296.52
Proceeds from Transfers from Other State Agencies	125,380.00
Proceeds from Other Revenues	20,260,989.28
Payments for Other Uses	(4,743,665.97)
	<u>195,381,069.88</u>
Net Cash Provided (Used) by Noncapital Financing Activities	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Grants and Contracts	1,155,485.00
Proceeds from Debt Issuance	312,859,680.45
Proceeds from Other Financing Activities	1,586,707.83
Proceeds from Sale of Capital Assets	43,811.01
Payments for Additions to Capital Assets	(48,052,524.45)
Payments of Other Costs on Debt Issuance	(2,971,585.45)
Payments of Principal on Debt Issuance	(22,268,073.35)
Payments on Leases/SBITA	(2,101,178.43)
Payments of Interest on Debt Issuance	(15,718,386.53)
	<u>224,533,936.08</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales of Investments	51,558,485.06
Proceeds from Interest and Investment Income	12,963,213.71
Payments to Acquire Investments	(342,278,474.48)
	<u>(277,756,775.71)</u>
Net Cash Provided (Used) by Investing Activities	

## UNAUDITED

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## Statement of Cash Flows

For the Fiscal Year Ended August 31, 2023

Increase (Decrease) in Cash and Cash Equivalents	\$ (9,887,545.03)
Cash and Cash Equivalents, September 1, 2022	<u>24,119,366.98</u>
Cash and Cash Equivalents, August 31, 2023	<u><u>\$ 14,231,821.95</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (190,383,729.09)
Adjustments to Reconcile Operating Income	
to Net Cash Provided (Used) by Operating Activities:	
Amortization and Depreciation	22,109,619.41
Pension Expenses	642,804.00
OPEB Expenses	10,883,395.00
Operating Income and Cash Flow Categories	
Classification Differences	
Interest and Investment Income from Operating Activities	(1,887,020.14)
Operating Expenses Associated with Non Cash Acquisitions	370,453.78
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	1,646,785.41
(Increase) Decrease in Inventories	(231,228.38)
(Increase) Decrease in Due from Other Agencies	(208,271.47)
(Increase) Decrease in Deferred Outflows of Resources - Pensions	(2,148,136.00)
(Increase) Decrease in Deferred Outflows of Resources - OPEB	14,527,864.00
Increase (Decrease) in Payables	2,636,263.59
Increase (Decrease) in Deposits Payable	240,563.99
Increase (Decrease) in Unearned Revenues	4,107,654.42
Increase (Decrease) in Funds Held for Others	216,032.51
Increase (Decrease) in Employees' Compensable Leave	89,555.64
Increase (Decrease) in Deferred Inflows of Resources - Pensions	(5,906,700.00)
Increase (Decrease) in Deferred Inflows of Resources - OPEB	8,134,030.00
Increase (Decrease) in Liabilities to Employees for Defined Benefit Pensions	6,808,046.00
Increase (Decrease) in Liabilities to Employees for Defined Benefit OPEB	(22,742,148.00)
Increase (Decrease) in Due to Other Agencies	(951,609.95)
Total Adjustments	<u>38,337,953.81</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (152,045,775.28)</u></u>
NON CASH TRANSACTIONS	
Net Change in Fair Value of Investments	\$ 535,834.96
Borrowing Under Lease Purchase	<u>1,292,875.60</u>
Total Non Cash Transactions	<u><u>\$ 1,828,710.56</u></u>

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Note 1: Summary of Significant Accounting Policies****Entity**

Texas State Technical College (TSTC/College) is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

TSTC has historically included four separately accredited colleges including TSTC in Harlingen, TSTC in Marshall, TSTC in Waco, and TSTC in West Texas. In June 2015, the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) approved the merger of the four colleges into a single, statewide college. This new, statewide college operates in 10 locations throughout the State of Texas. Additionally, in 2023, the legislature authorized TSTC to open two new campuses in Denton County and in New Braunfels region, giving TSTC an opportunity to expand in two fast-growing areas in Texas. TSTC is the only state-supported technical college in Texas with multiple campuses. With a statewide role and mission, TSTC is efficiently and effectively helping Texas meet the high-tech challenges of today's global economy, in partnership with business and industry, government agencies, and other educational institutions. TSTC has high graduation rates, exceptional postgraduate success rates, and an outstanding record in graduating individuals from diverse cultural and socioeconomic backgrounds.

**Component Units**

No component units have been identified that should have been blended into an appropriate fund or discretely presented within this financial report.

**Fund Structure**

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity. The fund designation for institutions of higher education is Business-Type Activity within the Proprietary Fund Type.

**Proprietary Fund Types****Enterprise Funds**

Business type funds are used for activities that are financed through the charging of fees for goods or services to the ultimate user. Institutions of higher education are required to report their financial activities as business type because the predominance of their funding comes through charges to students, sales of goods and services, and grant revenues.

**Agency Funds**

Agency funds are used to account for assets the college holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

**TEXAS STATE TECHNICAL COLLEGE (Agency 719)****NOTES TO THE FINANCIAL STATEMENTS****August 31, 2023****Basis of Accounting and Presentation**

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The financial statements of TSTC have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary non-exchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary non-exchange transactions. Government-mandated or voluntary non-exchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in non-operating revenues and expenses.

***Budget and Budgetary Accounting***

The budget of the State of Texas is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act). Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position****Assets****Current and Non-Current Assets**

Current assets are those that are readily available to meet current operational requirements. Non-current assets are those that are not readily available to meet current operational requirements and, instead, are intended to support long-term institutional needs.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents. At August 31, 2023, cash equivalents consisted primarily of money market accounts.

Investments

Investments are generally stated at fair value with certain exceptions in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value, which is determined based on quoted market prices, is the amount of which an investment could be exchanged in a current transaction between parties other than in a forced or liquidation sale. Changes in unrealized gains (losses) on the carrying value of the investments are reported as a component of investment income in the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

Short-term investments consist of certificates of deposits (CD's) purchased from banks whose maturities do not exceed one year from date of purchase and investments in TexPool and Texas Range (TexasDAILY), authorized AAAm rated government investment pools. The CD's are valued at cost. The fair value of the funds invested in TexPool and Texas Range (TexasDAILY) are measured at amortized cost provided by the pool. The College may withdraw the funds from TexPool and Texas Range (TexasDAILY) on demand. Long-term investments consist of investments exceeding one year from date of purchase, partly in a money market fund and partly in fixed-income U.S. treasury securities, valued at fair market value.

Accounts Receivable

Accounts receivable represent amounts owed to the College from private persons or organizations for goods and services provided. These consist primarily of amounts owed by students for tuition and fees, by sponsors, and by private organizations and federal and state government for grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of general obligation and revenue bonds and revenues set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Legislative Appropriations

Legislative appropriations line item represents the balance of general revenue funds at year end as calculated in the Texas State Comptroller's General Revenue Reconciliation.

Inventories

Inventories include merchandise inventories on hand for sale. Inventories are valued at cost, generally utilizing the last-in, first-out method.



## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

Capital Assets

Equipment, vehicles and aircraft with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year is capitalized. Buildings, infrastructure, facilities and other assets are capitalized when they meet the following thresholds set by the state:

<u>Capital Asset Category</u>	<u>Threshold</u>
Buildings and Building Improvements	\$ 100,000
Infrastructure	500,000
Facilities and Other Improvements	100,000
Software (Purchased)	100,000
Software (Internally Developed)	1,000,000

These assets are capitalized at cost or, if donated, at appraised fair value as of the date of acquisition. Depreciation or amortization is reported on all "exhaustible" assets. "Inexhaustible" assets such as works of art and historical treasures are not depreciated or amortized. Assets are depreciated or amortized over the estimated useful life of the asset using the straight-line method. Depreciation or amortization of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation or amortization of capital assets is based on allocation methods and estimated lives as summarized below:

<u>Capital Asset Category</u>	<u>Useful Life</u>
Buildings and Building Improvements	15-30 years
Infrastructure	15-30 years
Facilities and Other Improvements	10-23 years
Furniture and Equipment	3-15 years
Vehicles/Airplanes	5-10 years
Software	5 years

Intangible capital assets are defined as assets that lack physical substance, are nonfinancial in nature, and have an initial life extending beyond a single reporting period. These assets are required to be reported if they are identifiable. Right to use leased assets are capitalized if the cost meets or exceeds \$100,000. Subscription-Based Information Technology Arrangements (SBITA) right to use assets are capitalized if the cost meets or exceeds \$500,000. Intangible assets are amortized based on the estimated useful life of the asset using the straight-line method.

Lease Receivables

Lease receivable is calculated as the present value of the lease receipts expected during the lease term. TSTC, as the lessor, records a lease receivable and a deferred inflow of other resources on its financial statements.

Deferred Outflows of Resources

TSTC reports the consumption of net position that is applicable to a future period as deferred outflows of resources in a separate section of its statement of net position.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Liabilities****Accounts Payable**

Accounts payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

**Unearned Revenues**

Unearned revenues represent tuition and fees inflows as of the end of the fiscal year which will not be earned until the subsequent fiscal year.

**Employees' Compensable Leave Balances**

Employees' compensable leave balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the statement of net position. These obligations are normally paid from the same funding source(s) from which each employee's salary or wage compensation was paid.

**Capital Lease (Direct Borrowings) / Right to Use Lease Obligations / Right to Use Subscription Obligations**

Capital lease obligations represent the liability for future lease payments under capital lease contracts contingent upon the appropriation of funding by the Legislature. Right to use lease obligations and subscription obligations are lease liabilities representing the amount recognized by TSTC, as the lessee, on its financial statements regarding its leases. It is initially measured at the present value of lease payments and is remeasured whenever there is a change in lease payments or lease modification. Liabilities are reported separately as either current or non-current in the Statement of Net Position.

**Bonds Payable – General Obligation Bonds and Revenue Bonds**

General obligation bonds and Revenue bonds are accounted for in proprietary funds for business-type activities. These payables are reported as either current or non-current in the statement of net position. The bonds are reported at par, net of unamortized premiums, discounts, and gains/(losses) on bond refunding activities.

**Funds Held for Others**

Funds held for others represent assets held by the College on behalf of others in a purely custodial capacity, including funds owned by various student organizations and temporary holdings of student loan funds prior to disbursing to the students.

