A low-angle photograph of a brick building with arches and string lights. The building is made of red brick and features several large, arched openings. The arches are decorated with string lights. The sky is blue, and there are green trees in the foreground and background. The text is overlaid on the top part of the image.

Midwestern State University

**Annual Financial Report
For the Year Ended
August 31, 2020**

Midwestern State University

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OFFICE OF THE PRESIDENT

3410 Taft Boulevard
Wichita Falls, Texas 76308-2099
o 940.397.4211 f 940.397.4010
msutexas.edu

November 18, 2020

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, State Comptroller
Jerry McGinty, Executive Director, Legislative Budget Board
Lisa Collier, CPA, CFE, CIDA, First Assistant State Auditor

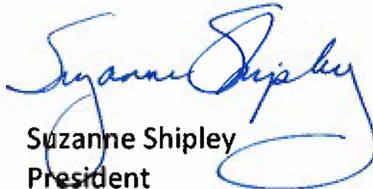
Ladies and Gentlemen:

We are pleased to submit the Annual Financial Report of Midwestern State University for the year ended August 31, 2020, in compliance with TEX. GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board 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 of 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 Comprehensive Annual Financial Report; 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 Mr. Chris Stovall at (940) 397-4273.

Sincerely,


Suzanne Shipley
President

November 18, 2020

Dr. Suzanne Shipley, President
Midwestern State University
Wichita Falls, TX 76308

Dear Dr. Shipley,

Submitted herein is the Annual Financial Report of Midwestern State University for the fiscal year ended August 31, 2020.

The financial statements in this report have been prepared in conformity with the General Provisions of the Appropriations Act, Article IX, and in accordance with the requirements established by the Comptroller of Public Accounts.

The accompanying Annual Financial Report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report (CAFR); therefore, an opinion has not been expressed on the statements and related information contained in this report.

We are prepared to answer any questions you may have about the Annual Financial Report or the Schedule of Expenditures of Federal Awards.

Respectfully Submitted,

A handwritten signature in blue ink that reads "C. Stovall".

Chris Stovall
Controller

Approved:

A handwritten signature in blue ink that reads "Beth Reissenweber".

Beth Reissenweber, Vice President
Administration and Finance

Midwestern State University

ORGANIZATIONAL DATA

August 31, 2020

THE BOARD OF REGENTS

Term Expires May 31, 2021

Mr. Montes Martinez, Student Regent Wichita Falls

Term Expires February 25, 2020

Mr. R. Caven Crosnoe Wichita Falls

Mr. Shawn G. Hessing Fort Worth

Ms. Nancy Marks Wichita Falls

Term Expires February 25, 2022

Mr. Warren T. Ayres Wichita Falls

Ms. Tiffany D. Burks Grand Prairie

Dr. Shelley Sweatt Wichita Falls

Term Expires February 25, 2024

Mr. Guy A. "Tony" Fidelie, Jr. Wichita Falls

Mr. Oku Okeke Wichita Falls

Ms. Karen Liu Pang Irving

Ms. Kathryn A. Yeager, Regent Emeritus

Mr. Mac Cannedy, Jr., Regent Emeritus

PRESIDENT

Dr. Suzanne Shipley

UNIVERSITY FISCAL OFFICERS

Dr. Beth Reissenweber, CPA, CMA

Mr. Chris Stovall, CPA

Vice President for Administration & Finance

Controller

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Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

The objective of the Management's Discussion and Analysis is to provide the reader of Midwestern State University's (MSU) financial statements a clearer understanding of the financial position, operating activities, and overall fiscal well-being of the university for the years ended August 31, 2020 and 2019. While not meant to be a comprehensive statement on the university's success and impact, further information can be found by visiting the MSU Texas website at www.msutexas.edu.

MSU management prepared the financial statements and related footnote disclosures, along with the discussion and analysis in this section. Responsibility for completeness and accuracy of the information, however, rests with the university's administration as led by President Suzanne Shipley, and within the division of the Vice President for Administration and Finance. Additionally, the following discussion should be read in conjunction with the accompanying transmittal letter, financial statements, and footnote disclosures.

Overall, MSU's focus is centered on enrollment growth through new student recruitment, program diversification, building student-pipelines through corporate and educational partnerships, along with enhanced retention to promote student persistence through graduation and career advancement. With the sudden and swift pivot to online learning in spring 2020 amidst a global pandemic, MSU made significant investments in technology for online and hybrid teaching and learning, and to support faculty in continuing to deliver high-quality instruction remotely.

In October 2020, Fitch Ratings affirmed MSU's AA- rating with a Stable Outlook. While recognizing the ongoing coronavirus pandemic and uncertain environment for higher education sector nationwide, Fitch Ratings noted MSU's relative stable enrollment over time along with strong high school demographics in the large Texas market. Finally, solid cash-flow margins and debt service coverage were also cited as supporting the AA- rating and Stable Outlook.

From fall 2019 to fall 2020, MSU student headcount declined modestly from 5,969 to 5,860 total students, in large part given the inability for international students to obtain VISAs. Total credit hour production declined 2% from 152,279 in FY2019 to 149,245 in FY2020 as students took somewhat lower course loads. After significant planning efforts and implementation of elevated cleaning practices and social distancing protocols, classes resumed on campus fall 2020 with 1,500 students returning to residence halls compared with 1,588 fall 2019.

In regards to student enrollment growth, the newer Flower Mound site is now in its third year of operations with 437 students attending Fall 2020, up 51% from 290 in Fall 2019. The Flower Mound site strategically positions the university in the high-growth Dallas-Fort Worth (DFW) region; US Census results found DFW having the largest population growth in 2018 of any city in the United States. The Flower Mound director and site team actively recruit students while collaborating with local area community colleges, hospital systems, and corporate partners, to promote dual-credit, adult degree completion, and graduate level enrollments, both on campus and online.

Importantly, MSU seeks to provide accessible and affordable pathways for students to achieve their higher education aspirations, especially for First Generation college students and other underserved populations. Partnerships with organizations such as Dallas County Promise provide Dallas County students free tuition upon entering MSU after completion of a two-year degree. Students are also eligible for the Mustangs Guarantee Program, which allows students with an Adjusted Gross Income under \$65,000 to enroll tuition free. This income level was recently increased from \$50,000 to further access of lower-income students and their families.

Another strategic partnership for promoting higher education includes Café Con Leche, which provides educational assistance to Hispanic families in the region. These programs are especially important at MSU as Hispanic students comprise 21.7% of total enrollment, an increase of 1% over the prior year. Given the growing demographic trends in the United States, such partnerships are especially important to enrollment growth initiatives, as well as, providing high-quality educational programs for high-earning, high-demand careers, especially in applied science and healthcare.

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Midwestern State University

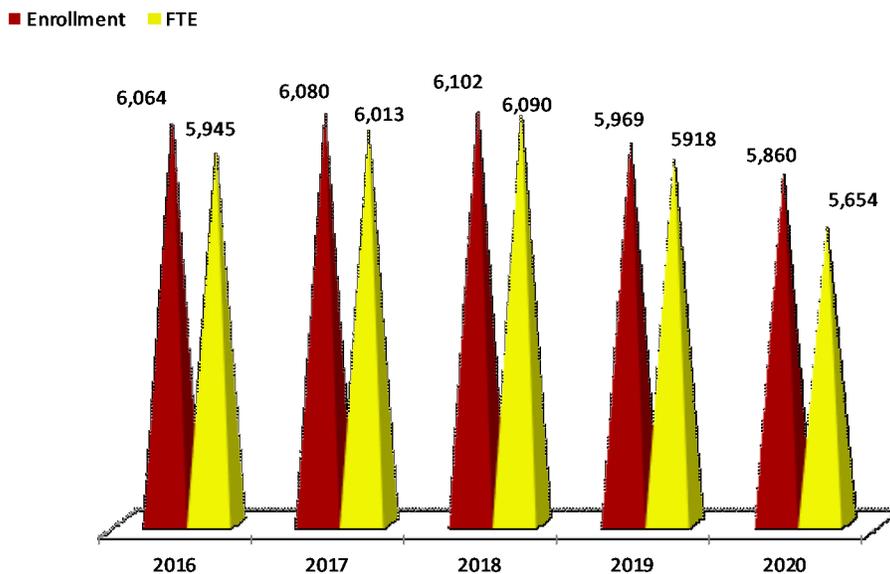
Management's Discussion & Analysis

For the Year Ended August 31, 2020

The strategic vision and plan for enrollment expansion includes a number of growth initiatives. Several are noted below:

- Continued focus on student retention and success. Implementation of the EAB Navigate platform in summer 2020 with the intent to improve freshmen retention to 75%.
- Review business processes campus wide to improve efficiencies. The university will begin implementation in fall 2020 of Softdocs, which is designed to eliminate paper processes and move to a digital process for students and faculty.
- Implemented Artificial Intelligence (Chatbot) for prospective students to engage students where they communicate, which are mobile devices.
- Offer dual credit opportunities to high school students throughout region IX beginning with the fall 2019 semester.
- Application Student Search Program (freshmen outreach), for fall 2021 and partnering with EAB to generate interest in MSU.
- Partnership with Vernon College to allow students to be concurrently enrolled at Vernon and MSU while living and dining on the MSU campus. Students take courses at both institutions and will ultimately transfer to MSU after one year in program.
- Financial Aid task force was developed fall 2020 to identify improved awarding processes for new freshmen and transfer students. Created to maximize dollars being spent and to be more efficient in awarding.
- Implemented Scholarship Manager Software in summer 2020 to streamline scholarship awarding process and improve communication to students.
- Continued focus on the Flower Mound Learning Center and developing programs and partnerships that will benefit the adult population and DFW region.

The following chart provides student headcount and full-time equivalent enrollment at MSU for the last five fall semesters.

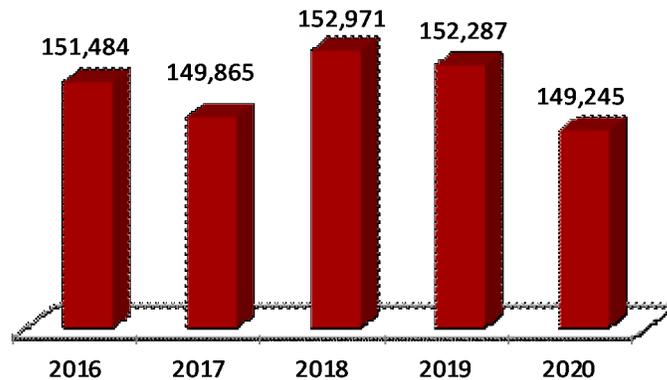


Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

The chart below displays total semester credit hours for the last five fiscal years.



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Early indications of effectiveness as the new fiscal year begins include improvements in retention, enrollment, and graduation rates. Specifically, fall 2019 realized the second largest cohort of first-time, full-time undergraduate students totaling 859. The freshmen retention rate improved from 64.6% to 67.4%, while six, five, and four-year graduation rates improved by 3.5%, 0.8%, and 1.5%, respectively. Additionally, a record number of graduates completed degrees during FY2019, with 1,452 graduates; an increase of 3% over the previous year.

Finally, further institutional effectiveness and success is evidenced by the following points of recognition:

- Top Public Regional University in the US News & World Reports' annual Best Colleges ranking for 2020.
- EDSmart.org ranked MSU at #2 for the Most Affordable Online Master's Programs, and #4 for 2020 Most Affordable Online Colleges for Human Resources degrees.
- *Washington Monthly* magazine ranked MSU Texas #36 for its 2020 Best Bang for the Buck Rankings: South
- Ranked #3 in Best Online Colleges in Texas by Accredited Schools Online.
- Ranked #5 in the 45 Best Value Colleges and Universities in Texas by the website Best Values Schools.
- Top 10 School in the Texas Public University System by America Unraveled.
- Ranked #10 of the 50 Online Colleges for Best Return on Investment (ROI) for 2019 by College Consensus.
- Ranked 28th for US News & World Report Top Performers on Social Mobility (up from #46 last year.)

Overview of the Financial Statements

The financial statements for fiscal year 2020 have been prepared in accordance with accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB). Additionally, these statements conform to reporting requirements of the Texas Comptroller of Public Accounts and to guidelines issued by the National Association of College and University Business Officers (NACUBO). GASB require MSU to include three financial statements in the annual financial report. They are (1) the Statement of Net Position; (2) the Statement of Revenues, Expenses, and Changes in Net Position; and (3) the Statement of Cash Flows. The information contained in the financial statements of MSU is part of and included within the State of Texas's (the State) Comprehensive Annual Financial Report (CAFR).

The financial statements of MSU are presented for the fiscal year ended August 31, 2020. The format of the Texas statewide financial statements presents a comprehensive perspective of the State's financial activities. The State's activities are divided into three types for presentation in the primary financial statements. They are Governmental Activities, Business-type Activities, and Component Units. The financial operations of MSU are considered a business-type activity because MSU charges a fee, in the form of tuition, to customers in order to pay for a significant percentage of the cost of the services provided. Under this classification, MSU financial statements conform to the guidelines and presentation formats prescribed for proprietary funds; revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of when cash is exchanged.

Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

Statement of Net Position

The first statement presented is the Statement of Net Position. The statement reflects MSU's financial position as of the conclusion of the fiscal year. This is a point-in-time financial presentation and presents a snapshot view of the financial status as of August 31, 2020. Assets and liabilities are presented as either current or noncurrent to provide an indication of their anticipated liquidation. Net position is equal to total assets plus deferred outflows of resources, less total liabilities plus deferred inflows of resources. Net position is divided into three major categories. The first, net investment in capital assets, provides MSU's equity in property, plant, and equipment owned by MSU. The restricted net position category is subdivided into nonexpendable and expendable classifications. Restricted nonexpendable net position consists solely of MSU's permanent endowment funds and is only available for investment purposes. Restricted expendable net position is available for expenditure by MSU but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final major category, unrestricted net position, is available to MSU for any lawful purpose, but may have significant constraints on resources, which are imposed by management or implied by statutes or regulations but can be removed or modified. Additional net position balances are reserved for specific purposes by nature of their origin.

The Statement of Net Position presents information on all of MSU's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of MSU is improving or deteriorating.

Other nonfinancial factors, such as MSU's enrollment and the condition of MSU's infrastructure, need to be considered in order to assess the overall health of MSU.

Statement of Revenues, Expenses, and Changes in Net Position

The next statement comprising the primary financial statements is the Statement of Revenues, Expenses, and Changes in Net Position. This statement identifies operating and non-operating revenues received by MSU. Additionally, both the operating and non-operating expenses incurred by MSU during the fiscal year are displayed. Finally, any other gains and losses or other forms of revenue and expenses are reported. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how MSU's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Revenues and expenses are classified as either operating or non-operating in the financial statements. Operating revenues are received and recognized as a result of providing services. Tuition and fee revenues are reported net of any scholarship discounts and allowances. A scholarship allowance is the difference between the stated charge for services provided by MSU and the amount that is paid by the student or third parties making payments on behalf of the student. Funds received to satisfy student tuition and fee charges are reported as scholarship allowances in amounts up to and equal to amounts owed by the students to MSU.

Operating expenses are the costs necessary to provide services to customers and to fulfill the mission of MSU. Such expenses are displayed in the statement using the natural method of presentation, which displays the operating expenses in a manner that categorizes the objects of expenditure within various cost centers. Non-operating revenues are those received for which no services are directly provided. State appropriations are classified as non-operating revenue because they are provided by the Legislature to MSU without the Legislature directly receiving goods or services for those revenues. Additionally, certain federal resources for student financial aid, as well as most gift revenue, are classified as non-operating revenue. Significant portions of MSU's recurring resources are classified as non-operating.

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Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

Statement of Cash Flows

The third primary statement included in the financial statements is the Statement of Cash Flows. This statement explains the change during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The Statement of Cash Flows should be used in conjunction with related disclosures and information in the other financial statements. The statement can provide relevant information about an entity, such as the ability to generate future net cash flows, the ability to meet obligations when due, or reasons for differences between operating income and associated cash receipts and payments. The statement is comprised of five sections. The first section recognizes the cash flows from operating activities, as well as the net cash used by operating activities. The second section identifies the cash flows from non-capital financing activities. The third section reflects the cash flows from capital and related financing activities. The next section details the cash flows from investing activities. The final section reconciles net cash used to the operating loss or income reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are the last section of the basic financial statements.