**Deferred Inflows of Resources**

TSTC reports the acquisition of net position that is applicable to a future period as deferred inflows of resources in a separate section of its statement of net position.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Net Position**

Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the proprietary fund statements.

**Net Investment in Capital Assets**

Net Investment in capital assets consists of capital assets, net of accumulated depreciation/amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

**Restricted Net Position**

Restricted net position results when constraints placed on the use of net resources are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net Position**

Unrestricted net position consists of net resources that do not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified.

**Interfund Activities and Balances**

The College has the following types of transactions among funds:

- (1) **Transfers:** Legally required transfers that are reported when incurred as 'transfers in' by the recipient fund and as 'transfers out' by the disbursing fund.
- (2) **Reimbursements:** Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
- (3) **Interfund Sales and Purchases:** Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund (interfund services provided) and expenditures or expenses of the disbursing fund (interfund services used).

The composition of TSTC's interfund activities and balances is presented in Note 12, *Interfund Activity and Transactions*.

**Cost-Sharing Defined Benefit Pension Plan**

TSTC participates in a cost-sharing multiple-employer defined benefit pension plan, Teachers Retirement System of Texas Plan (TRS/Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense and information about the fiduciary net position of the Plan and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

the Plan. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Cost-Sharing Defined Benefit Other Postemployment Benefit Plan**

TSTC participates in a cost-sharing multiple-employer defined benefit other postemployment benefit plan, Employees Retirement System of Texas Plan (OPEB Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Revenues and Expenses**

Operating revenues include activities such as tuition and fees, net of discounts and allowances; sales and services of auxiliary enterprises; most federal, state, and local grants and contracts; and interest income earned from operating activities. Operating revenues are classified as pledged to the extent that they are pledged as security for the College's bonded debt service. Non-pledged revenues consist of revenues that are not lawfully available to the College to be used for payments on bonded debt service. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation and amortization and scholarships. Non-operating revenues include activities such as state appropriations, federal student financial aid, insurance recoveries on property claims, and investment income. Non-operating expenses include activities such as interest expense on capital asset financing and expenses on capital assets not meeting the capitalization thresholds set by the State.

The appropriations of revenues by the Texas Legislature (Legislature) is in the form of general revenues. The Legislature meets every odd numbered year and approves a two-year budget (biennial) for all State agencies. The general revenue appropriations to the College supports the instruction, research and operation of the College. Appropriations also include payments made by the State on behalf of the College for benefits related to salaries funded by State appropriations. There is no assurance that the Legislature will continue its appropriations to the College in future years; however, the College expects that the Legislature will continue to do so.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the college addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the College's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties, and Federal Direct Lending) is accounted for as third-party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

**Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, are recorded as non-operating revenues and other governmental grants are recorded as operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship allowance. The scholarship allowances on tuition and fees and auxiliary enterprises for the year ended August 31, 2023, were \$29,232,767.64 and \$3,930,064.78, respectively.

**Collections**

The College has collections of rare manuscripts and art that it does not capitalize. These collections adhere to the College's policy to (a) maintain them for public exhibition, education or research, (b) protect, keep unencumbered, care for and preserve them, and (c) require proceeds from their sale to be used to acquire other collection items. Collections maintained in this manner are charged to operations at time of purchase rather than capitalized.

**Income Taxes**

As a state institution of higher education, the income of the College is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income.

**Upcoming Accounting Pronouncements**

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, requires recognition of a right to use subscription asset, an intangible asset, and a corresponding subscription liability on subscription-based information technology arrangements (SBITAs). This statement was implemented in fiscal year 2023. Corresponding right to use assets and obligations were recognized and reflected in Statement of Net Position.
- GASB Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences by aligning the recognition and measurement under a unified model and amending certain previously required disclosures. This statement will be implemented in fiscal year 2024, or earlier if the State chooses to implement the standard early. The College anticipates a moderate impact to the financial statements.

UNAUDITED  
**TEXAS STATE TECHNICAL COLLEGE (Agency 719)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**August 31, 2023**

**Note 2: Capital Assets**

A summary of changes in capital assets for the year ended August 31, 2023 is presented below:

	Balance 9/1/2022	Adjustments	Completed CIP	Additions	Deletions	Balance 8/31/2023
<b>Non-Depreciable or Non-Amortizable Assets</b>						
Land and Land Improvements	\$ 23,556,688.20	\$ -	\$ -	\$ 15,270,253.64	\$ (397,986.77)	\$ 38,428,955.07
Construction in Progress	6,511,728.91	(731,690.13)	(133,634.27)	23,818,634.80	-	29,465,039.31
Other Tangible Capital Assets	1,248,093.83	-	-	-	-	1,248,093.83
<b>Total Non-Depreciable or Non-Amortizable Assets</b>	<b>31,316,510.94</b>	<b>(731,690.13)</b>	<b>(133,634.27)</b>	<b>39,088,888.44</b>	<b>(397,986.77)</b>	<b>69,142,088.21</b>
<b>Depreciable Assets</b>						
Buildings & Bldg. Improvements	\$ 330,038,169.95	\$ (273,423.45)	\$ 133,634.27	\$ 1,936,525.35	\$ (2,380,000.00)	\$ 329,454,906.12
Infrastructure	28,728,694.55	-	-	-	-	28,728,694.55
Facilities & Other Improvements	7,255,687.98	-	-	-	-	7,255,687.98
Furniture and Equipment	75,611,327.38	16,395.00	-	7,503,230.65	(3,221,656.64)	79,909,296.39
Vehicle, Boats & Aircraft	13,166,734.12	-	-	362,478.25	(741,501.85)	12,787,710.52
Other Capital Assets	3,537,309.40	-	-	216,304.93	(285,568.16)	3,468,046.17
<b>Total Depreciable Assets at Historical Costs</b>	<b>458,337,923.38</b>	<b>(257,028.45)</b>	<b>133,634.27</b>	<b>10,018,539.18</b>	<b>(6,628,726.65)</b>	<b>461,604,341.73</b>
<b>Less Accumulated Depreciation for:</b>						
Buildings & Bldg. Improvements	\$ (156,923,522.12)	\$ 9,600.28	\$ -	\$ (10,474,396.06)	\$ 1,029,060.38	\$ (166,359,257.52)
Infrastructure	(12,029,660.81)	-	-	(996,869.36)	-	(13,026,530.17)
Facilities & Other Improvements	(4,305,588.33)	-	-	(290,797.26)	-	(4,596,385.59)
Furniture and Equipment	(46,848,792.33)	(14,055.00)	-	(6,622,684.37)	3,155,602.16	(50,329,929.54)
Vehicle, Boats & Aircraft	(9,518,153.89)	-	-	(751,143.89)	707,458.28	(9,561,839.50)
Other Capital Assets	(2,256,867.41)	-	-	(179,686.59)	216,756.55	(2,219,797.45)
<b>Total Accumulated Depreciation</b>	<b>(231,882,584.89)</b>	<b>(4,454.72)</b>	<b>-</b>	<b>(19,315,577.53)</b>	<b>5,108,877.37</b>	<b>(246,093,739.77)</b>
<b>Depreciable Assets, Net</b>	<b>226,455,338.49</b>	<b>(261,483.17)</b>	<b>133,634.27</b>	<b>(9,297,038.35)</b>	<b>(1,519,849.28)</b>	<b>215,510,601.96</b>
<b>Amortizable Assets-Intangible</b>						
Computer Software	\$ 657,822.20	\$ -	\$ -	\$ 143,499.00	\$ (399,365.00)	\$ 401,956.20
<b>Total Amortizable Assets - Intangible</b>	<b>657,822.20</b>	<b>-</b>	<b>-</b>	<b>143,499.00</b>	<b>(399,365.00)</b>	<b>401,956.20</b>
<b>Less Accumulated Amortization for:</b>						
Computer Software	\$ (657,822.20)	\$ -	\$ -	\$ (9,566.60)	\$ 399,365.00	\$ (268,023.80)
<b>Total Accumulated Amortization</b>	<b>(657,822.20)</b>	<b>-</b>	<b>-</b>	<b>(9,566.60)</b>	<b>399,365.00</b>	<b>(268,023.80)</b>
<b>Amortizable Assets - Intangible, Net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>133,932.40</b>	<b>-</b>	<b>133,932.40</b>
<b>Business-Type Activities, Capital Assets, Net</b>	<b>\$ 257,771,849.43</b>	<b>\$ (993,173.30)</b>	<b>\$ -</b>	<b>\$ 29,925,782.49</b>	<b>\$ (1,917,836.05)</b>	<b>\$ 284,786,622.57</b>

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

In accordance with the implantation of GASB Statement No. 87, *Leases* and GASB Statement No. 96, *SBITA*, leased assets are presented separately. A summary of changes in intangible right to use (RTU) assets for the year ended August 31, 2023 is presented below:

	Balance 9/1/2022	Adjustments	Additions	Deletions	Balance 8/31/2023
<b>Amortizable Assets-Intangible</b>					
Land	\$ -	\$ 887,920.95	\$ -	\$ -	\$ 887,920.95
Buildings and Building Improvements	-	1,057,842.61	-	-	1,057,842.61
Subscriptions	-	-	13,390,625.34	-	13,390,625.34
<b>Total Amortizable Intangible RTU Assets</b>	<b>\$ -</b>	<b>\$ 1,945,763.56</b>	<b>\$ 13,390,625.34</b>	<b>\$ -</b>	<b>\$ 15,336,388.90</b>
<b>Less Accumulated Amortization for:</b>					
Land	\$ -	\$ (288,574.31)	\$ (22,198.02)	\$ -	\$ (310,772.33)
Buildings and Building Improvements	-	(105,628.05)	(200,354.99)	-	(305,983.04)
Subscriptions	-	-	(2,571,015.66)	-	(2,571,015.66)
<b>Total Accumulated Amortization RTU Assets</b>	<b>\$ -</b>	<b>\$ (394,202.36)</b>	<b>\$ (2,793,568.67)</b>	<b>\$ -</b>	<b>\$ (3,187,771.03)</b>
<b>Business-Type Activities, RTU Assets, Net</b>	<b>\$ -</b>	<b>\$ 1,551,561.20</b>	<b>\$ 10,597,056.67</b>	<b>\$ -</b>	<b>\$ 12,148,617.87</b>

### Note 3: Deposits, Investments and Repurchase Agreements

#### Deposits

As of August 31, 2023, the carrying amount of deposits was \$12,849,971.02 as presented below.