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Midwestern State University

Management's Discussion & Analysis

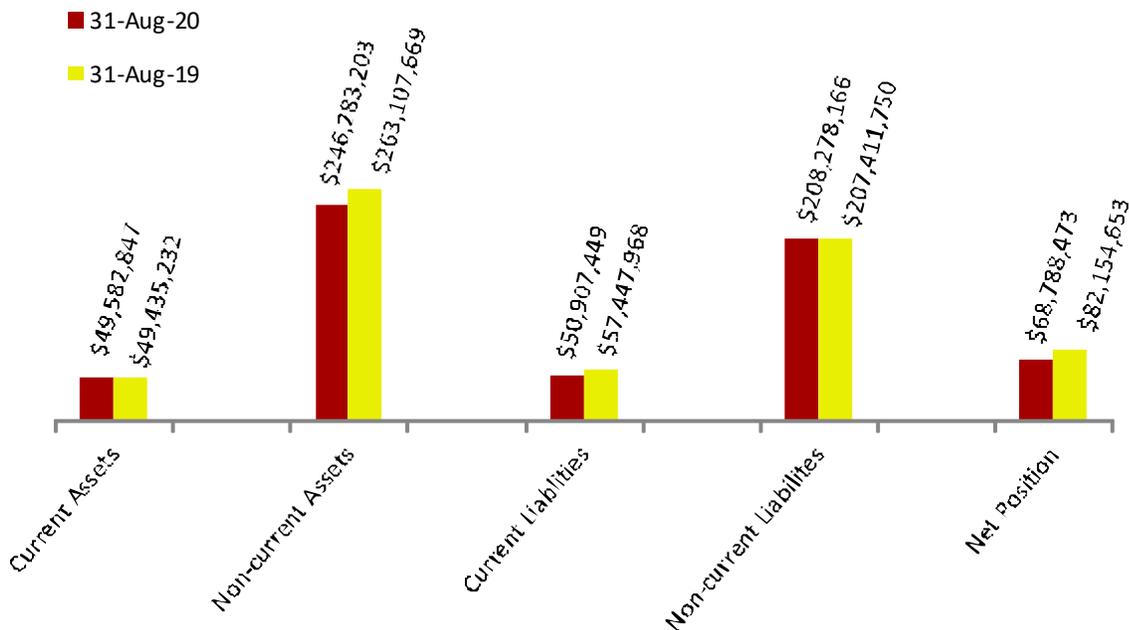
For the Year Ended August 31, 2020

The Statement of Net Position

By reporting information on MSU as a whole, these comparative statements highlight for the reader whether the year's activities strengthened or weakened MSU's financial position. When revenues and other support exceed expenses, the result is an increase in net position. The relationship between revenues and expenses may be thought of as MSU's operating results.

These comparative statements report the current status and changes to MSU's net position. Net position, the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure MSU's financial position. Increases in net position show an improvement in financial health, while decreases often indicate increasing expense pressure. However, many other non-financial factors, such as the trend in admission applicants, enrollment, student retention, and condition of the facilities must be considered to accurately assess the overall fiscal health of MSU.

As the statement on the next page shows, MSU's net position decreased a total of \$13,300,600.04, from \$82,089,072.61 in 2019 to \$68,788,472.57 in 2020. The primary factors contributing to this decrease were a current year net impact of \$9.2 million related to Other Postemployment Benefits (OPEB) and a current year impact of \$1.8 million related to pensions. Depreciation expense also increased \$2.8 million as a result of the new Centennial Hall building and numerous additions and improvements to the campus funded by Tuition Revenue Bonds (TRB's) and generous university donors.



Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

The Statement of Net Position

	<u>2020</u>	<u>2019</u>
Current Assets	\$ 49,582,846.79	\$ 49,435,232.39
Non-current Assets:		
Capital Assets	189,437,142.01	194,238,802.50
Other	56,846,060.51	68,868,866.27
Total Assets	<u>295,866,049.31</u>	<u>312,542,901.16</u>
Deferred Outflows of Resources:		
Pensions	7,593,305.00	8,525,471.00
Unamortized Loss on Debt Refunding	2,729,924.14	2,924,918.72
Other Postemployment Benefits (OPEB)	38,856,185.00	42,578,063.00
Total Deferred Outflows of Resources	<u>49,179,414.14</u>	<u>54,028,452.72</u>
Total Assets and Deferred Outflows	<u>345,045,463.45</u>	<u>366,571,353.88</u>
Current Liabilities	50,907,448.99	57,447,968.45
Non-current Liabilities	208,278,165.89	207,411,749.82
Total Liabilities	<u>259,185,614.88</u>	<u>264,859,718.27</u>
Deferred Inflows of Resources:		
Pensions	2,891,584.00	1,281,913.00
Other Postemployment Benefits (OPEB)	14,179,792.00	18,275,070.00
Total Deferred Inflows of Resources	<u>17,071,376.00</u>	<u>19,556,983.00</u>
Total Liabilities and Deferred Inflows	<u>276,256,990.88</u>	<u>284,416,701.27</u>
Net Position:		
Invested in Capital Assets	50,174,771.02	54,360,308.71
<u>Restricted for:</u>		
Non-expendable	5,326,182.84	4,998,125.37
<u>Expendable:</u>		
Capital Projects	4,208,324.71	1,111,412.39
Restricted by Contributor	13,512,430.21	13,912,818.01
Unrestricted	(4,433,236.21)	7,771,988.13
Total Net Position	<u>68,788,472.57</u>	<u>82,154,652.61</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$345,045,463.45</u>	<u>\$366,571,353.88</u>

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Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

MSU's Results of Operations

The Statement of Revenues, Expenses, and Changes in Net Position reflects MSU's operating results for the fiscal years ended August 31, 2020 and 2019. The change in total net position is calculated from the activity presented in these statements and reveal the operating results of MSU as well as the non-operating revenues and expenditures. Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and food services. Certain federal, state, and private grants are considered operating revenues if they are not for capital purposes and are considered a contract for services. Non-operating revenues and expenses include non-exchange transactions for which no goods or services were provided. These include annual state appropriations, Pell grants, gifts, investment income, and interest payments on long-term debt. The statement below compares the operating results of MSU for the years ended August 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Net Tuition and Fees	\$ 37,155,482.93	\$ 35,507,877.02
Grants and Contracts	8,440,253.35	8,657,380.69
Sales and Services of Educational Activities	422,126.22	1,627,902.94
Sales and Services of Auxiliary Enterprises	11,232,803.27	13,883,716.99
Other	1,282,504.77	5,026,225.30
Total Operating Revenue	<u>58,533,170.54</u>	<u>64,703,102.94</u>
Total Operating Expenses	<u>(128,046,644.33)</u>	<u>(119,850,614.62)</u>
Operating Loss	(69,513,473.79)	(55,147,511.68)
Non-Operating Revenues (Expenses):		
State Appropriations	20,745,590.00	21,855,599.00
Other State Appropriations	5,767,831.74	5,826,692.02
Federal Grants	14,913,363.97	10,412,717.10
Federal Pass-Through Grants	2,232.00	1,272.33
State Pass-Through Grants from Other Agencies		5,000.00
Gifts	5,525,863.48	5,604,537.64
Other Non-Operating Revenues (Expenses)	2,433.00	2,259.00
Investment Income	3,110,890.94	3,048,256.77
Net Increase (Decrease) in Fair Value of Investments	3,282,035.74	(439,405.24)
Net Book Value of Capital Asset Disposals	(1,551.20)	(11,481.80)
Interest Expense on Capital Asset Financing	(5,101,848.51)	(5,303,562.40)
Total Non-Operating Revenue	<u>48,246,841.16</u>	<u>41,001,884.42</u>
(Loss) Before Capital Contributions, Additions to Endowments, and Special Items	(21,266,632.63)	(14,145,627.26)
Capital Contributions, Additions to Endowments, & Special Items		
Capital Contributions	4,009,734.60	6,507,312.81
HEAF Appropriation	5,061,412.00	5,061,412.00
Additions to Endowments	44,085.48	172,472.16
Transfers In	65,347.00	415,118.65
Transfers Out	(1,325,736.49)	(1,320,160.50)
Legislative Transfers In	111,190.00	114,409.00
Legislative Appropriations Lapsed		(1,246,600.30)
Increase (Decrease) in Net Position	<u>(13,300,600.04)</u>	<u>(4,441,663.44)</u>
Net Position, Beginning of Year	82,154,652.61	86,596,316.05
Restatements	(65,580.00)	
Net Position, Beginning of Year, Restated	<u>82,089,072.61</u>	<u>86,596,316.05</u>
Net Position, End of Year	<u>\$ 68,788,472.57</u>	<u>\$ 82,154,652.61</u>

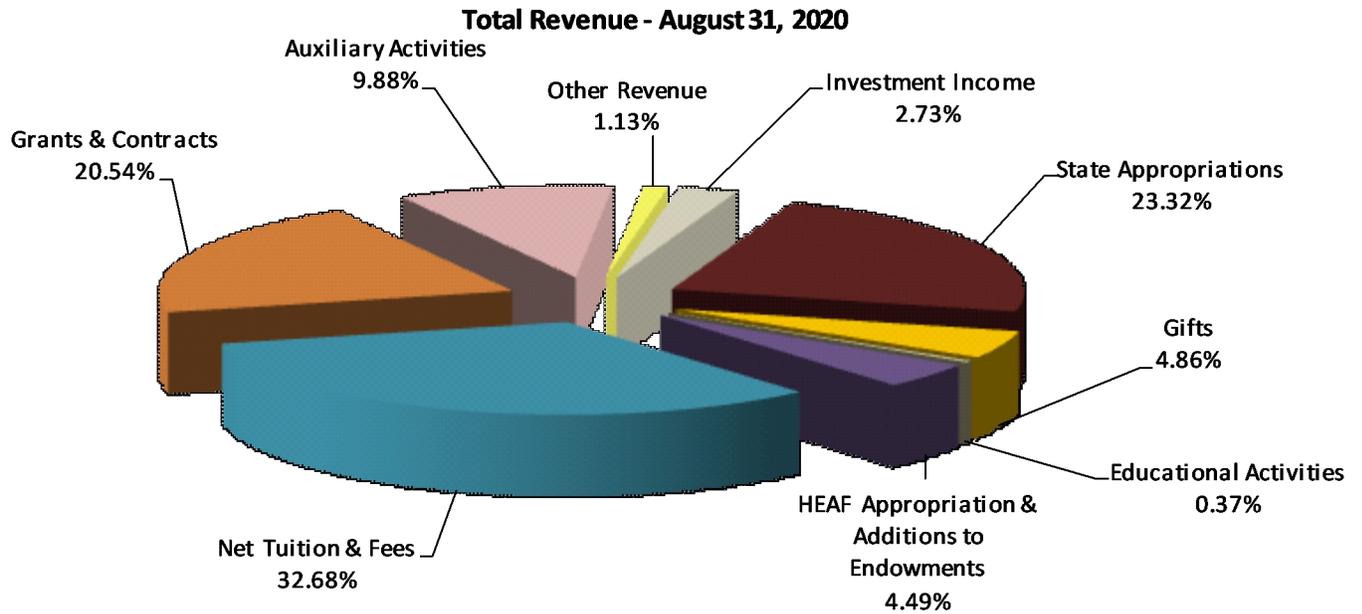
ANNUAL FINANCIAL REPORT

Midwestern State University

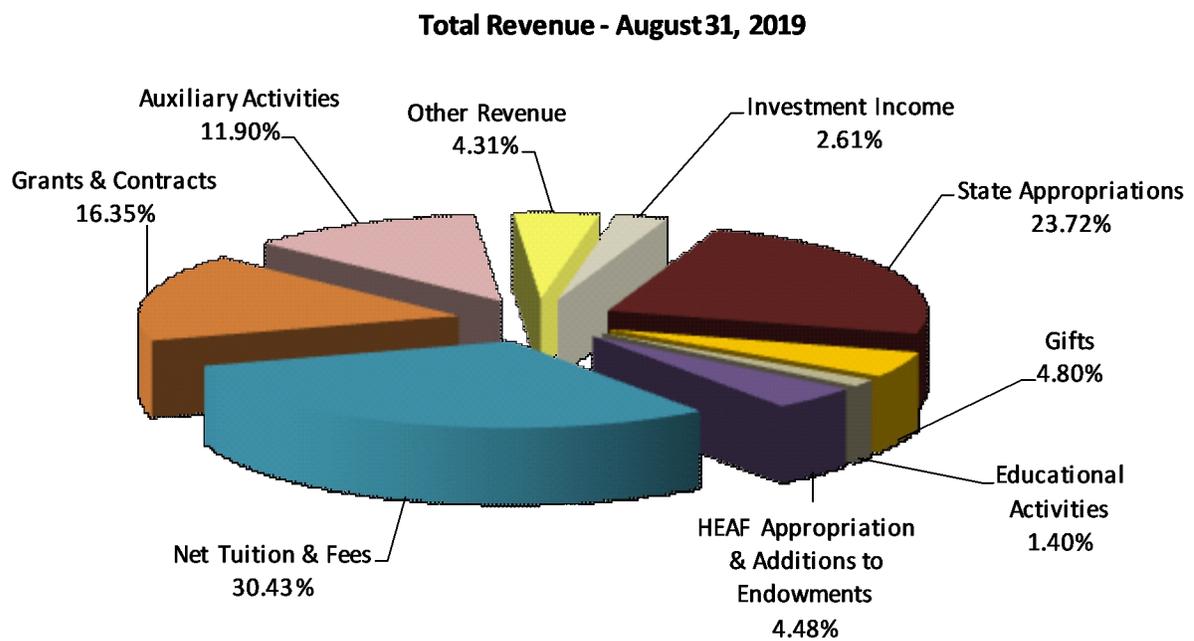
Management's Discussion & Analysis

For the Year Ended August 31, 2020

This chart identifies the components of total revenue for the year ended August 31, 2020.



This chart reflects the same information for the year ended August 31, 2019.



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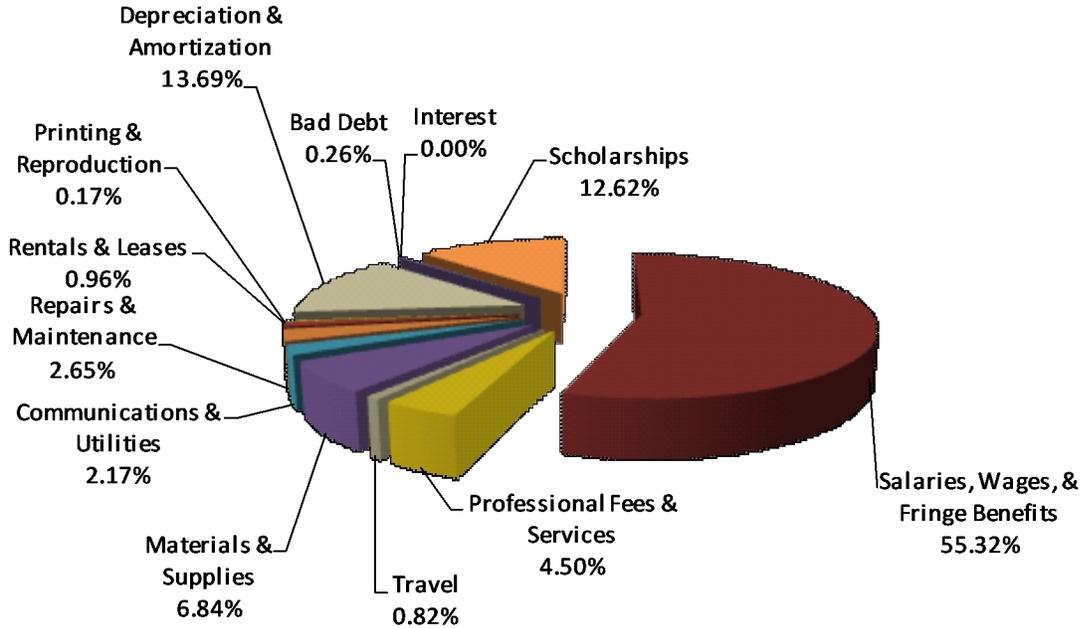
Midwestern State University

Management's Discussion & Analysis

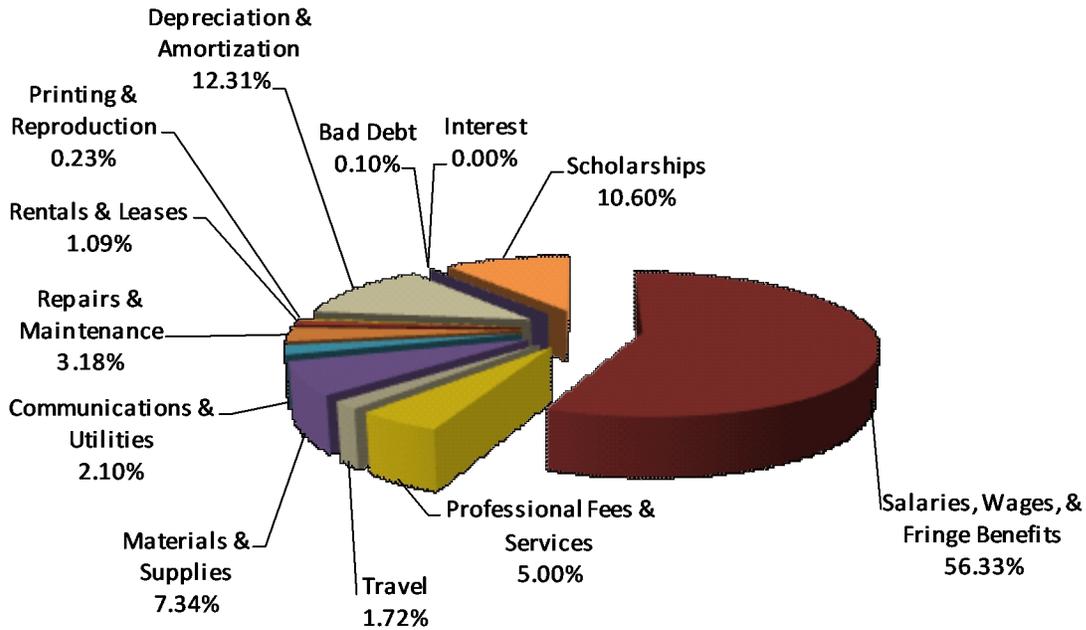
For the Year Ended August 31, 2020

Total operating expenses for fiscal years 2020 and 2019 were \$128,046,644.33 and \$119,850,614.62, respectively. The following charts compare the fiscal year 2020 distribution of operating expenses to those in fiscal year 2019.

Total Operating Expenses - August 31, 2020



Total Operating Expenses - August 31, 2019



Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

MSU's Cash Flows

The Statement of Cash Flows represents MSU's significant sources and uses of cash. It is designed to help users assess MSU's ability to generate future cash flows, its ability to meet obligations as they come due, and its need for external financing. The following is a summary of the major categories presented in the Statement of Cash Flows:

	<u>2020</u>	<u>2019</u>
Cash provided (used) by:		
Operating activities	\$(48,825,561.64)	\$(27,606,706.84)
Non-capital financing activities	44,926,513.46	39,271,181.79
Capital and related financing activities	(15,522,283.34)	(37,408,917.90)
Investing activities	<u>18,155,715.87</u>	<u>26,113,052.55</u>
Net increase (decrease) in cash	(1,265,615.65)	368,609.60
Cash – Beginning of year	<u>8,973,109.49</u>	<u>8,604,499.89</u>
Cash – End of year	<u>\$ 7,707,493.84</u>	<u>\$ 8,973,109.49</u>

Exhibit III, the Statement of Cash Flows, shows that the major sources of funds for operating activities are from student tuition and fees, grants, and auxiliary enterprises. Tuition and fees accounted for \$34.7 million; grants accounted for \$7.3 million; and auxiliary enterprises, including housing and dining, accounted for \$11.2 million.

State appropriations in the amount of \$27 million were the primary sources of non-capital financing. Although MSU is dependent on these appropriations to continue the current level of operations, accounting standards require that this source of funding be reflected as non-operating. Other non-capital financing activities include gifts in the amount of \$4 million and \$14.9 million in Federal non-operating grants.

Payments for the additions of capital assets totaled \$12.76 million and included the completion of parking and landscaping around Centennial Hall, Fire Marshal and ADA improvements to several campus buildings, construction of the new Facilities Shops building, additional campus parking, renovations to Moffett Library and Bridwell Hall, design work for the new Bridwell Activity Center, and the purchase of 2733 Midwestern Parkway, which is the new home of Purchasing and the MSU warehouse for central receiving.

Proceeds from sales and maturities of investments within the investing section of the cash flow statement included \$6.7 million in expended bond proceeds to complete parking and landscaping around Centennial Hall, renovations to several campus buildings to address fire safety and accessibility concerns, renovations to Moffett Library, and to add additional parking on the north side of campus. In FY2017, Tuition Revenue Bond (TRB) proceeds in the amount of \$58.4 million were invested in a flexible repurchase agreement with Bayerische Landesbank (BLB). Repurchases totaled \$10.6 million during the year to continue and finish the various TRB projects. The flexible repurchase agreement will mature in January 2021.

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Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2020, MSU had \$189.4 million invested in capital assets. This figure is net of accumulated depreciation and amortization of \$207.4 million. Depreciation and amortization charges totaled \$17.5 million for the current fiscal year. The category of other capital assets includes library holdings, artwork, and collections. Assets by classification are shown below:

Capital Assets Before Accumulated Depreciation and Amortization

	<u>2020</u>	<u>2019</u>
Land and Land Improvements	\$ 8,245,280.07	\$ 6,212,890.44
Construction in Progress	2,926,126.59	13,635,554.22
Buildings and Building Improvements	294,729,277.61	276,989,504.18
Infrastructure	13,351,147.45	13,351,147.45
Facilities Improvements	17,254,421.23	14,531,278.87
Furniture and Equipment	19,762,641.22	19,048,663.26
Vehicles	1,698,001.94	1,724,394.81
Computer Software	24,062,668.46	24,062,668.46
Other Capital Assets	14,898,510.04	14,866,784.30
Total	<u>\$396,928,074.61</u>	<u>\$384,422,885.99</u>

Additions to assets of \$12.7 million during fiscal year 2020 included the completion of the renovations across campus to comply with the specifications established by the Fire Marshal and the Americans with Disabilities Act (ADA), the Gunn College of Health Sciences and Human Services Quad and landscaping, renovations to Moffett Library, McCullough Hall renovations, Bridwell Hall renovations, and parking lots 4 and 13. Also, the building and land at 2733 Midwestern Parkway was purchased and was renovated to house Purchasing and the MSU warehouse for central receiving.

The construction in progress at the end of the year includes: completion of the construction of a new facilities services building, renovations to Bolin Hall, and renovations of the existing Daniel Building into the new Bridwell Activity Center.

Further financial information about MSU's capital assets is presented in Note 2 of the notes to the financial statements on page 32-33.

Debt

At year-end, MSU had \$130.1 million in outstanding debt. Outstanding debt for the year ended August 31, 2019 was \$136.1 million. The table below summarizes the amount of outstanding debt by type of instrument for the year ended August 31, 2020 compared with August 31, 2019.

	<u>2020</u>	<u>2019</u>
Revenue Bonds	\$130,115,000.00	\$136,125,000.00
Interest to be recognized over the remaining life of bonds	55,828,436.38	61,453,047.40
Total	<u>\$185,943,436.38</u>	<u>\$197,578,047.40</u>

Debt repayments made during the year included principal in the amount of \$6,010,000.00 and interest in the amount of \$5,624,611.02.

Moody's Investor Services has assigned an 'A1' bond rating to MSU's bonds, and Fitch has assigned an 'AA-' rating with a stable outlook as of October 30, 2020.

Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

Factors Affecting the Future of Midwestern State University

With the Centennial celebration on the horizon in 2022, MSU will celebrate its past successes while it prepares for a promising second century. The Boundless Opportunities comprehensive campaign has garnered impressive support for the four pillars of MSU's strategic plan: promoting a strong university community, becoming a destination residential campus, attracting and serving new student populations, and stimulating engagement with our community. Together, these plans for action and donor support will produce long-term prosperity for our university.

INTERNAL STRENGTHS

The following are areas of strength that MSU will use to advance toward its goals.

Positive reputation and generous support - MSU has an enduring reputation supported by a loyal base of donors, as well as, faculty and staff contributors. A brand extension to become known as MSU Texas and an expansion into the DFW area have enhanced the ability to recruit students and to benefit from external gifts. MSU continues to receive substantial support from members of the local community which provide important investments in campus facilities, as well as, scholarship support to students.

Membership in the Council of Public Liberal Arts Colleges (COPLAC) - MSU is one of thirty six members of COPLAC, which complements the university's standing as the only public liberal arts institution in Texas. MSU's commitment to a strong liberal arts experience for students in all majors, partners effectively with the increasing emphasis on professional preparation, particularly in high-earning fields such as the applied health professions, business, and engineering. Close faculty and student interactions, and opportunities for faculty supervised research further contribute to student preparation for employment and graduate study.

Educational value – U.S. News & World Report ranked MSU Texas #28 (up from #46 last year) in the category of Social Mobility for Regional Universities in the West in its 2021 “Best Colleges” rankings. The methodology used for social mobility ranking, measures how well schools graduated students who received Federal Pell Grants. The Best College recognition is symbolic of the recent efforts by MSU’s staff, faculty, and leadership to provide programming to support the needs of first-generation students, many from households whose family incomes are less than \$65,000 annually. MSU also garnered recognition as #35 in the Top Public Schools and #75 in Regional University West categories.

Consistently ranked nationally as one of the best Return on Investments, MSU graduates tend to earn more on average than graduates from most other universities in the state. In 2019, MSU ranked in the top 10 on a list of 50 Online Colleges with the best ROI by College Consensus. In addition, the group also ranked MSU’s Dillard College of Business Administration fifth on its list of 25 Most Affordable Online MBA programs with the online Accounting MBA #7.

The Washington Monthly College Guide listed MSU Texas as #36 for Best Bang for the Buck in the South in its most recent report.

EXTERNAL ENVIRONMENT

Now entering the eighth month of a global pandemic, MSU is not immune to the external environment and its impact on university operations. MSU faculty and staff showed great resilience and flexibility in their swift and rapid shift to fully online teaching and learning in the spring, while navigating to a safe return in the fall. Given ongoing travel restrictions however, new international students wanting to attend MSU are unable to obtain VISAs to study in United States. This has impacted both enrollment and housing occupancy as students delay their programs of study until such travel restrictions are lifted. As the pandemic evolves, MSU continues to promote the best campus experience for students, while providing a robust and strengthened online and hybrid learning modality for the classroom.

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Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

Several areas highlighted below will affect MSU in the future. The key will be to continue to closely monitor these areas, understand possibilities, and strategically plan for alternative scenarios to minimize any negative impact, and alternatively, to maximize opportunity for the enduring good of the MSU community.

LOCAL AND STATE DEMOGRAPHICS

The local area's population growth is expected to remain flat during the next 10 years.

The proportion of the Wichita Falls population that will be college age in the next decade is declining. Census data from 2000 and 2010 indicate that the number of 10- to 14-year-olds dropped from just more than 9,000 to just more than 8,000, and the number of 15- to 19-year-olds declined from approximately 12,000 to approximately 10,500. For this reason, MSU is positioning itself to better partner with regional community colleges and corporate partners to serve transfer and adult populations.

Conversely, the Flower Mound Learning Center is located in a high-growth area that serves working adults who want to complete their college degrees. Applying the 2000-2010 migration rate to the current adult population within a 10-mile radius of the Flower Mound Learning Center, we expect the following growth by 2025: 42% overall growth; 105% Hispanic/Latin; 13% White; 65% Black; and 7% other.

Texas state population will continue to grow into the next decade. The rate of growth may be slightly lower than in the past, but it will remain robust. Much of the population growth will occur in Texas' metropolitan areas including Dallas/Fort Worth, Austin, San Antonio, and Houston.

PREPARATION OF STUDENTS

MSU continues to focus on retention, shortened time to degree completion, and overall support of students. This effort has improved tutoring and academic support programs (TASP) with a walk in, on demand tutoring schedule and online via videoconferencing. The number of supplemental course sections have been increased, which expanded the student peer mentoring program. Additionally, MSU implemented a new software tool that students can load on their personal devices. This provides academic advisors with timely progress updates to encourage first year to sophomore persistence, with a goal of achieving a 75% rate in coming years.

MSU has also expanded capacity for students to benefit from high impact practices and student experience opportunities such as undergraduate research, study abroad, and service learning. With a substantial student population from first generation, lower socioeconomic demographics, and those needing outside employment to pay for their college education, MSU intentionally seeks to make these transformative experiences both accessible and affordable.

TECHNOLOGY AND FACILITIES

Technological change will continue to be rapid, requiring frequent updates and additions to keep pace with software tools, systems, and applications outside of the university.

Entering students will expect the use of technology such as social networking, computer based interactive educational programs, webinars, and learning modules that can be downloaded to smart phones. Required investments in technology will not only be for discipline-specific purposes, but also for all areas of instruction and student activities.

Similarly, current students are attracted to campus facilities that encourage interactive, up-to-date teaching and learning space that are comfortable, safe, and provide an appealing mix of living and learning locations.

Midwestern State University

Management's Discussion & Analysis

For the Year Ended August 31, 2020

FINANCIAL

MSU receives close to 25% of its funding from the State of Texas, which helps the university maintain affordable tuition, even as costs increase. This level of funding is at risk given financial economic pressures caused by the long-running pandemic on the State of Texas economy. State provided capital funds are also critical to keep pace with technology along with infrastructure upgrades and improvements. If state or federal financial aid dollars diminish, student demand for financial aid support will increase.

As indicated in our introductory comments, MSU is successfully building a more sustainable revenue stream through its first comprehensive capital campaign. The award-winning, seven-year Boundless Opportunities Campaign has attracted record-setting funding from foundations, corporations, and private donors that help supplement tuition and fees, and state funding sources. The generosity of alumni and friends has helped resource development. In a strategic, process-driven plan for advancement, the campaign has increased the awareness of, engagement in, and giving to MSU. This, in turn, empowers MSU to provide a rigorous, personal and comprehensive education for all students, but in particular, for first-generation students, so they can enter the job market with minimal student debt.

ENROLLMENT

The freshmen class continues to represent Texas well with students from over 80 counties. Additionally, over 66.4% of new first year students reside on campus.

- During the 2019-20 academic year, MSU graduated its second largest number of students with 1,415 students earning degrees.
- MSU recently entered the dual credit market and has 85 students enrolled in courses, which is a 52% increase from the previous year.
- MSU's site in Flower Mound which offers degree completion programs at the undergraduate and graduate levels, increased credit hour production to 3,168 hours, an increase of 40.8% from the previous fall.
- MSU entered into a partnership with Vernon College (VC2MSU), which allows first-time freshmen to begin their college career with Vernon College while living and dining on the MSU campus. Additionally, these same students will take introductory course work at MSU that will prepare them for the rigors of a four year college experience.

As we approach our 100th year in 2022, MSU is well positioned to serve the State of Texas and its families who are seeking the promise of higher education.

CONTACTING MSU'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of MSU's finances. General information regarding MSU can be found at <https://msutexas.edu>. Questions concerning this report or requests for additional financial information should be directed to:

Mr. Chris Stovall, Controller
Chris.Stovall@msutexas.edu
Phone: 940-397-4273
Administration and Finance
3410 Taft Boulevard
Wichita Falls, TX 76308-2099

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Midwestern State University

Statement of Net Position

August 31, 2020

	<u>2020</u>	<u>2019</u>
ASSETS AND DEFERRED OUTFLOWS		
Current Assets:		
<u>Cash and Cash Equivalents:</u>		
Cash on Hand	\$ 16,150.00	\$ 16,750.00
Cash in Bank	1,003,352.78	1,819,383.25
Cash in State Treasury	3,326,408.09	2,886,801.81
Short-term Investments	10,534,105.14	13,240,668.17
State Appropriations	2,093,234.03	2,610,177.47
<u>Restricted:</u>		
Cash and Cash Equivalents:		
Cash in Bank	3,361,582.97	4,250,174.43
Short-Term Investments:		
Endowment	41,805.19	113,986.69
Proceeds from Bond Sales	2,517,403.10	
<u>Net Receivables:</u>		
Student Receivables	10,649,156.81	10,602,770.54
Federal Receivables	685,428.53	349,419.49
Other Intergovernmental Receivables	245,261.10	434,664.12
Interest and Dividends	2,057.03	10,727.39
Other Receivables	3,417,774.56	2,117,356.25
Pledges Receivable	498,151.46	401,327.77
Consumable Inventories	154,233.31	182,563.45
Prepaid Expenses	11,036,742.69	10,398,461.56
Total Current Assets	<u>49,582,846.79</u>	<u>49,435,232.39</u>
Noncurrent Assets:		
<u>Restricted:</u>		
Investments	2,092,667.91	14,917,000.72
Other Long-term Investments	54,047,462.89	52,836,581.52
Pledges Receivable	705,929.71	1,115,284.03
<u>Capital Assets:</u>		
Non-depreciable and Non-amortizable:	14,705,371.96	23,382,409.96
<u>Capital Assets, Depreciable:</u>		
Depreciable or Amortizable, Net	174,731,770.05	170,856,392.54
Total Noncurrent Assets	<u>246,283,202.52</u>	<u>263,107,668.77</u>
Total Assets	<u>295,866,049.31</u>	<u>312,542,901.16</u>
Deferred Outflows of Resources:		
Pensions	7,593,305.00	8,525,471.00
Unamortized Loss on Debt Refunding	2,729,924.14	2,924,918.72
Other Postemployment Benefits	38,856,185.00	42,578,063.00
Total Deferred Outflows of Resources	<u>49,179,414.14</u>	<u>54,028,452.72</u>
Total Assets and Deferred Outflows	<u>\$345,045,463.45</u>	<u>\$366,571,353.88</u>