Cash in Bank - Carrying Amount	\$ 13,160,759.92
Less: Certificates of Deposit included in Current Short-Term Investments	(10,000.00)
Less: Certificates of Deposit included in Noncurrent Restricted Short-term Investments	(300,788.90)
<b>Cash in Bank per Statement of Net Position</b>	<b>\$ 12,849,971.02</b>

Current Unrestricted Assets - Cash in Bank	\$ 11,351,210.86
Current Restricted Assets - Cash in Bank	1,202,610.40
Noncurrent Restricted Assets - Cash in Bank	296,149.76
<b>Total</b>	<b>\$ 12,849,971.02</b>

#### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure of a depository financial institution, TSTC will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. TSTC's bank accounts are secured by FDIC and collateral pledged. TSTC has no deposits that are at risk of recovery due to the failure of a depository financial institution. As of August 31, 2023, the College's total bank balance was \$13,068,557.77.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Investments**

Texas State Technical College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Tex. Gov't Code Ann. Sec 2256.001) and the Uniform Prudent Management of Institutional Funds Act (Tex. Property Code Sec. 163.001) following the "prudent person rule". Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposits, and (5) other instruments and obligations authorized by statute. There were no significant violations of legal provisions during the period.

TSTC values its investments at fair value. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is an exit price at the measurement date from the perspective of market participant that holds the asset. This is a market-based measurement.

GASB 72 also establishes a fair value hierarchy that classified inputs to valuation techniques into three levels:

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that can be assessed at the measurement date.
- Level 2 – inputs are inputs (other than quoted prices included within Level 1) that are observable for an asset or liability, either directly (quoted market prices for similar assets or liabilities) or indirectly (corroborated from observable market information)
- Level 3 – inputs are unobservable inputs for asset or liability.

Beyond these three levels, net asset value may be used to categorize investments without a readily determinable fair value. As of year-end, fair values of investments were categorized as follows:

Type of Investments	Value at 8/31/23	Fair Value Measured by			NAV
		Level 1	Level 2	Level 3	
Fixed Income Money Market	\$ 23,359,878.76	23,359,878.76	-	-	-
U.S. Treasury Securities	202,576,319.15	202,576,319.15	-	-	-
Other Commingled Funds (TexasDAILY)	100,343,676.45	-	-	-	100,343,676.45
Other Commingled Funds (Texpool)	5,555,084.56				5,555,084.56
<b>Total Investments</b>	<b>\$ 331,834,958.92</b>	<b>\$ 225,936,197.91</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 105,898,761.01</b>



## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Reconciliation of Investments to Statement of Net Position**

Current Unrestricted Assets - Short-term Investments	\$ 26,863,087.67
Current Restricted Assets - Short-term Investments	79,035,673.34
Noncurrent Restricted Assets - Long-term Investments	225,936,197.91
Add: Certificates of Deposit disclosed as deposits but reported as Current Short-term Investments	10,000.00
Add: Certificates of Deposit disclosed as deposits but reported as Noncurrent Restricted Short-term Investments	<u>300,788.90</u>
<b>Total Investments Per Statement of Net Position</b>	<b><u>\$ 332,145,747.82</u></b>

Custodial Credit Risk - custodial credit risk for investments is the risk that the College will not be able to recover the value of its investments in the event of a counterparty failure. The College uses third-party banks' custody and safekeeping services for its investment securities. Securities are held in custody at third-party banks registered in the name of the College and are segregated from securities owned by those institutions or held in custody by those institutions.

Credit Risk - the College's investment policy seeks to control credit risk by investing in compliance with the policy, qualifying the broker and financial institution with whom the College will transact, sufficient collateralization, portfolio diversification and limiting maturity. The College's investment policy limits the types of investment instruments that may be purchased by the College.

Concentration of Credit Risk - the College's investment policy requires the portfolio to be structured with diversification and securities that have a high credit rating and are liquid in nature. The College places no limit on the amount the College may invest in any one issuer, however, the College manages exposure to concentration of credit risk through diversification.

Interest Rate Risk - as a means of minimizing risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the College funds. This is accomplished by purchasing quality, short-to-medium term securities that will complement each other in a laddered or barbell maturity structure. Currently, all investments of the College mature within one year.

Foreign Currency Risk - the College does not engage in any deposit or investment transactions involving foreign currency.

**Note 4: Short Term Debt**

TSTC does not have any short term debt.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

## Note 5: Long-Term Liabilities

## Changes in Long-Term Liabilities

During the year ended August 31, 2023, the following changes occurred in long-term liabilities:

	Balance 9/1/2022	Restatements/ Adjustments	Additions	Reductions	Balance 8/31/2023	Amounts Due Within One Year	Amounts Due Thereafter
General Obligation Bonds Payable	\$ 12,081,717.93	(402,239.36)	-	(2,520,000.00)	9,159,478.57	3,057,239.36	6,102,239.21
Revenue Bonds Payable	66,688,023.45	13,485,944.10	298,750,000.00	(16,420,000.00)	362,503,967.55	10,774,516.78	351,729,450.77
Revenue Bonds - Direct Borrowings	27,330,000.00	-	-	(2,740,000.00)	24,590,000.00	2,810,000.00	21,780,000.00
<b>Total Bonds Payable</b>	<b>106,099,741.38</b>	<b>13,083,704.74</b>	<b>298,750,000.00</b>	<b>(21,680,000.00)</b>	<b>396,253,446.12</b>	<b>16,641,756.14</b>	<b>379,611,689.98</b>
Right to Use Lease Obligation	-	-	1,580,768.41	(206,170.24)	1,374,598.17	227,980.72	1,146,617.45
Right to Use Subscription Obligations	-	-	9,737,405.34	(1,895,008.19)	7,842,397.15	1,935,465.74	5,906,931.41
Capital Lease - Direct Borrowings	20,841,246.73	(216,777.45)	1,292,875.60	(588,073.35)	21,329,271.53	614,818.45	20,714,453.08
Employees' Compensable Leave	7,267,625.20	(750,737.92)	5,459,949.19	(4,619,655.63)	7,357,180.84	1,114,687.94	6,242,492.90
Net Pension Liability	5,455,870.00	-	7,450,850.00	-	12,906,720.00	-	12,906,720.00
Net OPEB Liability	67,615,719.00	-	-	(11,858,753.00)	55,756,966.00	2,130,119.00	53,626,847.00
<b>Total Long-Term Liabilities</b>	<b>\$ 207,280,202.31</b>	<b>12,116,189.37</b>	<b>324,271,848.54</b>	<b>(40,847,660.41)</b>	<b>502,820,579.81</b>	<b>22,664,827.99</b>	<b>480,155,751.82</b>

The adjustments in the above table include the amortization of bond premiums.

## Revenue Bonds Payable – Direct Borrowings

Scheduled principal and interest payments for revenue bonds payable – direct borrowings outstanding as of August 31, 2023 are as follows:

Year	Principal	Interest	Total
2024	\$ 2,810,000.00	\$ 586,580.50	\$ 3,396,580.50
2025	2,880,000.00	514,602.00	3,394,602.00
2026	2,955,000.00	440,789.25	3,395,789.25
2027	3,030,000.00	365,079.00	3,395,079.00
2028	3,110,000.00	287,408.00	3,397,408.00
2029-2030	9,805,000.00	376,274.25	10,181,274.25
<b>Total</b>	<b>\$ 24,590,000.00</b>	<b>\$ 2,570,733.00</b>	<b>\$ 27,160,733.00</b>

See further information on these bonds in Note 6, *Bonded Indebtedness*.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Revenue Bonds Payable and General Obligation Bonds Payable**

Revenue Bonds payable and General Obligation Bonds payable obligations are described in Note 6, *Bonded Indebtedness*.

**Capital Lease – Direct Borrowings**

Texas State Technical College has entered into long-term leases for financing the purchase of certain capital assets. Such leases are classified as capital leases – direct borrowings for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception of the lease. The future minimum lease payments under these capital leases as of August 31, 2023 are as follows:

Year	Principal	Interest	Total
2024	614,818.45	756,891.55	1,371,710.00
2025	1,960,858.71	731,241.35	2,692,100.06
2026	665,051.26	706,658.74	1,371,710.00
2027	690,577.38	681,132.62	1,371,710.00
2028	715,308.25	656,401.75	1,371,710.00
2029-2033	4,018,059.48	2,840,490.52	6,858,550.00
2034-2038	4,851,022.38	2,007,527.62	6,858,550.00
2039-2043	5,856,688.24	1,001,861.76	6,858,550.00
2044-2046	1,956,887.38	74,377.07	2,031,264.45
<b>Total</b>	<b>\$ 21,329,271.53</b>	<b>\$ 9,456,582.98</b>	<b>\$ 30,785,854.51</b>

The financing leases are secured by the underlying assets being leased.

**Claims and Judgments**

TSTC has no outstanding liabilities for claims or judgments as of August 31, 2023.

**Employees' Compensable Leave**

Full-time State employees earn annual leave from eight to twenty-one hours per month depending on the respective employee's years of State employment. The State's policy is that an employee may carry his/her accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of State service. Employees with at least six months of State service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The College recognizes the accrued liability for the unpaid annual leave in the Statement of Net Position. This obligation is usually paid from the same funding source(s) from which the employee's salary or wage compensation was paid. For the year ended August 31, 2023, the accrued liability totaled \$7,357,180.84.

The College made lump sum payments totaling \$1,219,085.56 for accrued vacation and/or compensatory time to employees who separated from state service during fiscal year ending August 31, 2023.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

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Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The College's policy is to recognize the cost of sick leave when paid and the liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.

**Net Pension Liability**

See Note 1, *Summary of Accounting Policies*, and Note 9, *Defined Benefit Pension Plan and Defined Contribution Plan*, for more information on the Net Pension Liability.

**Net OPEB Liability**

See Note 1, *Summary of Accounting Policies*, and Note 11, *Postemployment Benefits Other Than Pensions*, for more information on the Net OPEB Liability.

**Note 6: Bonded Indebtedness**

Detailed supplemental bond information is disclosed in: Schedule 2A, Miscellaneous Bond Information; Schedule 2B, Changes in Bonded Indebtedness; Schedule 2C, Debt Service Requirements; and Schedule 2D, Analysis of Funds Available for Debt Service.

General information related to general obligation bonds and revenue bonds outstanding as of August 31, 2023, is summarized below.

**General Obligation Bonds**Constitutional Appropriation Bonds, Series 2016

- To pay costs of issuance and to acquire, purchase, construct, improve, renovate, enlarge or equip property, buildings structures, facilities, and related infrastructure at some or all of the System's campuses, including (1) replace the chiller plant at the Harlingen campus; (2) replace water and sewer infrastructure at the Waco campus; (3) renovate the third floor of the J. B. Connally Building for System administration at the Waco campus; (4) make HVAC improvements (including certain replacements) at most or all campuses; (5) make communication infrastructure and IT network infrastructure improvements at most or all campuses; and (6) renovate buildings at some or all campuses including at the Sweetwater campus to expand the welding and diesel programs.
- Issued 04-27-2016
- \$23,680,000.00, all authorized bonds have been issued
- Source of revenues for debt service – General Revenue Funds (HEAF) Appropriations
- Interest rates range between 4.00-5.00 percent

TEXAS STATE TECHNICAL COLLEGE (Agency 719)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

- Future debt service requirements on General Obligation Bonds is summarized in the table below:

Year	General Obligation Bonds Principal	General Obligation Bonds Interest	Total
2024	\$ 2,655,000.00	\$ 322,225.00	\$ 2,977,225.00
2025	2,785,000.00	186,225.00	2,971,225.00
2026	2,915,000.00	58,300.00	2,973,300.00
<b>Total</b>	<b>\$ 8,355,000.00</b>	<b>\$ 566,750.00</b>	<b>\$ 8,921,750.00</b>

**Revenue Bonds**

Revenue Financing System Improvement and Refunding Bonds, Series 2016

- (1) To finance the costs of acquiring, purchasing, constructing, improving, enlarging and equipping the following projects within the TSTC System: (A) construction of an industrial technology center associated with the System’s Abilene campus, (B) Phase II of the Engineering Technology Center renovation at the System’s Harlingen campus, (C) construction of the Fort Bend Campus Building #2 at the System’s Fort Bend campus, and (D) purchase and renovation of the North Texas Technology Center at the System’s North Texas Campus; (2) to refund \$1,250,000.00 of outstanding Series 2008 Revenue Bonds and \$19,190,000.00 of outstanding Series 2009 Revenue Bonds; and (3) to pay the costs of issuing the bonds.
- Issued 04-28-2016
- \$56,915,000.00, all authorized bonds have been issued
- Sources of revenues for debt service – General Revenue Funds specifically appropriated for debt service and all legally available non-General Revenue Funds of the System.
- Interest rates noted below in the “Current and Advance Refunding Bonds” section

Revenue Financing System Improvement Bonds, Series 2020

- To finance the costs of acquiring, purchasing, constructing, improving, enlarging and equipping the property and facilities within the System and paying the costs of issuing the bonds.
- Issued 06-01-2020
- \$30,000,000.00, all authorized bonds have been issued
- Source of revenues for debt service – all legally available non-General Revenue Funds of the System.
- Interest rate is 2.53 percent

Revenue Financing System Refunding Bonds Series 2022

- To refund \$15,665,000.00 of outstanding Series 2011 Revenue Financing System Improvement and Refunding Bonds and (2) \$3,075,000.00 of outstanding Series 2011A Revenue Financing System Bonds; and (3) to pay the costs of issuing the bonds.
- Issued 03-11-2022

**TEXAS STATE TECHNICAL COLLEGE (Agency 719)**

**NOTES TO THE FINANCIAL STATEMENTS**

**August 31, 2023**

- \$18,935,000.00, all authorized bonds have been issued
- Source of revenues for debt service – all legally available non-General Revenue Funds of the System.
- Interest rate is 2.31 percent
- More information pertaining to this current refunding noted below in the “Current and Advance Refunding Bonds” section

Revenue Financing System Refunding Bonds Series 2022A

- (1) To finance the costs of acquiring, purchasing, constructing, improving, enlarging and equipping the following projects within the TSTC System: (A) East Williamson County Higher Education Expansion, (B) Fort Bend Campus Expansion, (C) Waco Campus Expansion, (D) Harlingen Campus Expansion, (E) Marshall Campus Expansion (F) Abilene Campus Expansion, (G) Fort Bend Land Purchase (H) Harlingen Campus Expansion New Construction (I) Harlingen Campus Expansion (Renovation) and (J) Waco – EDA Grant Project Supplement; and (2) to pay the costs of issuing the bonds.
- Issued 10-25-2022
- \$298,750,000.00, all authorized bonds have been issued
- Sources of revenues for debt service – General Revenue Funds specifically appropriated for debt service and all legally available non-General Revenue Funds of the System.
- Interest rates range between 5.00-6.00 percent

Future debt service requirements on Total Revenue Bonds is summarized in the table below:

<u>Year</u>	<u>Revenue Financing Bonds Principal</u>	<u>Revenue Financing Bonds Interest</u>	<u>Total</u>
2024	\$ 12,970,000.00	\$ 18,201,072.76	\$ 31,171,072.76
2025	15,100,000.00	17,648,720.76	32,748,720.76
2026	15,755,000.00	16,991,957.01	32,746,957.01
2027	16,460,000.00	16,304,852.76	32,764,852.76
2028	17,195,000.00	15,585,104.26	32,780,104.26
2029-2033	82,495,000.00	66,903,926.55	149,398,926.55
2034-2038	76,685,000.00	49,043,923.15	125,728,923.15
2039-2043	70,235,000.00	28,791,762.50	99,026,762.50
2044-2048	23,315,000.00	15,768,050.00	39,083,050.00
2049-2053	31,065,000.00	8,022,300.00	39,087,300.00
2054	7,375,000.00	442,500.00	7,817,500.00
<b>Total</b>	<b>\$ <u>368,650,000.00</u></b>	<b>\$ <u>253,704,169.75</u></b>	<b>\$ <u>622,354,169.75</u></b>

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Current and Advance Refunding Bonds**

Refunded \$1,250,000.00 of Revenue Bonds, Series 2008 and \$19,190,000.00 of Revenue Bonds, Series 2009:

- Issued Revenue Bonds – Refunding portion of Series 2016 on 04-28-2016
- \$19,330,000.00 – all authorized bonds have been issued. \$1,220,000.00 pertained to the Series 2008 Bonds and \$18,110,000.00 pertained to the Series 2009 Bonds
- Average interest rate of bonds refunded – 4.56 percent combined
- Series 2008 Bonds – 4.45 percent
- Series 2009 Bonds – 4.56 percent
- Net proceeds from Refunding Portion of Series 2016 – \$22,902,819.87 – after payment of \$236,971.53 in underwriting fees, issuance and other costs. The net proceeds were used to purchase \$22,902,548.69 of U. S. Government securities, with the remaining \$271.18 held in cash. These net proceeds were deposited in a special escrow account with an escrow agent to provide for all remaining future debt payments on the refunded Series 2008 and Series 2009 bonds.
- Advance refunding of the callable portions of the Series 2008 and Series 2009 Revenue Bonds reduced the System’s debt service payments during fiscal years 2016 through 2030 by \$2,105,675.15. Of this amount, a total of \$98,134.72 pertained to the Series 2008 bonds and a total of \$2,007,540.43 pertained to the Series 2009 Bonds.
- Economic Gain - \$1,340,960.00 difference between the net present value of the old and new debt service payments. Of this amount, a total of \$65,385.65 pertained to the Series 2008 bonds and a total of \$1,275,574.35 pertained to the Series 2009 bonds.
- Accounting Gain - \$2,105,675.15 accounting gain resulted from the advance refunding. Of this amount, a total of \$98,134.72 pertained to the Series 2008 bonds and a total of \$2,007,540.43 pertained to the Series 2009 bonds.

Refunded \$15,665,000.00 of Revenue Bonds, Series 2011 and \$3,075,000.00 of Revenue Bonds, Series 2011A:

- Issued Revenue Financing System Refunding Bonds, Series 2022 on 03-11-2022 to current refund \$18,740,000.00 principal amount of Revenue Bonds, Series 2011 and 2011A
- \$18,935,000.00 – all authorized bonds have been issued. \$15,830,000.00 pertained to the Series 2011 Bonds and \$3,105,000.00 pertained to the Series 2011A Bonds
- Net proceeds related to the issuance were \$18,843,202.25, which represents the principal amount of the Series 2022 Bonds of \$18,935,000.00, less cost of issuance of \$90,000.00, and additional proceeds of \$1,797.75 received as a cash deposit.
- The refunded bonds are considered fully defeased and the liability of these bonds have been removed from the statement of net position and replaced with the Series 2022 Revenue Financing System Bonds.
- Economic Gain - \$2,966,837.89 difference between the net present value of the old and new debt service payments. Of this amount, a total of \$2,753,891.47 pertained to the Series 2011 bonds and a total of \$212,946.42 pertained to the Series 2011A bonds.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

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- Accounting Gain - \$3,501,247.52 accounting gain resulted from the advance refunding. Of this amount, a total of \$3,264,569.50 pertained to the Series 2011 bonds and a total of \$236,678.02 pertained to the Series 2011A bonds.

**Pledged Future Revenues**

GASB Statement No. 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, makes a basic distinction between sales of receivables and future revenues, on the one hand, and the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing), on the other. The following table provides the pledged future revenue information for TSTC revenue bonds:

Pledged revenue required for future principal and interest on existing revenue bonds (1)	\$	622,354,169.75
Term of commitment year ending August 31 (2)		2054
Percentage of revenue pledged (3)		100%
Current year pledged revenue	\$	76,433,463.14
Current year principal and interest paid	\$	33,569,013.47

Pledged revenue sources: Business-type activities – tuition and fees, auxiliary enterprises, sales and services of educational activities, contracts and grants for debt service retirement, and interest and investment income.

(1) Schedule 2C.

(2) Year of final revenue bond maturity.

(3) For gross pledge, this is 100 percent (gross pledged revenue divided by gross pledged revenue). See Schedule 2D.