Midwestern State University

Statement of Net Position

August 31, 2020

	<u>2020</u>	<u>2019</u>
LIABILITIES AND DEFERRED INFLOWS		
Current Liabilities:		
Accounts Payable	\$ 2,673,405.01	\$ 7,914,365.00
Accrued Payroll Payable	4,981,577.02	4,581,467.57
Accrued Bond Interest Payable	1,380,590.85	1,431,714.68
Employees' Compensable Leave	249,562.10	222,598.93
Net Other Postemployment Benefits Liability	1,801,405.00	694,518.00
Room/Property Deposits	199,444.65	237,294.15
Unearned Revenues	31,826,206.36	33,625,305.37
Retainages and Contracts	626,337.11	1,588,469.56
Other Current Liabilities	170,196.93	172,209.86
Due to Other Agencies (SECO Loan)	142,685.32	288,986.69
Unamortized Premium on 2015A Rev Bonds	95,151.81	95,151.81
Unamortized Premium on 2016A Rev Bonds	585,886.83	585,886.83
Revenue Bonds Payable	<u>6,175,000.00</u>	<u>6,010,000.00</u>
Total Current Liabilities	<u>50,907,448.99</u>	<u>57,447,968.45</u>
Noncurrent Liabilities:		
Employees' Compensable Leave	1,960,677.00	1,833,624.64
Net Pension Liability	16,264,024.00	17,048,013.00
Net Other Postemployment Benefits Liability	55,035,317.00	46,520,064.00
Room/Property Deposits	101,353.95	102,380.95
Due to Other Agencies (SECO Loan)		134,834.65
Unamortized Premium on 2015A Rev Bonds	2,188,491.49	2,283,643.30
Unamortized Premium on 2016A Rev Bonds	8,788,302.45	9,374,189.28
Revenue Bonds Payable	<u>123,940,000.00</u>	<u>130,115,000.00</u>
Total Noncurrent Liabilities	<u>208,278,165.89</u>	<u>207,411,749.82</u>
Total Liabilities	<u>259,185,614.88</u>	<u>264,859,718.27</u>
Deferred Inflows of Resources:		
Pensions	2,891,584.00	1,281,913.00
Other Postemployment Benefits	<u>14,179,792.00</u>	<u>18,275,070.00</u>
Total Deferred Inflows of Resources	<u>17,071,376.00</u>	<u>19,556,983.00</u>
Total Liabilities and Deferred Inflows	<u>276,256,990.88</u>	<u>284,416,701.27</u>
NET POSITION		
Net Investment in Capital Assets	50,174,771.02	54,360,308.71
Restricted for:		
Non-expendable	5,326,182.84	4,998,125.37
<u>Expendable:</u>		
Capital Projects	4,208,324.71	1,111,412.39
Restricted by Contributor	13,512,430.21	13,912,818.01
Unrestricted	<u>(4,433,236.21)</u>	<u>7,771,988.13</u>
Total Net Position	<u>68,788,472.57</u>	<u>82,154,652.61</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$345,045,463.45</u>	<u>\$366,571,353.88</u>

Midwestern State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended August 31, 2020

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Operating Revenues:	2020	2019
Student Tuition and Fees	\$ 54,281,234.67	\$ 52,916,994.60
Scholarship Discounts and Allowances	<u>(17,125,751.74)</u>	<u>(17,409,117.58)</u>
Net Student Tuition and Fees	37,155,482.93	35,507,877.02
Federal Grants	1,650,204.30	2,003,598.09
Federal Pass-Through Grants	321,051.39	129,346.76
State Pass-Through Grants from Other State Agencies	4,504,616.97	4,322,954.28
Other Grants and Contracts	1,964,380.69	2,201,481.56
Sales and Services of Educational Activities	422,126.22	1,627,902.94
Sales and Services of Auxiliary Enterprises	11,232,803.27	13,883,716.99
Other Operating Revenue	<u>1,282,504.77</u>	<u>5,026,225.30</u>
Total Operating Revenues	<u>58,533,170.54</u>	<u>64,703,102.94</u>
Operating Expenses:		
Salaries and Wages	44,885,656.15	43,461,982.77
Payroll-Related Costs	25,953,103.09	24,068,187.00
Professional Fees and Services	5,758,374.01	5,987,171.37
Travel	1,063,378.81	2,072,633.92
Materials and Supplies	8,764,093.53	8,796,943.47
Communications and Utilities	2,784,315.46	2,519,057.74
Repairs and Maintenance	3,394,863.54	3,814,624.50
Rentals and Leases	1,223,457.88	1,302,193.69
Printing and Reproduction	217,144.41	273,716.31
Depreciation and Amortization	17,517,761.99	14,740,003.85
Bad Debt Expense	322,760.70	113,192.48
Interest	320.60	2,582.34
Scholarships	<u>16,161,414.16</u>	<u>12,698,325.18</u>
Total Operating Expenses	<u>128,046,644.33</u>	<u>119,850,614.62</u>
Operating Loss	<u>(69,513,473.79)</u>	<u>(55,147,511.68)</u>
Non-Operating Revenues (Expenses):		
State Appropriations	20,745,590.00	21,855,599.00
Additional State Appropriations	5,767,831.74	5,826,692.02
Federal Grants	14,913,363.97	10,412,717.10
Federal Pass-Through Grants	2,232.00	1,272.33
State Pass-Through Grants from Other State Agencies		5,000.00
Gifts	5,525,863.48	5,604,537.64
Other Non-Operating Revenues (Expenses)	2,433.00	2,259.00
Investment Income	3,110,890.94	3,048,256.77
Net Increase (Decrease) in Fair Value of Investments	3,282,035.74	(439,405.24)
Net Book Value of Capital Asset Disposals	(1,551.20)	(11,481.80)
Interest Expense on Capital Asset Financing	<u>(5,101,848.51)</u>	<u>(5,303,562.40)</u>
Total Non-Operating Revenues	<u>48,246,841.16</u>	<u>41,001,884.42</u>
Gain (Loss) Before Capital Contributions, Additions to Endowments, and Special Items	<u>(21,266,632.63)</u>	<u>(14,145,627.26)</u>

Midwestern State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended August 31, 2020

	<u>2020</u>	<u>2019</u>
Capital Contributions, Endowments, and Transfers:		
Capital Contributions	\$ 4,009,734.60	\$ 6,507,312.81
HEAF Appropriation	5,061,412.00	5,061,412.00
Additions to Endowments	44,085.48	172,472.16
Transfers In	65,347.00	415,118.65
Transfers Out	(1,325,736.49)	(1,320,160.50)
Legislative Transfers In	111,190.00	114,409.00
Legislative Appropriations Lapsed		(1,246,600.30)
Total Capital Contributions, Endowments, and Transfers	<u>\$ 7,966,032.59</u>	<u>\$ 9,703,963.82</u>
Increase (Decrease) in Net Position	<u>(13,300,600.04)</u>	<u>(4,441,663.44)</u>
Net Position, Beginning of Year	82,154,652.61	86,596,316.05
Restatements	<u>(65,580.00)</u>	
Net Position, Beginning of Year, Restated	<u>82,089,072.61</u>	<u>86,596,316.05</u>
Net Position, End of Year	<u>\$68,788,472.57</u>	<u>\$82,154,652.61</u>

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Midwestern State University

Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2020

		Total Operating Expenses	Instruction	Research	Public Service	Academic Support
A N N U A L	Salaries and Wages	\$ 44,885,656.15	\$23,734,965.62	\$468,014.51	\$436,371.95	\$4,044,226.02
	Payroll-Related Costs	25,953,103.09	14,380,166.96	139,814.58	160,369.66	2,273,828.89
	Professional Fees and Services	5,758,374.01	846,104.29	68,491.09	90,381.86	1,595,700.55
	Travel	1,063,378.81	226,309.04	28,807.63	27,634.46	167,525.41
	Materials and Supplies	8,764,093.53	1,050,077.31	173,316.65	229,236.17	816,210.38
	Communications and Utilities	2,784,315.46	58,400.22	797.77	7,560.04	43,753.82
	Repairs and Maintenance	3,394,863.54	127,243.99	9,656.99	45,847.29	1,852,579.97
	Rentals and Leases	1,223,457.88	100,724.83	392.88	5,443.76	807,335.54
	Printing and Reproduction	217,144.41	33,667.15	1,257.10	14,632.40	39,164.75
	Depreciation and Amortization	17,517,761.99				
	Bad Debt Expense	322,760.70				
	Interest	320.60				33.58
	Scholarships	16,161,414.16				
	Total Operating Expenses		<u>\$128,046,644.33</u>	<u>\$40,557,659.41</u>	<u>\$890,549.20</u>	<u>\$1,017,477.59</u>

For the year ended August 31, 2019

		Total Operating Expenses	Instruction	Research	Public Service	Academic Support
F I N A N C I A L R E P O R T	Salaries and Wages	\$ 43,461,982.77	\$22,984,832.89	\$494,719.42	\$431,840.68	\$3,498,468.39
	Payroll-Related Costs	24,068,187.00	13,374,508.17	143,276.99	159,137.62	1,917,271.62
	Professional Fees and Services	5,987,171.37	837,961.96	191,156.50	88,110.49	1,428,986.27
	Travel	2,072,633.92	861,413.85	76,741.48	19,035.89	328,229.36
	Materials and Supplies	8,796,943.47	714,671.25	181,541.12	251,122.07	934,638.60
	Communications and Utilities	2,519,057.74	71,500.12	548.93	6,310.60	38,876.71
	Repairs and Maintenance	3,814,624.50	121,712.16	5,709.51	49,300.06	1,953,667.36
	Rentals and Leases	1,302,193.69	77,047.80	3,813.88	166,358.16	827,551.15
	Printing and Reproduction	273,716.31	43,915.90	2,264.05	11,874.89	115,491.41
	Depreciation and Amortization	14,740,003.85				
	Bad Debt Expense	113,192.48				
	Interest	2,582.34				904.56
	Scholarships	12,698,325.18				
	Total Operating Expenses		<u>\$119,850,614.62</u>	<u>\$39,087,564.10</u>	<u>\$1,099,771.88</u>	<u>\$1,183,090.46</u>

Midwestern State University

Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2020

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operation & Maintenance</u>	<u>Scholarships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation</u>
\$ 6,543,888.46	\$5,138,058.49	\$3,260,001.98		\$1,260,129.12	
3,202,412.15	2,754,534.51	2,529,317.15		512,659.19	
1,778,160.84	(314,848.70)	275,007.96		1,419,376.12	
516,284.12	68,275.14	962.92		27,580.09	
989,241.96	931,313.97	1,175,393.98		3,399,303.11	
299,736.91	(117,404.57)	1,465,173.86		1,026,297.41	
182,090.65	663,826.76	(670,504.94)		1,184,122.83	
164,247.00	49,865.28	42,902.25		52,546.34	
206,637.50	(88,150.58)	953.45		8,982.64	
					\$17,517,761.99
322,760.70					
	278.20	8.82			
			\$16,161,414.16		
\$14,205,460.29	\$9,085,748.50	\$8,079,217.43	\$16,161,414.16	\$8,890,996.85	\$17,517,761.99

For the year ended August 31, 2019

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operation & Maintenance</u>	<u>Scholarships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation</u>
\$ 6,577,620.16	\$4,783,106.94	\$3,430,863.60		\$1,260,530.69	
3,106,054.89	2,411,944.44	2,480,952.23		475,041.04	
1,854,651.98	330,855.88	187,084.77		1,068,363.52	
617,878.16	132,738.68	2,974.66		33,621.84	
1,044,061.81	1,133,833.67	1,038,133.79		3,498,941.16	
318,768.56	(104,744.90)	1,102,457.12		1,085,340.60	
165,768.97	571,321.41	(251,930.16)		1,199,075.19	
174,480.55	46,231.72	44,998.55		(38,288.12)	
228,314.03	(146,329.93)	2,305.36		15,880.60	
					\$14,740,003.85
113,192.48					
166.45	174.20	1,337.13			
			\$12,698,325.18		
\$14,200,958.04	\$9,159,132.11	\$8,039,177.05	\$12,698,325.18	\$8,598,506.52	\$14,740,003.85

Midwestern State University

Statement of Cash Flows

For the Year Ended August 31, 2020

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	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 34,697,147.33	\$ 35,027,476.56
Proceeds Received for Sponsored Programs	7,312,554.01	8,534,650.81
Proceeds Received from Auxiliary Enterprises	11,203,567.90	13,781,327.94
Proceeds From Loan Programs	718.86	2,286.79
Proceeds From Other Revenues	1,704,630.99	6,654,128.24
Payments to Employees	(59,275,613.26)	(57,470,002.74)
Payments to Suppliers for Goods and Services	(27,627,662.15)	(20,796,872.43)
Payments for Scholarships	(16,840,584.72)	(13,337,119.67)
Payments for Interest	(320.60)	(2,582.34)
	<u>(48,825,561.64)</u>	<u>(27,606,706.84)</u>
Net Cash (Used) by Operating Activities		
Cash Flows from Noncapital Financing Activities:		
Proceeds from State Appropriations	27,030,365.18	25,553,278.60
Proceeds from Endowment Gifts	44,085.48	172,472.16
Proceeds from Gifts	4,085,666.32	4,265,547.10
Proceeds from Non-operating Grants	14,915,595.97	10,418,989.43
Transfers in from Other Funds	176,537.00	181,055.00
Transfers out to Other Funds	(1,325,736.49)	(1,320,160.50)
	<u>44,926,513.46</u>	<u>39,271,181.79</u>
Net Cash Provided by Non-capital Financing Activities		
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Capital Gifts	3,984,734.60	1,850,000.00
Proceeds from HEAF Appropriations	5,061,412.00	5,061,412.00
Proceeds From Interest on Capital Investments	119,955.18	305,714.66
Payments for Additions to Capital Assets	(12,758,232.70)	(32,157,674.79)
Principal Paid on Capital-Related Debt	(6,972,174.66)	(7,309,317.11)
Interest Paid on Capital-Related Debt	(4,957,977.76)	(5,159,052.66)
	<u>(15,522,283.34)</u>	<u>(37,408,917.90)</u>
Net Cash (Used) by Capital and Related Financing Activities		
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	4,484,512.40	2,334,756.02
Proceeds from Sales and Maturities of Investments	44,953,676.11	67,891,453.57
Payments to Acquire Investments	(31,282,472.64)	(44,113,157.04)
	<u>18,155,715.87</u>	<u>26,113,052.55</u>
Net Cash Provided by Investing Activities		
Increase (Decrease) in Cash and Cash Equivalents	(1,265,615.65)	368,609.60
Cash and Cash Equivalents, Beginning of Year	<u>8,973,109.49</u>	<u>8,604,499.89</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,707,493.84</u>	<u>\$ 8,973,109.49</u>

Midwestern State University

Statement of Cash Flows

For the Year Ended August 31, 2020

Reconciliation to Cash and Cash Equivalents as Displayed on the Statement of Net Position:

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash on Hand	\$ 16,150.00	\$ 16,750.00
Cash in Bank	1,003,352.78	1,819,383.25
Cash in State Treasury	3,326,408.09	2,886,801.81
Restricted:		
Cash in Bank	3,361,582.97	4,250,174.43
Cash and Cash Equivalents, End of Year	<u>\$ 7,707,493.84</u>	<u>\$ 8,973,109.49</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:

Operating (Loss)	\$(69,513,473.79)	\$(55,147,511.68)
Adjustments to Reconcile Operating Loss to Net Cash (Used) by Operating Activities:		
Amortization and Depreciation	17,517,761.99	14,740,003.85
Bad Debt Expense	322,760.70	113,192.48
Net Pension Expense Reported in Payroll-Related Costs & Professional Fees	1,757,848.00	1,024,900.00
Net OPEB Expense Reported in Payroll-Related Costs	9,251,173.00	8,765,669.00
Donations of Non-Capital Assets	1,752,727.79	1,732,449.13
(Increase) Decrease in Receivables	(1,815,452.44)	(146,491.43)
(Increase) Decrease in Inventories	28,330.14	7,180.73
(Increase) Decrease in Prepaid Expenses	(638,281.13)	(768,533.50)
Increase (Decrease) in Payables	(5,804,009.99)	2,162,924.56
Increase (Decrease) in Unearned Revenues	(1,799,099.01)	(556,741.17)
Increase (Decrease) in Compensated Absences Liability	154,015.53	245,503.59
Increase (Decrease) in Other Liabilities	(39,862.43)	220,747.60
Total Adjustments	<u>20,687,912.15</u>	<u>27,540,804.84</u>
Net Cash Used by Operating Activities	<u>\$(48,825,561.64)</u>	<u>\$(27,606,706.84)</u>
Non-Cash Transactions		
Net Increase (Decrease) in FMV of Investments	\$3,282,035.74	\$ (439,405.24)
Gain (Loss) on Asset Disposals	\$ (1,551.20)	\$ (11,481.80)
Donation of Capital Assets	\$ 25,000.00	\$4,657,312.81
Transfer In on Master Lease Purchase Program		\$ 348,472.65

Midwestern State University

Notes to the Financial Statements

For the Year Ended August 31, 2020

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Midwestern State University (MSU) is a public institution of higher education and is an agency of the State of Texas (the "State"). MSU is reported as one of six university systems and five independent universities that in total are presented as a major enterprise fund in the State's Comprehensive Annual Financial Report (CAFR).

MSU was established in 1922 and is located in Wichita Falls, Texas which is midway between Oklahoma City and the Dallas/Fort Worth Metroplex. The campus is comprised of 255 acres, 70 buildings, numerous playing fields, and an outdoor recreational facility near Sikes Lake. MSU is accredited by the Southern Association of Colleges and Schools Commission on Colleges.

MSU is governed by a nine-member Board of Regents (the "Board") appointed by the Governor of the State. In addition, a non-voting student regent is appointed annually to the Board.