**Note 8: Leases and Subscription-Based Information Technology Arrangements (SBITAs)**

GASB Statement No.87, *Leases* (GASB 87), defines a lease as a contract that conveys control of the right to use of another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. This statement was implemented in 2022. The lease term (including periods where there is a reasonable certainty of an extension) must exceed one year in order to be considered for this accounting treatment. The materiality threshold for the State of Texas for these leases is the Net Present Value in excess of \$100,000.

According to GASB 87, at the inception of the lease, the lessee recognizes a right to use asset and related liability based upon fair market value of the lease payments using the rate presented in the lease or the market rate at the inception of the lease. Lease payments are recorded as a reduction of the liability and interest expense. The leased asset is also amortized over the life of the lease. As the lessor, a lease receivable and deferred inflow of resources is recognized based upon fair market value of the lease income using the rate presented in the lease or the market rate at the inception of the lease. Lease income is recognized as a reduction to lease receivable, deferred inflow of resources, and interest income.



## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**TSTC as Lessee**

TSTC entered into various leases for land and buildings. These agreements range in terms up to 2049. In 2023, total lease payments were \$209,073.84.

Future minimum lease payments under GASB 87 as of August 31, 2023 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Lease Payment</u>
2024	227,980.72	11,694.49	239,675.20
2025	188,085.80	16,408.30	204,494.10
2026	167,223.29	21,372.20	188,595.49
2027	166,970.96	28,369.53	195,340.49
2028	123,761.51	27,074.79	150,836.30
2029-2033	134,991.83	47,202.26	182,194.09
2034-2038	116,515.55	76,275.42	192,790.98
2039-2043	114,436.61	115,274.15	229,710.76
2044-2048	112,394.76	161,305.99	273,700.74
2049	22,237.14	38,496.53	60,733.68
<b>Total Future Minimum Lease Payments</b>	<b>\$ 1,374,598.17</b>	<b>543,473.66</b>	<b>1,918,071.84</b>

TSTC has various leases for buildings and equipment that do not meet the requirements of GASB 87. Variable payments based upon the use of the underlying asset are not included in the lease liability because they are not fixed in substance, therefore, these payments are not included in the RTU assets or lease liabilities. Included in rental expense for these leases not meeting the GASB 87 requirements was \$2,459,251.52 for the year ended August 31, 2023.

**TSTC as Lessor**

TSTC entered into agreements to lease certain buildings to outside third parties. The agreements have lease terms that expire in various years through 2048. In 2023, the total RTU lease income was \$1,063,363.61.

Future minimum rental income payments under non-cancellable leases of buildings and land leased to outside parties are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Lease Income</u>
2024	848,484.98	163,349.52	1,011,834.50
2025	848,484.98	148,705.00	997,189.99
2026	789,123.58	134,612.35	923,735.93
2027	789,123.58	121,255.21	910,378.79
2028	776,348.77	107,662.19	884,010.96
2029-2033	3,562,373.51	355,638.63	3,918,012.14
2034-2038	549,928.84	168,292.47	718,221.31
2039-2043	549,928.84	106,764.06	656,692.89
2044-2048	549,928.84	35,077.55	585,006.39
<b>Total Future Minimum Lease Income</b>	<b>\$ 9,263,725.92</b>	<b>1,341,356.98</b>	<b>10,605,082.90</b>

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

TSTC entered into some leases that call for variable payments, therefore, these payments are not included in lease receivables or deferred inflows of resources. Total revenue earned from variable lease payments was \$1,883,008.45.

**Subscription-Based Information Technology Arrangements**

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA) (GASB 96), defines a lease as a contract that conveys control of the right to use of another entity's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. This statement was implemented in 2023. The lease term (including periods where there is a reasonable certainty of an extension) must exceed one year in order to be considered for this accounting treatment. The materiality threshold for the State of Texas for these leases is the Net Present Value in excess of \$500,000.

According to GASB 96, at the inception of the lease, the lessee recognizes a right to use subscription asset and related subscription liability based upon fair market value of the lease payments using the rate presented in the lease or the market rate at the inception of the lease. Lease payments are recorded as a reduction of the subscription liability and interest expense. The subscription asset is also amortized over the life of the subscription term.

TSTC entered into various agreements for IT subscriptions. These agreements range in terms up to year 2028. In 2023, total lease payments were \$1,966,241.00.

Future minimum lease payments under GASB 96 as of August 31, 2023 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total SBITA Payment</u>
2024	1,935,465.74	148,130.26	2,083,596.00
2025	1,929,991.35	225,567.65	2,155,559.00
2026	1,296,039.89	199,836.11	1,495,876.00
2027	1,325,424.66	260,204.34	1,585,629.00
2028	1,355,475.51	325,291.49	1,680,767.00
<b>Total Future Minimum SBITA Payments</b>	<b>\$ 7,842,397.15</b>	<b>1,159,029.85</b>	<b>9,001,427.00</b>

Variable payments based upon the use of the underlying IT asset are not included in the subscription liability because they are not fixed in substance, therefore, these payments are not included in RTU assets or subscription liabilities. Included in rental expense for software subscriptions either not meeting the threshold or variable in nature total \$861,180.89 for the year ended August 31, 2023.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Capital Leases**

TSTC's long-term capital leases are finance-type leases, therefore classified as Capital Lease Obligations – Direct Borrowings, with the implementation of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. See Note 5, *Long-Term Liabilities*, for disclosures relating to finance-type capital leases.

A summary of original capitalized costs of all such property under the lease in addition to the accumulated depreciation as of August 31, 2023 is presented below.

<u>Class of Property</u>	<u>Assets under Capital Lease</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Building	21,245,989.42	1,912,043.16	19,333,946.26
Construction in Progress	1,292,875.60	-	1,292,875.60
<b>Totals</b>	<b>\$ 22,538,865.02</b>	<b>\$ 1,912,043.16</b>	<b>\$ 20,626,821.86</b>

**Note 9: Defined Benefit Pension Plan and Defined Contribution Plan****Teacher Retirement System (Defined Benefit Pension Plan)**Plan Description

TSTC participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation for certain employers whereby the State contributes to the plan on behalf of those specific employers. The College is not one of those employers and is therefore not subject to the special funding situation provisions of GASB Statement No. 68. 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 IRC. 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 College.

TEXAS STATE TECHNICAL COLLEGE (Agency 719)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

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 cost of living adjustments (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

During the measurement period of 2022 for fiscal 2023 reporting, TSTC’s contributions recognized by the plan were \$1,014,472.00. The contribution rates are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the state and the members in the measurement period are presented in the table below:

	<u>TRS Plan</u>
Employer	7.75%
Employees	8.00%

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 percent of the member’s annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation paid to members of the College 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.

TEXAS STATE TECHNICAL COLLEGE (Agency 719)

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August 31, 2023

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

At August 31, 2023, the College reported a liability of \$12,906,720.00 for its proportionate share of the net pension liability. The net pension liability was measured as of August 31, 2022 and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date. The College's proportion at August 31, 2023 was 0.022% which was an increase from the 0.021% measured as the prior date. The College's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period September 1, 2021 through August 31, 2022. For the year ended August 31, 2023, the College recognized pension expense of \$642,804.00. At August 31, 2023, the College reported deferred outflows or 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>
Difference between expected and actual experience	\$ 187,146.00	\$ 281,391.00
Changes of assumptions	2,404,942.00	599,379.00
Net difference between projected and actual investment return	1,275,143.00	-
Change in proportion & contribution difference	211,732.00	2,079,966.00
Contributions subsequent to the measurement date	1,283,016.00	-
Total	<u>\$ 5,361,979.00</u>	<u>\$ 2,960,736.00</u>

At August 31, 2023, the College reported \$1,283,016.00 as deferred outflows of resources related to pensions resulting from the College contributions subsequent to the measurement date that will be recognized as a reduction in the net pension liability in the year ending August 31, 2024.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in the pension expense in the following years:

Year ended August 31:	<u>Pension Expense Amount*</u>
2024	\$ (17,949.00)
2025	(272,890.00)
2026	(89,414.00)
2027	1,330,118.00
2028	<u>168,362.00</u>
	<u>\$ 1,118,227.00</u>

\* Positive amounts indicate increase in pension expense; negative amounts indicate decrease in pension expense.

TEXAS STATE TECHNICAL COLLEGE (Agency 719)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

Actuarial Assumptions\*

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of August 31, 2022 measurement date.

	TRS Plan
Actuarial valuation date	August 31, 2021 rolled forward to August 31, 2022
Actuarial cost method	Individual entry age normal
Amortization method	Level percentage of payroll, floating
Asset valuation method	Fair Market
Actuarial Assumptions:	
Discount Rate	7.00%
Long-term Expected Rate of Return	7.00%
Municipal Bond Rate as of August 2020	3.91%*
Inflation	2.30%
Salary Increase	2.95% to 8.95% including inflation
Mortality	
Active	PUB(2010) Mortality Tables for Teachers, below median, with full generational mortality.
Post-Retirement	2021 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP.
Ad Hoc Post-Employment Benefit Changes	None

\* Source for the rate is Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

The actuarial valuation was performed as of August 31, 2021. Update procedures were used to roll forward the total pension liability to August 31, 2022. The actuarial assumptions used in the determination of the total pension liability were primarily based on the result of an actuarial experience study for the four-year period ending Aug. 31, 2021 and adopted in July 2022. The primary assumption change was the lowering of the single discount rate from 7.25% to 7%. There have been no changes to the benefit provisions of the plan since the prior measurement date.