Basis of Presentation

The financial statements of MSU have been prepared in accordance with the requirements established by the Comptroller of Public Accounts' Annual Financial Reporting Requirements. These requirements follow, as near as practicable, the generally accepted accounting principles in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The Comptroller's AFR Requirements are designed to assist the Texas Comptroller of Public Accounts in compiling and preparing the State's CAFR and, accordingly, have some untraditional elements, such as prohibition of rounding, unique ordering and specific numbering of footnotes, and the inclusion of footnote titles when the subject matter does not apply.

Within MSU's financial statements, no entities have been identified as meeting GASB's definition of component units, which are legally separate entities and, accordingly, none are included within the reporting entity.

The Midwestern State University Foundation (the "Foundation") is a separate legal entity registered with the IRS as a 501(c) organization and its efforts benefit MSU and its students. The Foundation is separately governed and operates autonomously from the Board, and its related activities are not included in MSU's or the State's financial statements. The Foundation solicits donations and acts as a coordinator of gifts made by other parties. The Foundation remitted restricted gifts of \$1,276,047 to MSU during the year ended August 31, 2020.

The Midwestern State University Charitable Trust (the Trust) is also a nonprofit organization with the sole purpose of supporting the educational and other activities of the university. Similar to the Foundation, the Trust is separately governed and operates autonomously from the Board, and its related activities are not included in MSU's or the State's financial statements. The Trust remitted restricted gifts of \$949,748 to MSU during the year ended August 31, 2020.

MSU follows the "business-type activities" reporting requirement of GASB Statement No. 34 that provides a comprehensive one-line look at MSU's financial activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting.

Basis of Accounting—Proprietary Fund Accounting

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial positions, and cash flows. The financial statements of MSU have been prepared on the accrual basis. Accrual accounting attempts to record a transaction's financial effects in the period in which the transaction occurred, rather than when cash is received or paid. Revenues are recorded when they are earned or when MSU has a right to receive the revenues. Expenses are recognized when they are incurred.

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Midwestern State University

Notes to the Financial Statements

For the Year Ended August 31, 2020

Proprietary funds use the flow of economic resources measurement focus, which is similar to the focus used by commercial entities. Proprietary funds focus on whether the enterprise is economically better off as a result of the events and transactions that occurred during the fiscal period reported. Transactions and events that improved an enterprise's financial position are reported as revenues or gains. Transactions and events that diminished the economic position of the enterprise are reported as expenses or losses. Both current and long-term assets and liabilities are shown on the Statement of Net Position.

The proprietary Statement of Revenues, Expenses, and Changes in Net Position is segregated into operating and non-operating sections. Generally, operating activities are those that directly result from the provision of goods and services to customers or are directly related to the principal and usual activity of an enterprise.

Since certain grants are actually contracts for services, they are classified as operating activities. Although loan activity would normally be classified as an investing activity, lending activities in a university are directly related to the principal and usual activity of the university, and are classified as operating activities.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents. Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes.

Investments

Investments are generally stated at fair value with certain exceptions in accordance with GASB Statement No. 72, *Fair Value Measurement and Application* (the "Standard"). The Standard defines an investment as a security or other asset that a government holds primarily for the purpose of income or profit. The present service capacity is based solely on the ability of the security or other asset to generate cash or to be sold to generate cash. Fair value is defined as the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date.

The Standard requires fair value to be measured in a manner consistent with one of three approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and relevant market information to measure fair value. The cost approach reflects the amount that would be required to replace the asset and its service capacity. The income approach converts future amounts, such as cash flows, into a single current amount. MSU primarily uses the market approach to value investments.

Measuring fair value requires gathering information, or inputs, about the asset or liability being measured. The fair value hierarchy categorizes the inputs used to measure fair value into three levels. Level 1 inputs are quoted prices in active markets for assets or liabilities identical to the ones being measured, Level 2 inputs are observable for similar assets or liabilities, and Level 3 inputs are unobservable inputs.

The notes to the financial statements disclose the input levels used to determine fair value, and also display the deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Restricted Assets

Restricted assets are those assets that have third-party restrictions or are restricted for specific uses by a contractual obligation. Restricted assets include donor-restricted funds and proceeds from bond issuances that can only be used for capital projects.

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost and utilize the last-in, first-out method.

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Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 1: Continued

Capital Assets

Property, plant, and equipment are recorded at cost or, if acquired by gift, at the fair market value as of the date of the acquisition. Capital assets are depreciated over the estimated useful life of the asset using the straight-line method based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system. Depreciation is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation expense is not allocated to functional categories for this Annual Financial Report. Depreciation is provided on physical properties on a straight-line basis over the estimated useful life of the asset. Intangible capital assets are defined as assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. These assets are required to be reported if they are identifiable. Intangible assets are amortized based on the estimated useful life of the asset using the straight-line method. Capitalization thresholds by type and estimated useful life utilized are as follows:

Type of Capital Asset	Capitalization Threshold	Range of Useful Life (in months)
Land and Land Improvements	\$0	0
Construction in Progress	\$0	0
Buildings and Building Improvements	\$100,000	120-360
Infrastructure, Depreciable	\$500,000	120-540
Infrastructure, Non-Depreciable	\$0	0
Facilities and Other Improvements	\$100,000	120-720
Furniture and Equipment	\$5,000	36-180
Vehicles, Boats, and Aircraft	\$5,000	60-120
Other Capital Assets	Various	0-180
Computer Software	Various	0-72
Other Intangible Capital Assets	\$100,000	0-120

Unearned Revenue

MSU records receivables when revenue is earned but not collected. Unearned revenue is recognized when cash is received prior to revenue recognition or when the earnings process is not yet complete and is considered a liability.

Funds Held for Others

Current balances in funds held for others result from MSU acting as an agent or fiduciary for other organizations.

Employees' Compensable Leave

Employees' Compensable Leave 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. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid.

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Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Deferred Outflows and Inflows of Resources

Deferred Outflows and Inflows of Resources are presented in separate sections on the Statement of Net Position. Deferred Outflows of Resources are defined as the consumption of net assets applicable to a future reporting period and have a positive effect on net position, similar to assets. Deferred Inflows of Resources are defined as acquisitions of net assets applicable to a future reporting period and have a negative effect on net position, similar to liabilities.

For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. The gain or loss is then amortized, using the straight line method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, on the Statement of Revenues, Expenses, and Changes in Net Position as a component of interest expense. Additional information is provided in Note 28.

Net Position

Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position is divided into three categories as described below.

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 bond, notes, and other debt that are attributed to the acquisition, construction, or improvements of those assets.

Restricted Net Position

Restricted net position represents amounts over which third parties have imposed restrictions that cannot be changed by the Board, including amounts that the Board has agreed to set aside under contractual agreements with third parties. Non-expendable restricted net position includes gifts that have been received for endowment purposes, the corpus of which cannot be expended. Restricted Net Position includes MSU's permanent endowments and donor-restricted funds.

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, which are imposed by management, but can be removed or modified.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2020, is presented below:

BUSINESS-TYPE ACTIVITIES	Balance 09/01/19	Adjustment	Reclassifications Completed CIP
<u>Non-depreciable or Non-amortizable Assets:</u>			
Land and Land Improvements	\$ 6,212,890.44		
Construction in Progress	13,635,554.22	\$(65,580.00)	\$(18,020,450.35)
Other Tangible Capital Assets	3,533,965.30		
Total Non-depreciable Assets or Non-amortizable Assets	<u>23,382,409.96</u>	<u>(65,580.00)</u>	<u>(18,020,450.35)</u>
<u>Depreciable Assets:</u>			
Buildings and Building Improvements	276,989,504.18		15,297,307.99
Infrastructure	13,351,147.45		
Facilities and Other Improvements	14,531,278.87		2,723,142.36
Furniture and Equipment	19,048,663.26		
Vehicles	1,724,394.81		
Other Capital Assets	11,332,819.00		
Total Depreciable Assets:	<u>336,977,807.57</u>	<u>0.00</u>	<u>18,020,450.35</u>
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(137,818,086.40)		
Infrastructure	(8,203,389.51)		
Facilities and Other Improvements	(6,694,369.67)		
Furniture and Equipment	(12,171,958.74)		
Vehicles	(1,265,521.86)		
Other Capital Assets	(9,830,834.23)		
Total Accumulated Depreciation	<u>(175,984,160.41)</u>	<u>0.00</u>	<u>0.00</u>
Depreciable Assets, Net	<u>160,993,647.16</u>	<u>0.00</u>	<u>18,020,450.35</u>
<u>Amortizable Assets - Intangible:</u>			
Computer Software	24,062,668.46		
Total Amortizable Assets - Intangible	24,062,668.46	0.00	0.00
Less Accumulated Amortization for:			
Computer Software	(14,199,923.08)		
Total Accumulated Amortization	<u>(14,199,923.08)</u>	<u>0.00</u>	<u>0.00</u>
Amortizable Assets - Intangible, Net	<u>9,862,745.38</u>	<u>0.00</u>	<u>0.00</u>
Business-Type Activities Capital Assets, Net	<u>\$194,238,802.50</u>	<u>\$(65,580.00)</u>	<u>\$ 0.00</u>

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Additions	Deletions	Balance 08/31/20
\$2,032,389.63		\$ 8,245,280.07
7,376,602.72		2,926,126.59
		3,533,965.30
<u>9,408,992.35</u>	<u>\$ 0.00</u>	<u>14,705,371.96</u>
2,442,465.44		294,729,277.61
		13,351,147.45
		17,254,421.23
811,052.17	(97,074.21)	19,762,641.22
	(26,392.87)	1,698,001.94
120,722.74	(88,997.00)	11,364,544.74
<u>3,374,240.35</u>	<u>(212,464.08)</u>	<u>358,160,034.19</u>
(11,905,486.23)		(149,723,572.63)
(473,423.89)		(8,676,813.40)
(653,472.64)		(7,347,842.31)
(1,423,387.89)	95,523.01	(13,499,823.62)
(131,935.58)	26,392.87	(1,371,064.57)
(230,893.12)	88,997.00	(9,972,730.35)
<u>(14,818,599.35)</u>	<u>210,912.88</u>	<u>(190,591,846.88)</u>
<u>(11,444,359.00)</u>	<u>(1,551.20)</u>	<u>167,568,187.31</u>
		24,062,668.46
0.00	0.00	24,062,668.46
(2,699,162.64)		(16,899,085.72)
<u>(2,699,162.64)</u>	<u>0.00</u>	<u>(16,899,085.72)</u>
(2,699,162.64)	0.00	7,163,582.74
<u>\$(4,734,529.29)</u>	<u>\$(1,551.20)</u>	<u>\$189,437,142.01</u>

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Notes to the Financial Statements For the Year Ended August 31, 2020

Note 3: Deposits, Investments, and Repurchase Agreements

Cash, cash equivalents, and investments include accounts in MSU's direct possession, held by State, and held by the Texas A&M University System (the A&M System). A summary of the balances and percentage of MSU's total holdings are as follows:

Direct Possession	\$27,305,076.46	35.49%
Held by State	3,326,408.09	4.33%
Total Unrestricted and Restricted Investments Held by the A&M System	<u>46,309,453.52</u>	60.18%
Total Holdings	<u>\$76,940,938.07</u>	100.0%

As noted in the holding table, \$46,309,454, which is 60.18% of MSU's entire investment holdings, is held by the A&M System under a contractual arrangement. The A&M System's annual financial statements provide required disclosures about the specific types of risk to which the deposits and investments are exposed.

Authorized Investments

MSU is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Governmental Code). Such investments include:

1. Obligations of the United States or its agencies,
2. Direct obligations of the State or its agencies,
3. Obligations of political subdivisions rated not less than 'A' by a national investment rating firm,
4. Certificates of deposit,
5. Investment pools managed by State universities exempt from this act (see additional disclosures), and
6. Other instruments and obligations authorized by statute.

MSU also employs an investment manager to manage the assets of its endowments which total \$10,683,383.37 and are invested under a separate investment policy that permits equities, as well as fixed income and alternative assets. Additionally, MSU contracts with the A&M System to manage MSU investments in the Texas A&M Cash Long-Term Concentration Pool (CCP), as well as the Texas A&M University System Endowment Fund (SEF). The fair value of investments in the Long-Term CCP and the SEF managed by Texas A&M University System at August 31, 2020 were \$29,512,265.30 and \$16,797,188.22, respectively. Additional information about these investments is disclosed separately on pages 37-43.

Carrying Amount of Deposits of Cash in Bank as of August 31

	<u>2020</u>	<u>2019</u>
Cash on Hand	\$ 16,150.00	\$ 16,750.00
Cash in Bank	4,364,935.75	6,069,557.68
Cash in State Treasury	<u>3,326,408.09</u>	<u>2,886,801.81</u>
Total Cash and Cash Equivalents	<u>\$7,707,493.84</u>	<u>\$8,973,109.49</u>

Carrying Amount of Cash Deposits as of August 31 by Balance Sheet Category

Current Assets—Cash and Cash Equivalents:

Cash on Hand	\$ 16,150.00	\$ 16,750.00
Cash in Bank	1,003,352.78	1,819,383.25
Cash in State Treasury	3,326,408.09	2,886,801.81

Current Assets—Restricted Cash and Cash Equivalents:

Cash in Bank	<u>3,361,582.97</u>	<u>4,250,174.43</u>
Total Cash and Cash Equivalents	<u>\$7,707,493.84</u>	<u>\$8,973,109.49</u>

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, MSU will not be able to recover deposits or will not be able to recover collateral securities in the possession of an outside party. MSU's policies and state statute require MSU's deposits be deposited into authorized commercial banks and savings and loan associations. State statutes also require that these financial institutions pledge securities as collateral to secure MSU deposits if they are not fully insured by FDIC.

MSU's bank balance at August 31, 2020 was \$5,248,069.95. \$250,000 of this amount was covered by FDIC Insurance, and \$4,998,069.95 was collateralized with securities pledged by the bank granting MSU a first priority security interest in the collateral which was held by the Bank of New York Mellon acting as custodian for MSU and the bank (as defined above). The value of securities pledged as collateral as of August 31, 2020 was reported by the custodian as \$9,535,703.12 or 190.79% of MSU's uninsured bank deposits.

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Notes to the Financial Statements For the Year Ended August 31, 2020

MSU also entered into a flexible repurchase agreement with Bayerische Landesbank (BLB) for investment of construction bond proceeds. The value of the investments at August 31, 2020 was \$2,517,396.05. Per the contract, Wells Fargo Bank acts as the third-party custodial agent for all purchased securities pledged as collateral in MSU's name. The value of the collateral must be no less than 102% of the value of the investments. Eligible securities are obligations of the United States of America or any agency or instrumentality of the United States of America that are wireable through the Federal Reserve System. The collateral market value at August 31, 2020 was \$2,762,045.48, or 109.63% of the value of the investments in the flexible repurchase agreement.

Fair Value of Investments as of August 31 by Investment Type	2020	2019
U.S. Government Agency Obligations	\$ 135,561.98	\$ 165,027.28
Corporate Bonds	2,307,761.23	3,126,522.60
Equities	8,121,904.11	6,619,444.13
Other Commingled Funds—Texas A&M System Investment Pool*	46,309,453.52	45,414,108.32
Other Commingled Funds—Texpool	2,040,945.95	3,017,029.64
Other Commingled Funds—LOGIC	2,551,699.89	4,470,898.52
Other Commingled Funds—Texas Class	2,562,411.37	2,529,871.05
Other Commingled Funds—American National Bank	1,052,654.50	2,024,775.07
Other Commingled Funds—First National Bank	1,053,961.58	2,022,535.25
Other Commingled Funds—Goldman Sachs	41,805.19	113,986.69
Flexible Repurchase Agreements	2,517,396.05	11,144,496.67
Alternative Investments (including hedge funds)	537,888.86	459,541.88
Total Investments	\$69,233,444.23	\$81,108,237.10

Fair Value of Investments as of August 31 by Balance Sheet Category		
Current Assets—Short-Term Investments	\$10,534,105.14	\$13,240,668.17
Current Assets—Restricted Short-Term Investments	2,559,208.29	113,986.69
Non-Current Assets—Restricted Investments	2,092,667.91	14,917,000.72
Non-Current Assets—Other Long-Term Investments	54,047,462.89	52,836,581.52
Total Investments	\$69,233,444.23	\$81,108,237.10

*See additional disclosures on pages 37-43 for investments managed by the Texas A&M University System.

Fair Value Hierarchy of Investments

MSU implemented GASB Statement No. 72, *Fair Value Measurement and Application* (the "Standard"), in fiscal year 2016. Investments have been presented, according to the hierarchy of inputs listed below, which are used to measure fair value:

- Level 1 has been assigned to investments for which quoted prices (unadjusted) are available for identical assets in active markets on the measurement date. These assets include equities (common stock, listed American Depositary Receipts, and listed preferred stock), exchange traded mutual funds, exchange traded options, money market funds, and U.S. Treasury securities.
- Level 2 has been assigned to investments for which there are inputs, other than quoted prices, that are observable for an asset or liability, either directly or indirectly. These assets include cash equivalents, collateralized mortgage obligations, corporate bonds, mortgage-backed securities, municipal bonds, non-exchange traded options, short-term obligations, and U.S. agency securities.
- Level 3 has been assigned to assets to which there are unobservable inputs. Examples of these assets are commingled funds and private equity technology partnerships.
- Net Asset Value (NAV) – MSU invests in certain private investments and limited partnerships including hedge funds, natural resources, private equity, venture capital, energy, and real estate. The fair value of these investments is based on the investment manager's determined NAV as allowed by the Standard. The valuations at the date provided by the investment manager have been adjusted by rolling forward to August 31, 2020 to include the following events: capital contributions or distributions since the investment manager's valuation date reported to MSU, changes in the composition of assets or liabilities reported by the investment manager since the valuation date of the NAV, and changes in fair value of assets or liabilities reported since the investment manager's valuation date. In the case of hedge funds, MSU has adjusted the reported July 31, 2020 NAV by the estimated performance as of August 31, 2020 as reported by the investment manager.

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

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Investment Type	Fair Value Hierarchy				Fair Value as of August 31, 2020
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	NAV	
U.S. Government Agency Obligations		\$ 135,561.98			\$ 135,561.98
Corporate Bonds		2,307,761.23			2,307,761.23
Equities	\$8,121,904.11				8,121,904.11
Other Commingled Funds -Texas A&M System Investment Pool*					46,309,453.52
Other Commingled Funds - Texpool				\$ 2,040,945.95	2,040,945.95
Other Commingled Funds - LOGIC				2,251,699.89	2,251,699.89
Other Commingled Funds -Texas Class				2,562,411.37	2,562,411.37
Other Commingled Funds - American National Bank	1,052,654.50				1,052,654.50
Other Commingled Funds - First National Bank	1,053,961.58				1,053,961.58
Other Commingled Funds - Goldman Sachs				41,805.19	41,805.19
Flexible Repurchase Agreements				2,517,396.05	2,517,396.05
Alternative Investments (including hedge funds)		461,538.00	\$76,350.86		537,888.86
Total Investments					\$69,233,444.23

*See additional disclosures on pages 37-43 for investments managed by the Texas A&M University System.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of August 31, 2020, MSU's credit quality distribution for securities with credit risk exposure was as follows:

Investment Type	AAA	AA	A	BBB
U.S. Government Agency Obligations (FNMA, FHLB, FFCB, FHLMC)	\$ 135,561.98			
Corporate Bonds		\$132,795.24	\$ 300,172.77	\$ 1,874,793.22
Commingled Funds—Texpool and LOGIC	7,155,057.21			

Investment Type	BB	B	Collateralized	Not Rated
Other Commingled Funds—Goldman Sachs				\$ 41,805.19
Flexible Repurchase Agreements			\$ 2,517,396.05	
Money Market—American National Bank			1,052,654.50	
Money Market—First National Bank			1,053,961.58	
Other Fixed Income Mutual Funds				
Equities				8,121,904.11
Alternative Investments (including hedge funds)				537,888.86

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2020, MSU's concentration of credit risk is immaterial to any single issuer.

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Notes to the Financial Statements For the Year Ended August 31, 2020

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weight, or the measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Modified duration estimates the sensitivity of MSU's investments to changes in interest rates.

MSU's investments exposed to interest rate risk as of August 31, 2020, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration</u>
U.S. Government Agency Obligations	\$ 135,561.98	2.92
Corporate Bonds	2,307,761.23	3.73

Texas A&M Investment Pool

The fair value of MSU's investments managed by the Texas A&M University System as of August 31, 2020 is presented below:

<u>Investment Type</u>	<u>LT CCP</u>	<u>SEF</u>	<u>Total Combined Fair Value</u>
U.S. Treasury Securities	\$ 1,574,369.44	\$ 292,445.07	\$ 1,866,814.51
U.S. Treasury TIPS	106,936.40	32,249.74	139,186.14
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.)	1,627,257.50	373,755.83	2,001,013.33
Corporate Obligations	2,783,644.55	831,931.72	3,615,576.27
Corporate Asset and Mortgage-Backed Securities	936,403.94	102,162.43	1,038,566.37
Equity (Domestic)	6,025,709.01	3,120,146.55	9,145,855.56
International Obligations (Govt and Corp)	1,729,661.06	410,327.27	2,139,988.33
International Equity	2,243,305.02	1,118,616.02	3,361,921.04
Fixed Income Money Market and Bond Mutual Funds	538,223.00	572,847.17	1,111,070.17
Mutual Funds—International Equity (registered with SEC)			
Other Commingled Funds—Fixed Income	431,895.68	262,657.69	694,553.37
International Other Commingled Funds—Equity	5,011,257.04	2,226,832.35	7,238,089.39
Derivatives	469.55	132.43	601.98
<u>Alternative Investments:</u>			
Hedge Funds—Domestic	3,351,738.56	1,326,749.20	4,678,487.76
Hedge Funds—International	3,058,813.58	1,299,990.48	4,358,804.06
Limited Partnerships—Private Equity		1,737,624.44	1,737,624.44
Limited Partnerships—International Private Equity		1,239,515.08	1,239,515.08
Limited Partnerships—Real Estate		377,952.21	377,952.21
Limited Partnerships—International Real Estate		141,558.84	141,558.84
Limited Partnerships—Natural Resources		1,226,101.62	1,226,101.62
Limited Partnerships—International Natural Resources		155,901.17	155,901.17
<u>Miscellaneous:</u>			
Political Subdivisions	71,805.81	16,840.57	88,646.38
Total Investments	\$29,491,490.14	\$16,866,337.88	\$46,357,828.02

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

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Investment Type	Fair Value Hierarchy					Fair Value as of August 31, 2020
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Amortized Cost	NAV	
U.S. Treasury Securities	\$1,866,814.51					\$ 1,866,814.51
U.S. Treasury TIPS	139,186.14					139,186.14
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.)		\$2,001,013.33				2,001,013.33
Corporate Obligations		3,436,720.76	\$ 178,855.51			3,615,576.27
Corporate Asset and Mortgage-Backed Securities		1,038,566.37				1,038,566.37
Equity (Domestic)	9,145,855.56					9,145,855.56
International Obligations (Govt and Corp)		2,096,290.54	43,697.79			2,139,988.33
International Equity	3,361,921.04					3,361,921.04
Fixed Income Money Market and Bond Mutual Funds	1,111,070.17					1,111,070.17
Mutual Funds—International Equity (registered with SEC)						
Other Commingled Funds—Fixed Income	466,750.46		227,802.91			694,553.37
International Other Commingled Funds—Equity	3,177,014.87		1,836,260.24		\$2,224,814.28	7,238,089.39
Derivatives		601.98				601.98
<u>Alternative Investments:</u>						
Hedge Funds—Domestic					4,678,487.76	4,678,487.76
Hedge Funds—International					4,358,804.06	4,358,804.06
Limited Partnerships—Private Equity					1,737,624.44	1,737,624.44
Limited Partnerships—International Private Equity					1,239,515.08	1,239,515.08
Limited Partnerships—Real Estate					377,952.21	377,952.21
Limited Partnerships—International Real Estate					141,558.84	141,558.84
Limited Partnerships—Natural Resources					1,226,101.62	1,226,101.62
Limited Partnerships—International Natural Resources					155,901.17	155,901.17
<u>Miscellaneous:</u>						
Political Subdivisions		88,646.38				88,646.38
Total Investments						\$46,357,828.02

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Notes to the Financial Statements

For the Year Ended August 31, 2020

Fair Value of Investments as of August 31, 2020 by Balance Sheet Category	LT CCP	SEF	Total
Foreign Currency presented as Cash	\$ 9,491.70	\$ 3,753.40	\$ 13,245.10
Foreign Currency Held as Collateral	478.57		478.57
Cash		254.82	254.82
Receivables:			
Other Receivable—Cash Due from Broker	3,560.04	871.17	4,431.21
Int/Dividends Receivable	66,386.84	22,460.01	88,846.85
Investment Trade Receivable—Foreign Currency Fluctuations	825.32	439.90	1,265.22
Investment Trade Receivable—FFX Contract Receivable	39,341.85	9,759.01	49,100.86
Investment Trade Receivable—Pending Sale	72,163.20	33,969.01	106,132.21
Other Receivable—Treasury Futures	3,153.19	865.91	4,019.10
Payables:			
Other Payable—Manager Fees	(14,218.84)	(8,148.94)	(22,367.78)
Other Payable— 4th quarter SEF distribution (payable from SEF pool)		(93,190.38)	(93,190.38)
Investment Trade Payable—Foreign Currency Fluctuations	(0.25)	(0.17)	(0.42)
Investment Trade Payable—FFX Contract Payable	(39,341.85)	(9,759.01)	(49,100.86)
Investment Trade Payable—Pending Purchase	(116,407.32)	(29,610.20)	(146,017.52)
Other Payable—Investment Derivative (Currency Forward) - Liability Position	(314.27)	(47.24)	(361.51)
Other Payable—Treasury Futures	(1,398.13)	(229.17)	(1,627.30)
Other Payables (Short Sell Collateral)	(478.57)		(478.57)
Other Payables (Negative Cash)	(2,330.68)	(482.14)	(2,812.82)
Other Payables (Foreign Taxes in Int & Div)	(132.24)	(55.68)	(187.92)
Rounding due to allocation	(3.40)	0.04	(3.36)
Total Cash and Accruals	20,775.16	(69,149.66)	(48,374.50)
Investments (detailed on page 37 and above by Investment Type)	29,491,490.14	16,866,337.88	46,357,828.02
Net Asset Value	\$29,512,265.30	\$16,797,188.22	\$46,309,453.52

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Notes to the Financial Statements

For the Year Ended August 31, 2020

The table below reflects the notification and liquidity parameters applicable to the CCP and SEF. MSU has elected to invest in both the CCP and the SEF. By agreement, MSU may withdraw funds from the CCP on the first day of each month with notice of at least one day. In the event of full liquidation, MSU may withdraw 33% with 30 days notice, 50% of remaining assets with 60 days notice and 100% of the remaining assets with 90 days notice. All withdrawals are effective on the first day of the following month. Investments in the SEF are not subject to withdrawal except in the event of termination of the agreement and full liquidation. The liquidation schedule for the SEF is 33% of the assets with notice of 90 days from the end of the current fiscal quarter, 50% of the remaining assets at the end of the second quarter after notice, and 100% of the remaining asset at the end of the third quarter after notice.

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Investments Reported at NAV		Redemption	
Investment Strategy	Fair Value	Frequency Range Low	Frequency Range High
Commingled Funds-International Equity	\$2,224,814.28	Monthly	Monthly
Hedge Funds - Domestic	4,678,487.76	Quarterly	Semi-annually
Hedge Funds - International	4,358,804.06	Quarterly	Semi-annually
Limited Partnerships - Private Equity	1,737,624.44	N/A	N/A
Limited Partnerships - International Private Equity	1,239,515.08	N/A	N/A
Limited Partnerships - Real Estate	377,952.21	N/A	N/A
Limited Partnerships - International Real Estate	141,558.84	N/A	N/A
Limited Partnerships - Natural Resources	1,226,101.62	N/A	N/A
Limited Partnerships - International Natural Resources	155,901.17	N/A	N/A

Investments Reported at NAV	Redemption		Unfunded
Investment Strategy	Notice Period Range Low	Notice Period Range High	Commitment
Commingled Funds-International Equity	3 days	10 days	
Hedge Funds - Domestic	65 days	2 years	
Hedge Funds - International	65 days	2 years	
Limited Partnerships - Private Equity	N/A	N/A	\$724,891.00
Limited Partnerships - International Private Equity	N/A	N/A	209,728.00
Limited Partnerships - Real Estate	N/A	N/A	354,602.00
Limited Partnerships - International Real Estate	N/A	N/A	83,613.00
Limited Partnerships - Natural Resources	N/A	N/A	640,663.00
Limited Partnerships - International Natural Resources	N/A	N/A	90,552.00

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 3: Continued

Investments Exposed to Credit Risk

Investment Type	AAA	AA	A	BBB	BB
U.S. Government Agency Obligations	\$ 6,435.57	\$1,843,887.89	\$ 18,983.65	\$ 7,677.26	\$ 11,420.67
Corporate Obligations	34,583.65	163,331.00	663,739.37	1,908,172.37	573,523.67
Corporate Asset and Mortgage-Backed Securities	266,938.30	250,954.38	25,311.81	50,946.59	
International Obligations	41,678.46	117,613.33	271,907.29	828,146.75	512,459.66
Fixed Income Money Market & Bond Mutual Fund	1,111,070.17				
Miscellaneous (Municipals and CDs)		45,270.10	25,182.52	18,193.76	

Investment Type	B	CCC	D	Not Rated
U.S. Government Agency Obligations	\$ 7,592.83			\$ 105,015.46
Corporate Obligations	210,075.57	\$ 4,692.32		57,458.32
Corporate Asset & Mortgage Backed Securities	3,776.04	15,009.51		425,629.74
International Obligations	84,782.94		\$7,633.46	275,766.44
Other Commingled Funds - Fixed Income				694,553.37

Investments Exposed to Foreign Currency Risk

Fund Type	GAAP Fund	Foreign Currency	International Obligation (Govt and Corp and MF)	International Equity	Equity Mutual Funds—International	Equity Commingled Funds—International
05	9999	U.S. Dollar Denominated Foreign Securities	\$1,975,686.46	\$1,545,346.09		\$7,238,089.39
05	9999	Argentina Peso	683.86			
05	9999	Australian Dollar				
05	9999	Brazil Real	58,498.54			
05	9999	British Pound Sterling		290,857.85		
05	9999	Canadian Dollar	28,333.76	34,727.45		
05	9999	Chinese Yuan	5,890.86			
05	9999	Danish Krone				
05	9999	Euro Currency Unit		674,111.09		
05	9999	Hong Kong Dollar		12,384.07		
05	9999	Indonesian Rupiah	15,997.29			
05	9999	Japanese Yen		396,782.67		
05	9999	Mexican Peso	54,897.56	22,394.95		
05	9999	New Taiwan Dollar				
05	9999	Singapore Dollar				
05	9999	South Korean Won		52,037.46		
05	9999	Swedish Krona		29,458.77		
05	9999	Swiss Franc		291,434.68		
05	9999	Thailand Baht		12,385.96		
05	9999	New Turkish Lira				
TOTAL			\$2,139,988.33	\$3,361,921.04		\$7,238,089.39

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Investments Exposed to Foreign Currency Risk (continued)

Fund Type	GAAP Fund	Foreign Currency	Alternative Investments			
			International Hedge Funds	International Other Private Equity	International Energy, Natural Resources	International Other Real Estate Funds
05	9999	U.S. Dollar Denominated Foreign Securities	\$4,358,804.06	\$ 1,101,229.09	\$155,901.17	\$141,558.84
05	9999	Euro Currency Unit		138,285.99		
TOTAL			\$4,358,804.06	\$1,239,515.08	\$155,901.17	\$141,558.84

Investments Exposed to Interest Rate Risk

Investment Types	Effective Duration	Unaccrued Market Value System Total
U.S. Treasury Securities	3.950	\$ 1,866,814.51
U.S. Treasury TIPS	22.293	139,186.14
U.S. Government Agency Obligations	1.655	2,001,013.33
Corporate Obligations	7.195	3,615,576.27
Corporate Asset and Mortgage-Backed Securities	2.066	1,038,566.37
International Obligations	5.024	2,139,988.33
Other Commingled Funds - Fixed Income	3.248	694,553.37
Miscellaneous (political subdivision and CDs)	9.848	88,646.38
Total Fair Value		\$11,584,344.70

Derivative Investing

MSU invests funds in the A&M System investment pools. The A&M System entered into forward currency contracts for the purpose of hedging international currency risk on its non-U.S. dollar denominated investment securities. When entering into a forward currency contract, the A&M System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the A&M System's net equity in the contracts, representing unrealized gain or loss on the contracts, as measured by the differences between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is reported on the Statement of Net Position as either an investment derivative or an investment derivative liability.

These investments involve market and/or credit risk in excess of the amount recognized in the consolidated Statement of Net Position. Risks arise from the possibility that counterparties will be unable to meet the terms of their contracts and from movement in currency, securities values, and interest rates. The table below summarizes MSU's share of the pending foreign exchange contracts as of August 31, 2020:

Foreign Exchange Contracts as of August 31, 2020

Currency	Sell	Buy	Unrealized Gain on Foreign Exchange Contract	Unrealized Loss on Foreign Exchange Contract
Brazilian Real	\$27,521.97		\$601.98	
Chinese R Yuan HK	6,071.09			\$161.16
Euro	592.79			1.09
Indonesian Rupiah	14,915.00			199.26
	\$49,100.85	\$0.00	\$601.98	\$361.51

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 3: Continued

MSU's share of the unrealized gains of the open foreign currency exchange contracts as of August 31, 2020 are shown as an investment derivative of \$601.98 and the unrealized losses are shown as a liability of \$361.51 on the Statement of Net Position. The foreign currency exchange contracts are traded over-the-counter and categorized as Level 2 in the fair value hierarchy.