The long-term expected rate of return on plan investments was developed using a building-block method in which best estimate ranges of expected future real rates of return (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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio are presented below:

Asset Class*	Target Allocation**	Long-Term Expected Geometric Real Rate of Return***
<b>Global Equity</b>		
U.S.	18.00%	4.60%
Non-U.S. Developed	13.00%	4.90%
Emerging Markets	9.00%	5.40%
Private Equity	14.00%	7.70%
<b>Stable Value</b>		
U.S. Treasury	16.00%	1.00%
Absolute Return		3.70%
Stable Value Hedge Funds	5.00%	3.40%
<b>Real Return</b>		
Real Assets	15.00%	4.10%
Energy, Natural Resources and Infrastructure	6.00%	5.10%
Commodities		3.60%
<b>Risk Parity</b>		
Risk Parity	8.00%	4.60%
<b>Asset Allocation Leverage</b>		
Cash	2.00%	3.00%
Asset Allocation Leverage	(6.00)%	3.60%
<b>Total</b>	<u>100.00%</u>	

\* Absolute Return includes Credit Sensitive Investments

\*\* Target allocations are based on fiscal year 2022 policy model

\*\*\* Capital Market assumptions come from Aon Hewitt (as of 08/31/2022)

Discount Rate

The discount rate of 7% was applied to measure the total pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7%. The projected cash flows into and out of the pension plan assumed that active members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% over the next several years. This includes a factor for all employer and state contributions for active and rehired retirees. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

TEXAS STATE TECHNICAL COLLEGE (Agency 719)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The College's proportionate share of the net pension liability has been calculated using a discount rate of 7.00%. Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the College's net pension liability. The result of the analysis is presented in the table below.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
College's proportionate share of the net pension liability	\$ 19,785,515.00	\$ 12,718,726.00	\$ 6,990,762.00

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2022 Annual Comprehensive Financial Report (ACFR).

**Optional Retirement Program (Defined Contribution Plan)**

The State has also established the Optional Retirement Program (ORP), a defined contribution plan, for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS Plan and is available to certain eligible employees who hold faculty positions and other professional positions including but not limited to director-level and above, librarians and coaches. The ORP provides for the purchase of annuity contracts and mutual funds and is administered by a variety of investment firms. Employees are immediately vested in their own contributions and earnings on those contributions, and become vested in the employer contributions after one year and one day of service.

The employee and employer contribution rates are established by the Legislature each biennium. Depending upon the source of funding for the employee's compensation, the College may be required to make the employer contributions in lieu of the State. Since these are individual annuity contracts, the State and the College have no additional or unfunded liability for this program. The contributions made by participants (6.65% of annual compensation) and the employer (6.60% of annual compensation, plus 1.90% for employees in service as of September 1, 1995) for the year ended August 31, 2023, is provided in the following table:

Member Contributions	\$ 848,577.52
Employer Contributions	842,197.24
Total	\$ <u>1,690,774.26</u>



TEXAS STATE TECHNICAL COLLEGE (Agency 719)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Note 11: Postemployment Benefits Other Than Pensions**

**Employees Retirement System**

Plan Description

Employees Retirement System (ERS) is the administrator of the State Retiree Health Plan (SRHP or ERS Plan), a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation. TSTC participates in this plan.

The Legislature has the authority to establish and amend the benefits and contribution rates within the guidelines of the Texas Constitution. The SRHP’s Board of Trustees does not have the authority to establish or amend benefit terms. Benefits are provided to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551.

The employers of SRHP include state of Texas agencies and universities, community and junior colleges, and other entities specified by the Legislature. Employees of state of Texas agencies, colleges, universities and medical schools are members of this Plan.

Detailed information about the SRHP’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 in writing to ERS at 200 E. 18<sup>th</sup> Street, Austin, TX, 78701-1400.

Benefits Provided

The SRHP provides postemployment health care, life and dental insurance benefits to retirees. The benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. The plan does not provide automatic cost of living adjustments (COLAs).

Contributions

During the measurement period of 2022 for fiscal 2023 reporting, the amount of TSTC’s contributions recognized by the plan was \$5,771,190.22. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. The contribution requirements for the state and the members in the measurement period are presented in the table below:

<b>Employer Contribution Rates</b>	
<b>Retiree Health and Basic Life Premium</b>	
Retiree Only	\$ 624.82
Retiree & Spouse	\$ 1,339.90
Retiree & Children	\$ 1,103.58
Retiree & Family	\$ 1,818.66

TEXAS STATE TECHNICAL COLLEGE (Agency 719)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB  
 At August 31, 2023, TSTC reported a liability of \$55,756,966.00 for its proportionate share of the collective net OPEB liability. The non-current portion of the liability was \$53,626,847.00 and the current portion was \$2,130,119.00. The collective net OPEB liability was measured as of August 31, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. TSTC's proportion at August 31, 2022 was 0.20 percent.

TSTC's proportion of the collective net OPEB liability was based on its contributions to the OPEB plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period September 1, 2021 through August 31, 2022.

For the year ending August 31, 2023, TSTC recognized OPEB expense of \$10,883,395.00. At August 31, 2023, TSTC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 1,759,199.00
Changes of assumptions	3,275,944.00	17,235,006.00
Net difference between projected and actual investment return	9,617.00	-
Effect of change in proportion and contribution difference	22,329,602.00	6,048,155.00
Contributions subsequent to the measurement date	<u>77,147.00</u>	<u>-</u>
Total	<u>\$ 25,692,310.00</u>	<u>\$ 25,042,360.00</u>

The \$77,147.00 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability for the year ending August 31, 2024. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense in the following years:

	<u>OPEB Expense Amount</u>
2024	\$ 5,998,677.00
2025	1,952,853.00
2026	(2,102,967.00)
2027	(3,708,739.00)
2028	<u>(1,567,022.00)</u>
	<u>\$ 572,802.00</u>

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

Actuarial Assumptions

The total OPEB liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2022 measurement date.

	SRHP
Actuarial valuation date	August 31, 2022
Actuarial cost method	Entry Age
Amortization method	Level Percent of Payroll, Open
Remaining amortization period	30 Years
Actuarial Assumptions:	
discount Rate	3.59% *
inflation	2.30%
salary increase	2.30% to 8.95%, including inflation
Healthcare Cost and Trend Rate	
HealthSelect	5.60% for FY 2024, 5.30% for FY 2025, 5.00% for FY 2026, 4.75% for FY 2027, 4.60% for FY 2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2031 and later years
HealthSelect Medicare Advantage	66.67% for FY 2024, 24.00% for FY 2025, 5.00% for FY 2026, 4.75% for FY 2027, 4.60% for FY 2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2031 and later years
Pharmacy	10.00% for FY 2024 and FY 2025, decreasing 100 basis points per year to 5.00% for FY 2030, and 4.30% for FY 2031 and later years
Aggregate Payroll Growth	2.70%
Retirement Age	Experience-based tables of rates that are specific to the class of employee
Mortality	
State Agency Members	
Service retirees, survivors and other inactive members	2020 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2020
Disabled retirees	2020 State Retirees of Texas Mortality table set forward three years for males and females. Generational mortality improvements in accordance with the Ultimate MP-2019 Projection Scale are projected from the year 2020. Minimum rates of 3.0% and 2.5% apply at all ages for males and females, respectively
Active members	Pub-2010 General Employees Active Member Mortality table for non-CPO/CO members and Pub-2010 Public Safety Active Member Mortality table for CPO/CO members with Ultimate MP-2019 Projection Scale from the year 2010
Higher Education Members	
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with Ultimate MP-2021 Projection Scale from the year 2021
Disabled Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct Pub-2010 Amount-Weighted Below-Median Income Teacher Mortality with a 2-year set forward for males with Ultimate MP Projection Scale from the year 2010
Ad Hoc Post-Employment Benefit Changes	None

\* The source of the municipal bond rate is the Bond Buyer Index of general obligations 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.

The many actuarial assumptions used in the valuation were primarily based on the result of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 1, 2014 to August 31, 2019 for state agency members and for the period September 1, 2010 to August 31, 2017 for higher education members. The mortality rates were based on the tables identified in the table above.

TEXAS STATE TECHNICAL COLLEGE (Agency 719)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

The following assumptions have been changed since the previous Other Postemployment Benefits valuation:

- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- Proportion of future retirees assumed to cover dependent children;
- The proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement;
- Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short term expectations. The patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act has been updated to reflect the most recent information; and
- The discount rate was changed from 2.14% as of August 31, 2021 to 3.59% as of August 31, 2022 as a result of requirements by GASB Statement No. 74 to utilize the yield or index rate for 20-year, tax exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

Discount Rate

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 3.59 percent as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.14 percent. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay-as-you-go basis and is not intended to accumulate funds in advance of retirement, there is no long-term expected rate of return. ERS' board of trustees adopted an amendment to the investment policy in August 2020 to require that all funds in this plan be invested in cash and equivalent securities. The expected rate of return on these investments is currently 4.1 percent. The investment rate of return used to calculate the projected earnings on OPEB plan investments was 2.14 percent.

Sensitivity of the College's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the College's net OPEB liability. The result of the analysis is presented in the table below:

	Sensitivity of the College's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate		
	1% Decrease (2.59%)	Current Discount Rate (3.59%)	1% Increase (4.59%)
College's proportionate share of the net OPEB liability	\$ 65,029,470.00	\$ 55,756,966.00	\$ 48,341,191.00

TEXAS STATE TECHNICAL COLLEGE (Agency 719)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the proportionate share of the College’s net OPEB liability. The result of the analysis is presented in the table below:

	Sensitivity of the College's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate		
	1% Decrease (decreasing to 3.30%)	Current Health Care Trend Rate (decreasing to 4.30%)	1% Increase (decreasing to 5.30%)
College’s proportionate share of the net OPEB liability	\$ 47,748,179.00	\$ 55,756,966.00	\$ 65,982,025.00

OPEB Plan Fiduciary Net Position

The OPEB plan’s fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance to the terms of the plan. Investments of the Other Employee Benefit Trust Fund are reported at fair value in accordance with GASB Statement No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan’s investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS’ fiscal 2022 Annual Comprehensive Financial Report (ACFR).

**Note 12: Interfund Activity and Transactions**

The College experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer, and as a result of various grants and contract activities. Grant and contract activities are recognized as revenues or expenses on the financial statements.

Interfund balances and activity during August 31, 2023 are as follows:

Name of State Agency	Agency No.	Due From Other State Agencies	Due To Other State Agencies	Source
Texas Workforce Commission D23 Fund 5026	320	\$ 165,958.44	\$ -	Federal Pass-Through Grant
Texas Department of Transportation D23 Fund 0006	601	14,896.00	-	State Pass-Through Grant
Texas Higher Education Coordinating Board D23 Fund 0001	781	1,426,382.27	-	Federal Pass-Through Grant
D23 Fund 0325		-	1,509.67	Federal Pass-Through Grant
D23 Fund 1325		-	19,077.97	Federal Pass-Through Grant
<b>Total Due From/To Other Agencies per Statement of Net Position</b>		<b>\$ 1,607,236.71</b>	<b>\$ 20,587.64</b>	

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

The detailed Federal and State Grant Pass Through Information is provided on Schedule 1A – *Schedule of Expenditures of Federal Awards*, and Schedule 1B – *Schedule of State Grant Pass Through From/To State Agencies*, respectively.

**Note 14: Adjustments to Fund Balances and Net Position**

TSTC adjusted the beginning net position from the previously issued financial statements by \$29,207.18 for adjustments made in capital assets due to the implementation of GASB No. 87, *Leases*.

**Note 15: Contingencies and Commitments**

At August 31, 2023, four lawsuits involving the College were pending. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College's financial position.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by such agencies, principally the U.S. government. Any disallowed claims may constitute a liability of the College. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the College expects any such amounts to be immaterial.

**Note 16: Subsequent Events**

Subsequent events have been evaluated through the issuance of this report. The College has no subsequent events to report.

**Note 17: Risk Management**

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to worker's compensation and natural disasters. Settled claims have not exceeded commercial coverage in any of the three preceding years.

TSTC's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There were no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. There were no material changes in the balances of TSTC's claims liabilities during fiscal year 2023.

## TEXAS STATE TECHNICAL COLLEGE (Agency 719)

## NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Note 18: Management Discussion & Analysis**

See introduction for detailed Management Discussion & Analysis.

**Note 22: Donor Restricted Endowments**

The College is subject to the Uniform Prudent Management of Institutional Funds Act, Chapter 163 of the Texas Property Code. This act provides guidance and authority for the management and investment of charitable funds and for endowment spending by institutions organized for a charitable purpose, including educational purposes. The legal authority for the College to accept gifts, including endowments, is found in Chapter 135 of the Texas Education Code. The College's policy for authorizing and spending endowment earnings is addressed in Statewide Operating Standard No. FA.3.1, Acceptance of Gifts and Bequests.

At August 31, 2023, the College had \$596,639.66 of donor restricted endowments which were classified as Non-Expendable True Endowments on the Statement of Net Position. These endowment funds are invested in cash accounts or certificates of deposits. Per donor restrictions, the investment income earned on these endowments is to be used for scholarship purposes. For the year ended August 31, 2023, the endowments earned \$1,331.32 in investment income.

**Note 24: Disaggregation of Receivable Balances**

Balances of receivables reported on the Statement of Net Position may be aggregations of different components. GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, requires that the College provide details in the Notes to the Financial Statements when significant components have been obscured by aggregation.

Accounts receivable at August 31, 2023, is compromised as follows:

Campus Billing	\$ 2,253,594.50
Sponsor Receivables	861,961.02
Tuition & Fees	(3,031,945.99)
Auxiliary Receivables	190,027.60
Local Grants	165,958.94
Reimbursement from State for Payroll Payable	8,492,911.04
Other	<u>70,528.32</u>
Total	<u>\$ 9,288,035.43</u>

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TEXAS STATE TECHNICAL COLLEGE (Agency 719)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2023

**Note 28: Deferred Outflows of Resources and Deferred Inflows of Resources**

A summary of the College's deferred outflows of resources and deferred inflows of resources as of August 31, 2023 is presented below:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pensions	\$ 5,361,979.00	\$ 2,960,736.00
OPEB	25,692,310.00	25,042,360.00
Unamortized losses on refunding of debt	1,097,738.12	-
Leases	-	9,465,183.00
	<u>\$ 32,152,027.12</u>	<u>\$ 37,468,279.00</u>

See Note 1, *Summary of Significant Accounting Policies*, Note 9, *Defined Benefit Pension Plan and Defined Contribution Plan*, and Note 11, *Postemployment Benefits Other Than Pensions*, for more information regarding deferred outflows of resources and deferred inflows of resources related to debt refunding, pensions, and OPEB.



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TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Schedule 1A - Expenditures of Federal Awards  
 For the Fiscal Year Ended August 31, 2023

\*\*\*Certified\*\*\*

Federal Grantor / Pass-through Grantor / Program Title	CFDA Number	NSE Name	Agy Univ No.	Pass-through From	
				Agencies or Universities Amount	Non-State Entities Amount
<b>National Science Foundation</b>					
<u>Direct Programs:</u>					
STEM Education (formerly Education and Human Resources)	47.078			-	-
<b>Totals -National Science Foundation</b>				<b>\$ -</b>	<b>\$ -</b>
<b>U.S. Department of Education</b>					
<u>Direct Programs:</u>					
Migrant Education College Assistance Migrant Program	84.149A			\$ -	\$ -
COVID-19 - Higher Education Emergency Relief Fund (HEERF) Student Aid Portion	84.425E			-	-
COVID-19 - Higher Education Emergency Relief Fund (HEERF) Institutional Portion	84.425F			-	-
COVID-19 - Higher Education Emergency Relief Fund (HEERF) Minority Serving Institutions (MSIs)	84.425L			-	-
<u>TRIO Cluster</u>					
TRIO_Talent Search	84.044A			-	-
TRIO_Upward Bound	84.047A			-	-
TRIO_Upward Bound	84.047M			-	-
<b>Totals - TRIO Cluster</b>				<b>-</b>	<b>-</b>
<u>Student Financial Assistance Cluster</u>					
Federal Supplemental Educational Opportunity Grants	84.007			-	-
Federal Work-Study Program	84.033			-	-
Federal Pell Grant Program	84.063			-	-
Federal Direct Student Loans	84.268			-	-
<b>Totals - Student Financial Assistance Custer</b>				<b>-</b>	<b>-</b>
<u>Pass-Through Programs:</u>					
Vocational Education - Basic Grants to States					
<i>Pass-Through From:</i>					
<i>Texas Higher Education Coordinating Board</i>	84.048A		781	2,894,670.27	-
Adult Education - Basic Grants to States					
<i>Pass-Through From:</i>					
<i>Brownsville Independent School District</i>	84.002A	BISD		-	17,500.00
COVID-19 - Governors Emergency Education Relief (GEER)					
<i>Pass-Through From:</i>					
<i>Texas Higher Education Coordinating Board</i>	84.425C		781	1,583,985.57	-
<b>Totals - U.S. Department of Education</b>				<b>\$ 4,478,655.84</b>	<b>\$ 17,500.00</b>

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Direct Program Amount	Total PT From and Direct Program Amount	Agy Univ No.	Pass-through To		Expenditures Amount	Total PT To and Expenditures Amount
			Agencies or Universities Amount	Non-State Entities Amount		
15,700.26	15,700.26		-	-	15,700.26	15,700.26
<b>\$ 15,700.26</b>	<b>\$ 15,700.26</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,700.26</b>	<b>\$ 15,700.26</b>
\$ 437,255.64	\$ 437,255.64		\$ -	\$ -	\$ 437,255.64	\$ 437,255.64
2,050,133.11	2,050,133.11		-	-	2,050,133.11	2,050,133.11
2,324,872.58	2,324,872.58		-	-	2,324,872.58	2,324,872.58
706,054.22	706,054.22		-	-	706,054.22	706,054.22
343,575.21	343,575.21		-	-	343,575.21	343,575.21
318,020.42	318,020.42		-	-	318,020.42	318,020.42
219,468.30	219,468.30		-	-	219,468.30	219,468.30
<b>881,063.93</b>	<b>881,063.93</b>		<b>-</b>	<b>-</b>	<b>881,063.93</b>	<b>881,063.93</b>
981,059.55	981,059.55		-	-	981,059.55	981,059.55
333,060.68	333,060.68		-	-	333,060.68	333,060.68
30,337,177.06	30,337,177.06		-	-	30,337,177.06	30,337,177.06
19,046,300.00	19,046,300.00		-	-	19,046,300.00	19,046,300.00
<b>50,697,597.29</b>	<b>50,697,597.29</b>		<b>-</b>	<b>-</b>	<b>50,697,597.29</b>	<b>50,697,597.29</b>
-	2,894,670.27		-	-	2,894,670.27	2,894,670.27
-	17,500.00		-	-	17,500.00	17,500.00
-	1,583,985.57		-	-	1,583,985.57	1,583,985.57
<b>\$ 57,096,976.77</b>	<b>\$ 61,593,132.61</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ 61,593,132.61</b>	<b>\$ 61,593,132.61</b>

TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Schedule 1A - Expenditures of Federal Awards  
 For the Fiscal Year Ended August 31, 2023

\*\*\*Certified\*\*\*

Federal Grantor / Pass-through Grantor / Program Title	CFDA Number	NSE Name	Agy Univ No.	Pass-through From	
				Agencies or Universities Amount	Non-State Entities Amount
<b>U.S. Department of the Treasury</b>					
<i>Pass-Through Programs:</i>					
COVID-19 - Corona Virus State & Local Fiscal Recovery Funds					
<i>Pass-Through From:</i>					
<i>Texas Higher Education Coordinating Board</i>	21.027		781	259,630.70	-
<b>Totals - U.S. Department of the Treasury</b>				<b>\$ 259,630.70</b>	<b>\$ -</b>
<b>U.S. Department of Labor</b>					
<i>Pass-Through Programs:</i>					
Employment Services/Wagner-Peyser Funded Activities					
<i>Pass-Through From:</i>					
<i>Texas Workforce Commission</i>	17.207		320	321,077.21	-
WIOA Dislocated Worker Formula Grants					
<i>Pass-Through From:</i>					
<i>Texas Workforce Commission</i>	17.278		320	419,041.30	-
<b>Totals - U.S. Department of Labor</b>				<b>\$ 740,118.51</b>	<b>\$ -</b>
<b>U.S. Department of Commerce</b>					
<i>Direct Programs:</i>					
Economic Adjustment Assistance	11.307			-	-
<b>Totals -U.S. Department of Commerce</b>				<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenditures of Federal Awards</b>				<b>\$ 5,478,405.05</b>	<b>\$ 17,500.00</b>