The gross counterparty exposure related to MSU's share of these contracts as of August 31, 2020 is presented in the table below. The A&M System's policy does not address master netting arrangements, and the A&M System is not party to such an arrangement. The A&M System policy does not require collateral or other security for currency forward contracts.

Foreign Exchange Contract Exposure to Counterparty Risk as of August 31, 2020

Notional Assets	Notional Liabilities	Assets Fair Value as of August 31, 2020	Liabilities Fair Value as of August 31, 2020	S&P Counterparty Rating
\$ 592.79	\$ 593.87		\$ 1.09	AA-
48,508.06	48,266.51	\$601.98	360.42	A+
\$49,100.85	\$48,860.38	\$601.98	\$361.51	

The A&M System has also invested in Treasury futures. To mitigate interest rate risk associated with Treasury futures, the instruments are used only for the purpose of managing interest rate risk in the fixed income portfolios. Future contracts expose the A&M System to minimal counterparty risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees the futures against default; therefore, they are not presented in the table above. Future contracts are marked to market daily; meaning they are valued at the close of business each day and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the fair value of the futures contracts. Exchange traded futures contracts are categorized as Level 1 in the fair value hierarchy. The gains are shown as other receivables and the losses are shown as other liabilities in the Statement of Net Position as summarized in the table below:

Open Futures Contracts as of August 31, 2020	Notional Amount Long	Notional Amount Short	Assets Other Receivables	Liabilities Other Payables
Treasury Futures	\$1,922,719.20	\$1,072,502.76	\$4,019.10	\$1,627.30

Note 4: Short-Term Debt

Not Applicable

Note 5: Long-Term Liabilities

During the year ended August 31, 2020, the following changes occurred in Long-term Liabilities:

Business-Type Activities	Balance 09-01-19	Additions	Reductions	Balance 08-31-20	Amounts Due Within One Year
Revenue Bonds Payable	\$136,125,000.00	\$ 0.00	\$6,010,000.00	\$130,115,000.00	\$6,175,000.00
Unamortized Premium on Revenue Bonds	12,338,871.22	0.00	681,038.64	11,657,832.58	681,038.64
Subtotal	148,463,871.22	0.00	6,691,038.64	141,772,832.58	6,856,038.64
Compensable Leave	2,056,223.57	303,984.43	149,968.90	2,210,239.10	249,562.10
Total	<u>\$150,520,094.79</u>	<u>\$303,984.43</u>	<u>\$6,841,007.54</u>	<u>\$143,983,071.68</u>	<u>\$7,105,600.74</u>

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Employees' Compensable Leave

Benefit eligible staff and 12-month faculty members can 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 or her accrued leave forward from one fiscal year to another fiscal year with a maximum of hours up to 532 for those employees with thirty-five or more years of state service. A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, separation from state employment, or transfer to a position that no longer accrues vacation, provided the employee has had continuous employment with the state for six months. For proprietary fund types, an expense and liability are recorded as the benefits accrue to the employee. The liability is determined through the summarization of each employee's annual leave balance multiplied by their respective salary rate. The estimated cumulative amount of this liability is \$2,210,239.10. MSU made lump sum payments totaling \$149,968.90 for accrued vacation to employees who separated from state service during the fiscal year ended August 31, 2020 and payments of \$208,095.86 for August 31, 2019.

MSU has an undetermined and unrecorded liability for employees' earned sick leave. 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 absent 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 to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. MSU's policy is to recognize the cost of sick leave when paid. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Note 6: Bonded Indebtedness

Bonds Payable

General information related to bonds is summarized below and on the following pages:

Revenue and Refunding Bonds, Series 2007

- Issued by the Texas Public Finance Authority (TPFA) on behalf of the university. To pay for constructing, equipping, and furnishing a student recreation and health facility; improving, renovating, enlarging, and/or equipping Fowler Hall; improving, renovating, enlarging, and/or equipping D.L. Ligon Coliseum; and refunding a portion of the outstanding Revenue Refunding and Improvement Bonds, Series 1998.
- Issued August 1, 2007
- \$28,855,000; all bonds authorized have been issued.
- Revenue Bond
- Business-Type Activities
- Source of Revenue for Debt Service—Pledged Revenues, consisting of revenues, incomes, receipts, rentals, rates, charges, fees, and tuition levied or collected from any public or private source, including interest or other income from those funds and unrestricted fund and reserve balances available, but not including remissions, governmental appropriations and gifts, Higher Education Assistance Funds, grants and contracts, student service fees, and private gifts.
- \$17,595,000 of the 2007 Series was advance refunded in June 2015: \$14,085,000 of Series 2015A and \$3,510,000 of Series 2015B (see Series 2015A and 2015B).
- Changes in Debt: Principal paid during Fiscal Year—\$0; Outstanding at Year End—\$0.

Revenue and Refunding Bonds, Series 2008

- Issued by the Texas Public Finance Authority (TPFA) on behalf of the university. To pay for constructing, equipping, and furnishing an additional student housing facility; purchasing an existing student housing facility; improving, renovating, enlarging, and/or equipping D.L. Ligon Coliseum; constructing, equipping and furnishing an instrumental music facility.
- Issued July 1, 2009
- \$38,300,136; all bonds authorized have been issued.
- Revenue Bond
- Business-Type Activities
- Source of Revenue for Debt Service – Pledged Revenues consisting of unrestricted current funds revenues but do not include: remissions, governmental appropriations and gifts, Higher Education Assistance Funds, grants and contracts within the Educational and General Fund Group, student service fees, and private gifts in the Auxiliary Fund Group.
- \$28,175,000 of the 2008 Series was advance refunded in September 2016: \$17,545,000 of Series 2016A and \$10,630,000 of Series 2016B (see Series 2016A and 2016B).
- Changes in Debt: Principal paid during Fiscal Year—\$0; Outstanding at Year End—\$0.

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 6: Continued

Revenue Financing System Revenue Bonds, Series 2010

- Issued by the TPFA on behalf of MSU. To pay for improving, renovating, enlarging, and/or equipping MSU's existing D.L. Ligon Coliseum.
- Issued April 1, 2010
- \$6,700,000; all bonds authorized have been issued.
- Revenue Bond
- Business-Type Activities
- Source of Revenue for Debt Service – Pledged Revenues consisting of unrestricted current funds revenues, but do not include: remissions, governmental appropriations and gifts, Higher Education Assistance Funds, grants and contracts within the Educational and General Fund Group, student service fees, and private gifts in the Auxiliary Fund Group.
- \$4,860,000 of the 2010 Series was advance refunded in September 2016 (see Series 2016A).
- Changes in Debt: Principal paid during Fiscal Year—\$215,000; Outstanding at Year End—\$225,000.
- Range of Interest Rates: 4.00% - 5.00%

Revenue and Refunding Bonds, Series 2012A

- Issued by the TPFA on behalf of MSU. To finance the current refunding of \$4,600,000 of the MSU Building Revenue and Refunding Bonds, Series 2002, which were used to pay for campus improvements in heating, ventilating and air conditioning systems, chilled water distribution, street drainage and paving, and other projects including Americans with Disabilities Act (ADA) accessibility, elevator improvements, safety, and security lighting.
- Issued September 15, 2012
- \$4,710,000; all bonds authorized have been issued.
- Refunding Bond
- Business-Type Activities
- Source of Revenue for Debt Service – Pledged Revenues, consisting of unappropriated fund balances and unrestricted current funds revenues available, but not including remissions, governmental appropriations and gifts, Higher Education Assistance Funds, grants and contracts, student service fees, and private gifts.
- Changes in Debt: Principal paid during Fiscal Year—\$675,000; Outstanding at Year End—\$600,000.
- Range of Interest Rates: 2.00% - 2.25%

Revenue and Refunding Bonds, Series 2012B

- Issued by the TPFA on behalf of MSU. To finance advance refunding of \$4,945,000 of MSU Building Revenue and Refunding Bonds, Series 2003, which were used to pay for improving, enlarging, and/or equipping MSU residence halls, including fire safety improvements and other general modernization improvements.
- Issued September 15, 2012
- \$5,415,000; all bonds authorized have been issued.
- Refunding Bond
- Business-Type Activities
- Source of Revenue for Debt Service—Pledged Revenues, consisting of unappropriated fund balances and unrestricted current funds revenues available, but not including remissions, governmental appropriations and gifts, Higher Education Assistance Funds, grants and contracts, student service fees, and private gifts.
- Changes in Debt: Principal paid during Fiscal Year—\$550,000; Outstanding at Year End—\$2,965,000.
- Range of Interest Rates: 0.50%- 3.25%

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Revenue and Refunding Bonds, Series 2015A

- Issued by the TPFA on behalf of MSU. To finance the construction of a new 500-bed student dormitory and an addition to the Fain Fine Arts building to expand the Mass Communications program; the refunding of \$605,000 of the MSU Building Revenue and Refunding Bonds, Series 2003, which were used to pay for improving, enlarging, and/or equipping MSU residence halls, including fire safety and other general modernization improvements; the refunding of \$6,025,000 of the Series 2007 TRB portion; and the refunding of \$7,195,000 of the Series 2007 Non-TRB portion.
- Issued June 2, 2015
- \$53,335,000; all bonds authorized have been issued.
- Revenue and Refunding Bond
- Business-Type Activities
- The premium on the bonds will be amortized over the life of the debt using the straight-line method.
- Source of Revenue for Debt Service—Pledged Revenues, consisting of revenues, incomes, receipts, rentals, rates, charges, fees, and tuition levied or collected from any public or private source, including interest or other income from those funds and unrestricted fund and reserve balances available, but not including remissions, governmental appropriations and gifts, Higher Education Assistance Funds, grants and contracts, student service fees, and private gifts.
- Changes in Debt: Principal paid during Fiscal Year—\$880,000; Outstanding at Year End—\$50,405,000.
- Range of Interest Rates: 2.00% - 5.00%

Revenue and Refunding Bonds, Series 2015B

- Issued by the TPFA on behalf of MSU. To finance the refunding of \$1,710,000 of the Series 2007 TRB portion and \$2,045,000 of the Series 2007 Non-TRB portion.
- Issued June 2, 2015
- \$3,755,000; all bonds authorized have been issued.
- Revenue and Refunding Bond
- Business-Type Activities
- Source of Revenue for Debt Service—Pledged revenues, consisting of revenues, incomes, receipts, rentals, rates, charges, fees, and tuition levied or collected from any public or private source, including interest or other income from those funds and unrestricted fund and reserve balances available, but not including remissions, governmental appropriations and gifts, Higher Education Assistance Funds, grants and contracts, student service fees, and private gifts.
- Changes in Debt: Principal paid during Fiscal Year—\$460,000; Outstanding at Year End—\$640,000.
- Range of Interest Rates: 0.515%- 2.957%

Revenue and Refunding Bonds, Series 2016A

- Issued by the TPFA on behalf of MSU. \$58,400,000 of the proceeds from the sale of the Series 2016A Bonds will be used for the construction of the new 84,000 gross square foot Gunn Health Sciences and Human Services building with the consolidation of the previously separately housed Simulation Center; along with substantial renovations to Moffett Library; minor renovations and code improvements to Bridwell Hall, Bolin Hall, the Fain Fine Arts Center, and the Hardin Administration Building; the relocation of Information Technology to a more secure building on campus; and other essential electrical, infrastructural, HVAC, and ADA upgrades and improvements.
- Issued September 15, 2016
- \$70,135,000; Of the \$58,400,000 authorized, \$50,975,000 have been issued.
- Revenue and Refunding Bond
- Business-Type Activities
- The premium on the bonds is being amortized over the life of the debt using the straight-line method.
- The deferred outflow of resources resulting from the unamortized losses on refunding is being amortized over the life of the old debt per the requirements in GASB 65, *Items Previously Reported as Assets and Liabilities*.
- Source of Revenue for Debt Service—The additional debt service for these projects will be funded with tuition revenue bond retirement appropriations authorized by the 84th Texas Legislature.
- Changes in Debt: Principal paid during Fiscal Year—\$2,570,000; Outstanding at Year End—\$64,150,000.
- Range of Interest Rates: 2.00% - 5.00%

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 6: Continued

Revenue and Refunding Bonds, Series 2016B

- Issued by the TPFA on behalf of MSU. The entire proceeds of \$11,790,000 from the sale of Series 2016B revenue and refunding bonds were used to advance refund the remaining 2008 series revenue bonds on a taxable basis.
- Issued September 15, 2016
- \$11,790,000; all bonds authorized have been issued.
- Refunding Bond
- Business-Type Activities
- Source of Revenue for Debt Service—Pledged revenues, consisting of revenues, incomes, receipts, rentals, rates, charges, fees, and tuition levied or collected from any public or private source, including interest or other income from those funds and unrestricted fund and reserve balances available, but not including remissions, governmental appropriations and gifts, Higher Education Assistance Funds, grants and contracts, student service fees, and private gifts.
- Changes in Debt: Principal paid during Fiscal Year—\$660,000; Outstanding at Year End—\$11,130,000.
- Range of Interest Rates: 1.43% - 2.67%

Note 7: Derivative Instruments

MSU invests funds in the A&M System investment pools. The A&M System Investment Policy allows investment in certain derivative securities. A derivative security is a financial instrument which derives its value, in whole or part, from another security, currency, commodity, or index. The A&M System uses investment derivatives to manage risk in its portfolios. Forward contracts are used to manage transaction or currency exchange risk in purchasing, selling, or holding investments and Treasury futures are used to manage interest risk in fixed income portfolios.

The table below summarizes MSU's share of the A&M System's derivative activity as reported in the financial statements as of August 31, 2020.

Investment Derivatives	Changes in Fair Value		Fair Value as of 8/31/2019		Notional Amount
	Classification	Amount	Classification	Amount	
FX Contracts	Investment Revenue	\$ 601.98	Investment	\$ 601.98	\$ 27,521.97
FX Contracts	Investment Revenue	(361.52)	Other Payable	(361.52)	21,578.88
Treasury Futures—Long	Investment Revenue	1,899.67	Other Receivable	1,899.67	1,833,592.58
Treasury Futures—Long	Investment Revenue	(1,627.30)	Other Payable	(1,627.30)	89,126.62
Treasury Futures—Short	Investment Revenue	2,119.43	Other Receivable	2,119.43	(1,072,502.76)

Investment Derivatives

Investment Derivatives expose the A&M System to certain investment related risks. More detail about investment derivatives is disclosed in Note 3.

Hedging Derivatives

The A&M System did not enter into hedging derivatives in fiscal year 2020.

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 8: Leases

Capital Leases

MSU has no capital leases as of August 31, 2020.

Operating Leases

Future minimum lease rental payments under non-cancellable operating leases having an initial term in excess of one year are as follows:

Year	Total
2021	\$1,071,514.64
2022	1,060,279.62
2023	962,203.87
2024	776,923.84
2025	786,648.22
2026-2028	2,150,983.20
Total Future Minimum Lease Payments	\$6,808,553.39

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 9: Defined Benefit Pension Plans and Defined Contribution Plan

Eligible MSU personnel may participate through the A&M System in a defined benefit pension plan (the “TRS Plan”) administered by the Teacher Retirement System of Texas (TRS). Additionally, in lieu of participation in TRS, eligible MSU personnel may participate in the defined contribution plan—Optional Retirement Plan (ORP).

Teacher Retirement System Pension Plan

TRS is the administrator of the TRS Plan, a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation. The employers of the TRS Plan include the State, TRS and the State’s public schools, education service centers, charter schools, and community and junior colleges. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard workload and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the TRS Plan. Employees of TRS and State colleges, universities, and medical schools are members of the TRS Plan.

The TRS Plan provides retirement, disability annuities, and death and survivor benefits. The benefit and contribution provisions of the TRS Plan are authorized by state law and may be amended by the Legislature. The pension benefit formulas are based on members’ average annual compensation and years of service credit. The standard annuity is 2.3 percent of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005 and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The TRS Plan does not provide automatic cost-of-living adjustments (COLAs).

Audited Comprehensive Annual Financial Report (CAFR) for TRS may be obtained from their website at www.trs.state.tx.us and searching for financial reports.

During the measurement period of 2019 for fiscal 2020 reporting, the amount of MSU’s contributions recognized by the TRS Plan was \$1,095,087. 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:

TRS Plan Required Contribution Rates	
Employer	6.8%
Employees	7.7%

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure total pension liability as of the August 31, 2019 measurement date:

Actuarial Methods and Assumptions*	TRS Plan
Actuarial Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value
<u>Actuarial Assumptions:</u>	
Discount Rate	7.25%
Investment Rate of Return	7.25%
Long-term Expected Rate of Return	7.25%
Municipal Bond Rate as of August 2018	2.63%**
Inflation	2.30%
Salary Increase	3.05% to 9.05%, including inflation
<u>Mortality:</u>	
Active	90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality.
Post-Retirement	2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP.
Ad Hoc Postemployment Benefit Changes	None

*The assumptions used to determine the Actuarial Determined Contribution are those in effect for the Aug. 31, 2018 actuarial assumption. Due to the lag between valuation data and the measurement date, they may not be the same assumptions used to measure the Net Pension Liability.