UNAUDITED

Direct Program Amount	Total PT From and Direct Program Amount	Agy Univ No.	Pass-through To		Expenditures Amount	Total PT To and Expenditures Amount
			Agencies or Universities Amount	Non-State Entities Amount		
-	259,630.70		-	-	259,630.70	259,630.70
<u>\$ -</u>	<u>\$ 259,630.70</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 259,630.70</u>	<u>\$ 259,630.70</u>
-	321,077.21		-	-	321,077.21	321,077.21
-	419,041.30		-	-	419,041.30	419,041.30
<u>\$ -</u>	<u>\$ 740,118.51</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 740,118.51</u>	<u>\$ 740,118.51</u>
264,755.94	264,755.94		-	-	264,755.94	264,755.94
<u>\$ 264,755.94</u>	<u>\$ 264,755.94</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 264,755.94</u>	<u>\$ 264,755.94</u>
<u>\$ 57,377,432.97</u>	<u>\$ 62,873,338.02</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,873,338.02</u>	<u>\$ 62,873,338.02</u>

TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Schedule 1B - State Grant Pass Throughs From/To State Agencies  
 For the Fiscal Year Ended August 31, 2023

**Pass Through From:**

Grantor Agency	Grant ID	Grant Title	Amount
300-Governor - Fiscal	300.0038	Bullet Resistant Shield Grant Progarm	\$ 95,852.00
320-Texas Workforce Commission	320.0003	Skills Development	30,067.83
601-Texas Department of Transportation	601.0030	State Assisted Airport Routine Maintenance at the TSTC Waco Airport	49,925.00
781-Texas Higher Education Coordinating Board	781.0013	Professional Nursing Shortage Reduction Program	107,814.83
781-Texas Higher Education Coordinating Board	781.0023	College Work Study Program	44,871.19
781-Texas Higher Education Coordinating Board	781.0029	Work Study Mentorship Program	41,595.00
781-Texas Higher Education Coordinating Board	781.0006	Nursing and Allied Health	5,214.93
781-Texas Higher Education Coordinating Board	781.0074	TEOG Public State/Tech Colleges	2,048,171.00
781-Texas Higher Education Coordinating Board	781.0084	TEOG Public State B.1.10	504,872.00
<b>Total Pass Through From Other Agencies</b>			<b><u><u>\$ 2,928,383.78</u></u></b>

**Pass Through To:**

<b>Total Pass Through To Other Agencies</b>	<b><u><u>\$ -</u></u></b>
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TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Schedule 2A - Miscellaneous Bond Information  
 For the Fiscal Year Ended August 31, 2023

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**Business-Type Activities**

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Terms of Variable Interest Rates	Scheduled Maturities		First Call Date
					First Year	Last Year	
<b>General Obligation Bonds</b>							
Constitutional Appropriation Bonds Series 2016	\$ 23,680,000.00	4.0000%	5.0000%		2016	2025	N/A
<b>Revenue Bonds</b>							
Revenue Financing System Improvement and Refunding Bonds Series 2016	56,915,000.00	2.0000%	5.0000%		2016	2035	10/15/2026
Revenue Financing System Improvement Bonds Series 2020	30,000,000.00	2.5300%	2.5300%		2020	2031	10/15/2030
Revenue Financing System Refunding Bonds Series 2022	18,935,000.00	2.3100%	2.3100%		2022	2036	03/11/2030
Revenue Financing System Improvement Bonds Series 2022A	<u>298,750,000.00</u>	5.0000%	6.0000%		2023	2054	08/1/2032
Total	<u>\$ 428,280,000.00</u>						

TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Schedule 2B - Changes in Bonded Indebtedness  
 For the Fiscal Year Ended August 31, 2023

**Business-Type Activities**

Description of Issue	Bonds Outstanding 09/01/2022	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Par Value Adjustments
<b>General Obligation Bonds</b>					
Constitutional Appropriation Bonds, Series 2016	\$ 10,875,000.00	\$	\$ 2,520,000.00	\$	\$
<b>Revenue Bonds</b>					
Revenue Financing System Improvement and Refunding Bonds, Series 2016	44,640,000.00		3,345,000.00		
Revenue Financing System Improvement Bonds, Series 2020	27,330,000.00		2,740,000.00		
Revenue Financing System Refunding Bonds Series 2022	17,090,000.00		1,155,000.00		
Revenue Financing System Improvement Bonds, Series 2022A	-	298,750,000.00	11,920,000.00		
Total	\$ 99,935,000.00	\$ 298,750,000.00	\$ 21,680,000.00	\$ -	\$ -



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Bonds Outstanding 08/31/2023	Reconciliation			Net Bonds Outstanding 08/31/2023	Amounts Due Within One Year
	Unamortized Premium	Unamortized Discount	Adjustments		
\$ 8,355,000.00	\$ 804,478.57	\$	\$	\$ 9,159,478.57	\$ 3,057,239.36
41,295,000.00	4,464,811.10			45,759,811.10	3,728,518.79
24,590,000.00				24,590,000.00	2,810,000.00
15,935,000.00				15,935,000.00	1,185,000.00
<u>286,830,000.00</u>	<u>13,979,156.45</u>			<u>300,809,156.45</u>	<u>5,860,997.99</u>
<u>\$ 377,005,000.00</u>	<u>\$ 19,248,446.12</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 396,253,446.12</u>	<u>\$ 16,641,756.14</u>

TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Schedule 2C - Debt Service Requirements  
 For the Fiscal Year Ended August 31, 2023

**Business-Type Activities**

Description of Issue	Year	Principal	Interest
<b>General Obligation Bonds</b>			
Constitutional Appropriation Bonds			
Series 2016	2024	\$ 2,655,000.00	\$ 322,225.00
	2025	2,785,000.00	186,225.00
	2026	2,915,000.00	58,300.00
Total		<u>\$ 8,355,000.00</u>	<u>\$ 566,750.00</u>
<b>Revenue Bonds</b>			
Revenue Financing System			
Improvement and Refunding Bonds			
Series 2016	2024	\$ 3,255,000.00	\$ 1,743,756.26
	2025	3,425,000.00	1,576,756.26
	2026	3,605,000.00	1,401,006.26
	2027	3,795,000.00	1,216,006.26
	2028	3,990,000.00	1,021,381.26
	2029-2033	15,470,000.00	2,647,631.30
	2034-2036	7,755,000.00	374,753.15
Total		<u>\$ 41,295,000.00</u>	<u>\$ 9,981,290.75</u>
Revenue Financing System			
Improvement Bonds			
Series 2020	2024	\$ 2,810,000.00	\$ 586,580.50
	2025	2,880,000.00	514,602.00
	2026	2,955,000.00	440,789.25
	2027	3,030,000.00	365,079.00
	2028	3,110,000.00	287,408.00
	2029-2031	9,805,000.00	376,274.25
Total		<u>\$ 24,590,000.00</u>	<u>\$ 2,570,733.00</u>
Revenue Financing System			
Refunding Bonds			
Series 2022	2024	\$ 1,185,000.00	\$ 368,098.50
	2025	1,210,000.00	340,725.00
	2026	1,240,000.00	312,774.00
	2027	1,275,000.00	284,130.00
	2028	1,305,000.00	254,677.50
	2029-2033	6,270,000.00	815,083.50
	2034-2036	3,450,000.00	160,545.00
Total		<u>\$ 15,935,000.00</u>	<u>\$ 2,536,033.50</u>

TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Schedule 2C - Debt Service Requirements  
 For the Fiscal Year Ended August 31, 2023

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**Business-Type Activities**

Description of Issue	Year	Principal	Interest
Revenue Financing System Improvement Bonds Series 2022A			
	2024	\$ 5,720,000.00	\$ 15,502,637.50
	2025	7,585,000.00	15,216,637.50
	2026	7,955,000.00	14,837,387.50
	2027	8,360,000.00	14,439,637.50
	2028	8,790,000.00	14,021,637.50
	2029-2033	50,950,000.00	63,064,937.50
	2034-2038	65,480,000.00	48,508,625.00
	2039-2043	70,235,000.00	28,791,762.50
	2044-2048	23,315,000.00	15,768,050.00
	2049-2053	31,065,000.00	8,022,300.00
	2054	7,375,000.00	442,500.00
Total		\$ <u>286,830,000.00</u>	\$ <u>238,616,112.50</u>

TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Schedule 2D - Analysis of Funds Available for Debt Service  
 For the Fiscal Year Ended August 31, 2023

**Business-Type Activities**

Description of Issue	Application of Funds	
	Principal	Interest
<b>General Obligation Bonds</b>		
Constitutional Appropriation Bonds Series 2016	\$ 2,520,000.00	\$ 451,600.00
Total	\$ 2,520,000.00	\$ 451,600.00

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2023			
	Net Available for Debt Service		Debt Service	
	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
<b>Revenue Bonds</b>				
Revenue Financing System Improvement and Refunding Bonds, Series 2016	76,433,463.14	(A)	3,345,000.00	1,908,756.26
Revenue Financing System Improvement Bonds, Series 2020	(B)	(B)	2,740,000.00	657,558.21
Revenue Financing System Refunding Bonds, Series 2022	(B)	(B)	1,155,000.00	394,779.00
Revenue Financing System Improvement Bonds, Series 2022A	(B)	(B)	11,920,000.00	11,447,920.00
Total	\$ 76,433,463.14	\$ -	\$ 19,160,000.00	\$ 14,409,013.47

(A) Expenditures associated with pledged sources were approximately \$76,102,361.11 (Footnote disclosure for Gross Revenue Pledges only.)

(B) The Revenue Financing System Improvement Bonds, Series 2020; Revenue Financing System Refunding Bonds, Series 2022; and Revenue Financing System Improvement Bonds, Series 2022A, were issued as parity obligations with the Revenue Financing System Improvement and Refunding Bonds, Series 2016. As such, the Series 2020, Series 2022, and Series 2022A issues have an equal claim to the pledged sources reported above for the Series 2016 issue and share the same expenditures that are associated with the pledged sources disclosed in footnote (A) above.

UNAUDITED

TEXAS STATE TECHNICAL COLLEGE (Agency 719)  
 Schedule 3 - Reconciliation of Cash in State Treasury  
 For the Fiscal Year Ended August 31, 2023

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Cash in State Treasury	Unrestricted	Restricted	Current Year Total
Local Revenue Fund 0237	\$ 1,268,110.99	\$ -	\$ 1,268,110.99
Shared Cash Fund 0325	<u>-</u>	<u>88,644.94</u>	<u>88,644.94</u>
Total Cash in State Treasury (Stmt of Net Position)	<u>\$ 1,268,110.99</u>	<u>\$ 88,644.94</u>	<u>\$ 1,356,755.93</u>