**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.”

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 9: Continued

The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study for the three-year period ending August 31, 2017 and adopted July 2018. The mortality rates were based on 90% of the RP 2014 employee Mortality Tables for males and females. The post-retirement mortality rates were based on 2018 TRS Healthy Pensioner Mortality Tables.

The actuarial assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of Aug. 31, 2018, with a change in the following assumptions:

- The single discount rate as of Aug. 31, 2018 was a blended rate of 6.907%, change to the long-term rate of return of 7.25% as of Aug. 31, 2019; and,
- The enactment of Senate Bill 3 by the 2019 Legislature impacted future salaries by giving eligible active members a \$2,700 increase in fiscal year 2020 in addition to the salary increases expected.

There have been no changes to the benefit provisions of the TRS Plan since the prior measurement date.

The discount rate of 7.25% was applied to measure the total pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projected cash flows into and out of the TRS Plan assumed that members, employers, and non-employer contributing entities 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 TRS 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 TRS Plan investments was applied to all projected benefit payments to determine the total pension liability.

The long-term expected rate of return on TRS Plan investments was developed using a building-block method in which best estimate ranges of expected future real rates of return (net of 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.

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

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18.00%	6.40%
Non-U.S. Developed	13.00%	6.30%
Emerging Markets	9.00%	7.30%
Private Equity	14.00%	8.40%
Stable Value		
U.S. Treasury	16.00%	3.10%
Stable Value Hedge Funds	5.00%	4.50%
Real Return		
Real Assets	15.00%	8.50%
Energy, Natural Resources, and Infrastructure	6.00%	7.30%
Risk Parity		
Risk Parity	8.00%	5.80%/6.50%
Cash	2.00%	2.50%
Asset Allocation Leverage	-6.00%	2.70%
Total	100.00%	

Midwestern State University

Notes to the Financial Statements

For the Year Ended August 31, 2020

Sensitivity Analysis

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

1% Decrease in Discount Rate (6.25%)	Current Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
\$25,000,168.00	\$16,264,024.00	\$9,186,061.00

The TRS 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 TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the TRS 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 TRS Plan's investment policy, assets, and fiduciary net position may be obtained from TRS' fiscal 2019 CAFR.

At August 31, 2020, MSU reported a liability of \$16,264,024 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MSU's proportion at August 31, 2020 was 0.0312871 percent, which was an increase from the 0.0309725 percent on the prior measurement date. MSU's proportion of the collective net pension liability was based on its contributions to the TRS Plan relative to the contributions of all of the employers and non-employer contributing entities to the TRS Plan for the period September 1, 2018 through August 31, 2019.

For the year ending August 31, 2020, MSU recognized pension expense of \$3,028,518. At August 31, 2020, MSU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Inflows and Outflows Related to Pensions:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 68,323.00	\$ 564,713.00
Changes of assumptions	5,045,899.00	2,085,204.00
Net difference between projected and actual investment return	163,309.00	
Change in proportion and contribution difference	1,059,706.00	241,667.00
Contributions subsequent to the measurement date	1,256,068.00	
Total	\$7,593,305.00	\$2,891,584.00

The \$1,256,068 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2021. The other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31	Amount of Pension Expense to be Recognized
2021	\$ 630,869.00
2022	485,207.00
2023	1,078,944.00
2024	1,045,166.00
2025	348,477.00
Thereafter	(143,010.00)
Total	\$3,445,653.00

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 9: Continued

Optional Retirement Program

The State has established an ORP defined contribution plan for institutions of higher education which complies with Internal Revenue Code Section 403(b). Participation in ORP is in lieu of participation in the TRS Plan and is available to certain eligible employees. The ORP is authorized by the Texas Government Code, Chapter 830, and is administered by MSU, subject to policies, practices, and procedures developed by the Texas Higher Education Coordinating Board (THECB) to provide greater uniformity in the administration of the ORP. The ORP provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries provided by the State and by each participant enrolled in the ORP on or before August 31, 1995 are 8.5% and 6.65%, respectively. The 8.5% is composed of 6.6% contributed by the State and an additional 1.9% contributed by MSU. For participants who enrolled after September 1, 1995, State and participant contributions are 6.6%, and 6.65%, respectively. Because there are individual annuity contracts, the State has no additional or unfunded liability for the ORP, and MSU bears no responsibility for retirement commitments beyond contributions.

Additional information for the ORP is included in the ORP Participation Report Summary published annually by the THECB. The report can be obtained from: Statewide Coordinator, Optional Retirement Program, Texas Higher Education Coordinating Board, P.O. Box 12788, Austin, Texas 78711.

The contributions made to the ORP by the members and employer for the fiscal year ended August 31, 2020, compared to the previous year, are shown below:

	<u>Year Ended</u> <u>August 31, 2020</u>	<u>Year Ended</u> <u>August 31, 2019</u>
Member Contributions	\$1,067,305.66	\$1,035,072.67
Employer Contributions	1,120,725.32	1,095,872.47
Total Remittance	<u>\$2,188,030.98</u>	<u>\$2,130,945.14</u>

Note 10: Deferred Compensation

MSU employees may elect to defer a portion of their earnings for income tax and investment purposes, pursuant to authority granted in Texas Government Code, Sec 609.001.

The State's 457 Plan (the "457 Plan") complies with Internal Revenue Code, Section 457. The 457 Plan is referred to as the TexaSaver Deferred Compensation Plan and is available to all employees. Deductions, purchased investments, and earnings attributed to the 457 Plan are the property of the State and subject only to the claims of the State's general creditors. Participant rights under the 457 Plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 Plan account for each participant. The State has no liability under the 457 Plan, and it is unlikely that 457 Plan assets will be used to satisfy the claims of general creditors in the future.

MSU also administers a Tax-Deferred Account Program, created in accordance with Internal Revenue Code, Section 403(b). All eligible employees can participate. The Tax-Deferred Account Program is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of the Tax-Deferred Account Program do not belong to MSU, and thus it does not have a liability related to the Tax-Deferred Account Program.

Note 11: Postemployment Health Care and Life Insurance Benefits

Employees Retirement System Plan

Employees Retirement System (ERS) is the administrator of the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer defined Other Postemployment Benefits (OPEB) plan with a special funding situation. The 61 employers of SRHP include State agencies and universities, community and junior colleges, and other entities specified by the Legislature. Benefits are provided to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551.

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Notes to the Financial Statements For the Year Ended August 31, 2020

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 SRHP. Surviving spouses and dependents of retirees are also covered by the SRHP. The SRHP does not provide automatic COLAs.

ERS issued a stand-alone audited Comprehensive Annual Financial Report (CAFR). The CAFR for ERS may be obtained from their website at www.ers.texas.gov and searching for reports and studies.

During the measurement period of 2019 for fiscal 2020 reporting, the amount of MSU's contributions recognized by the SRHP were \$4,872,901.46. MSU 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:

Employer Contribution Rates Retiree Health and Basic Life Premium

Retiree Only	\$ 624.82
Retiree & Spouse	1,340.82
Retiree & Children	1,104.22
Retiree & Family	1,820.22

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, 2019 measurement date:

Actuarial Methods and Assumptions	SRHP
Actuarial Valuation Date	August 31, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
<u>Actuarial Assumptions:</u>	
Discount Rate	2.97%*
Inflation	2.50%
Salary Increase	2.50% to 9.50%, including inflation
Healthcare Cost and Trend Rate	
HealthSelect	7.30% for FY 2021, 7.40% for FY 2022, 7.00% for FY 2023, decrease 0.50% per year to an ultimate rate of 4.50% for FY 2028 and later years
HealthSelect Medicare Advantage	10.80% for FY 2021, 7.40% for FY 2022, 7.00% for FY 2023, decrease 0.50% per year to an ultimate rate of 4.50% for FY 2028 and later years
Aggregate Payroll Growth	3.00%
Retirement Age	Experience-based tables of rates that are specific to the class of employee
<u>Mortality:</u>	
State Agency Members	
Service Retirees, Survivors, and Other Inactive Members	2017 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 2017
Disabled Retirees	RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014
Active Members	RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014

*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.

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 11—Continued

Mortality:

Higher Education Members	
Service Retirees, Survivors, and Other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
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 RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014
Ad Hoc Postemployment Benefit Changes	None

The many actuarial assumptions used in the valuation were primarily based on the result of actuarial experience studies performed by the ERS and TRS Plan actuaries for the period Sept. 1, 2011 to Aug. 31, 2016 for state agency members and for the period Sept. 1, 2010 to Aug. 31, 2017 for higher education members. The mortality rates were based on the tables identified in the table on the previous page and above titled *Actuarial Methods and Assumptions*.

The following assumptions and other inputs have been adopted since the prior valuation to reflect plan experience and trends as expected by ERS and the actuaries attesting to the results of the valuation:

- A. Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution, and expense trends have been updated to reflect recent experience and its effects on our short-term expectations
- B. 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 SRHP at the earliest date at which coverage can commence;
- C. Percentage of future male retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends;
- D. Percentage of future retirees and their spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends; and,
- E. Discount rate assumption was increased from 3.96% to 2.97% 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.

The only benefit revisions that have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect plans in order to remain consistent with Internal Revenue Service maximums.

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 2.97% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 3.96%. Projected cash flows into the SRHP are equal to projected benefit payments out of the SRHP. As the SRHP operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term expected rate of return. ERS' board of trustees adopted an amendment to the investment policy in August 2017 to require that all funds in the SRHP be invested in short-term fixed income securities and specify that the expected rate of return on these investments be at least 2.4%. The investment rate of return used to calculate the projected earnings on OPEB plan investments was 3.96%.

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

Sensitivity of Midwestern State University's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate (\$ thousands)		
1% Decrease (2.96%)	Current Discount Rate (3.96%)	1% Increase (4.96%)
\$67,824.00	\$56,837.00	\$48,383.00

Midwestern State University

Notes to the Financial Statements

For the Year Ended August 31, 2020

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

Sensitivity of Midwestern State University's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (\$ thousands)		
1% Decrease (6.30/9.80% decreasing to 3.50%)	Current Healthcare Cost Trend Rates (7.30/10.80% decreasing to 4.50%)	1% Increase (8.30/11.80% decreasing to 5.50%)
\$47,725.00	\$56,837.00	\$68,743.00

The OPEB plan's fiduciary net position is determined using economic resources measurement focus and 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 with the terms of the SRHP. 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 SRHP's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2019 CAFR.

At August 31, 2020, MSU reported a liability of \$56,836,722.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of August 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actual valuation as of that date. MSU's proportion at August 31, 2020 was 0.16444538 percent, an increase of 0.00513978 percent over the prior year. MSU'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 contributions to the SRHP for the period September 1, 2018 through August 31, 2019.

For the year ending August 31, 2020, MSU recognized OPEB expense of \$9,567,666.00. At August 31, 2020, MSU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Inflows and Outflows Related to OPEB:	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience		\$ 1,478,940.00
Changes of assumptions	\$ 4,044,767.00	12,700,852.00
Net difference between projected & actual investment return	23,367.00	
Effect of change in proportion and contribution difference	34,471,558.00	
Contributions subsequent to the measurement date	316,493.00	
Total	\$38,856,185.00	\$14,179,792.00

The \$316,493.00 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, 2021.

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

Year Ended August 31	Amount of OPEB Expense to Be Recognized
2021	\$5,579,425.00
2022	5,579,425.00
2023	7,137,833.00
2024	5,482,787.00
2025	580,430.00
Thereafter	0.00

Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 12: Interfund Activity and Transactions

University transactions with other state agencies are as follows:

Name of State Agency, Agency Number	Interfund Receivable	Interfund Payable	Purpose
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Interfund Receivables and Payables—Current:

State Energy Conservation Office, 907		<u>\$142,685.32</u>	
D23 Fund 7999		<u>\$142,685.32</u>	SECO Federal Revolving Loan

Interfund Receivables and Payables—Non-Current:

State Energy Conservation Office, 907		<u>\$0.00</u>	
D23 Fund 7999		<u>\$0.00</u>	SECO Federal Revolving Loan

Due to/Due From:	Due From Other Agencies	Due To Other Agencies	Purpose
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Texas Tech University Health Sciences Center, 739			West Texas Area Health Education Center
D23 Fund 7999	\$ 6,708.33		
Texas Tech University, 733			Small Business Development Center
D23 Fund 7999	<u>15,704.25</u>		
Total Due To/Due From	<u>\$22,412.58</u>		

Operating Transfers:	Transfer In	Transfer Out
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Texas Higher Education Coordinating Board, 781			Dental Hygiene Degree or Certificate Program
D23 Fund 7999		\$ 1,400.00	
Texas Public Finance Authority, 347			Master Lease Purchase Transfers
D23 Fund 7999		1,324,336.49	
Texas State Comptroller's Office, 902			Hazlewood Exemption Program
D23 Fund 0210	<u>\$65,347.00</u>		
Total Transfers	<u>\$65,347.00</u>	<u>\$1,325,736.49</u>	

Legislative Transfers:	Transfer In	Transfer Out
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Texas State Comptroller's Office, 902			Hazlewood Reimbursement-TVC
D23 Fund 0001	<u>\$111,190.00</u>		
Total Transfers	<u>\$111,190.00</u>		

Note 13: Continuance Subject to Review

Not Applicable to colleges and universities (Texas Sunset Act).

ANNUAL FINANCIAL REPORT

Midwestern State University

Notes to the Financial Statements

For the Year Ended August 31, 2020

Note 14: Adjustments to Fund Balance/Net Position

In fiscal year 2019, items related to buildings were capitalized and recorded in construction in progress based on the assumption that the total project costs would exceed the capitalization threshold of \$100,000. The project was completed in fiscal year 2020, but the project costs totaled only \$65,580. Therefore, an adjustment to beginning net position was made to reflect the amount expensed in a prior year. The adjustment of \$65,580 was made to the fiscal year 2020 balances in Construction in Progress and Net Investment in Capital Assets. The adjustment is also reflected in Note 2, Capital Assets, within the adjustments column.

Note 15: Contingencies and Commitments

Claims and Judgements

At August 31, 2020, various lawsuits and claims involving MSU were pending. While the ultimate liability with respect to litigation and claims asserted 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 MSU's financial statements.

Federal Assistance

MSU has received several federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grants. Based on prior experience, management believes such disallowances, if any, will be immaterial.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. MSU monitors its investments to restrict earnings to a yield of less than the bond issue and, therefore, limits any arbitrage liability. MSU estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition. Consistent with the A&M System's and MSU's reporting of bonds at the system level, any arbitrage liability would be reported by the A&M System's and not MSU.

Construction Commitments

MSU continues to implement capital improvements to upgrade facilities. The outstanding capital commitments for the construction and renovation of various facilities are \$5 million. These projects are in various stages of completion.

Investments Funds

A&M System participates in private investment pools in which MSU has a proportional interest. Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity transactions. These investments, both domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain funds may utilize credit default swaps that have additional risk, including the risk of counterparty nonperformance. Collateral in the form of cash or securities may be required to be held in segregated accounts with the fund's custodian. Bi-lateral agreements and daily settlement with counterparties reduce the risk of counterparty nonperformance. Additional details regarding A&M System's private investment pool can be found in its financial statements.

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Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

Note 16: Subsequent Events

There were no material events that occurred subsequent to August 31, 2020.

Note 17: Risk Management

MSU is exposed to various risks of loss related to property—fire, windstorm, or other loss of capital assets; general and employer liability resulting from alleged wrongdoings by employees and others; net income—due to fraud, theft, administrative errors or omissions, and business interruptions; and personnel—unexpected expense associated with employee health, termination, or death. As an agency of the State, MSU and its employees are covered by various immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against MSU or its employees.

It is MSU's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. Currently, there is no purchase of commercial general liability insurance for MSU. MSU participates in the statewide property insurance program and purchases educators legal liability insurance. MSU also purchases Directors' and Officers' Liability insurance through the State Office of Risk Management. This coverage protects insured directors and officers against claims involving allegations of wrongful acts occurring while in their capacity as directors and officers. Coverage also extends to employees and includes Employment Practices Liability claims for harassment, discrimination, wrongful termination, retaliation, etc.

MSU's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. At August 31, 2020, there were no known claim liabilities.

The State provides coverage for workers' compensation and unemployment benefits from appropriations made to other state agencies for MSU employees. MSU was assessed \$93,242.29 and \$102,072.10 for workers' compensation coverage for fiscal years ending August 31, 2020 and 2019, respectively. Unemployment compensation is funded on a pay-as-you-go method, with the State contributing half of the cost of benefits and MSU contributing the other half for employees paid by State appropriated funds. MSU must pay 100% of the cost of benefits for employees paid from local funds.

The Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a state highway be insured for minimum limits of liability in the amount of \$30,000/\$60,000 bodily injury and \$25,000 property damage. However, MSU has chosen to carry liability insurance on its licensed vehicles in the amount of \$250,000/\$500,000/\$100,000 with a combined single limit of \$1,000,000 if the Texas Tort Claims Act is not applicable.

Note 18: Management's Discussion and Analysis

Management's Discussion and Analysis is included in the section prior to the financial statements.

Note 19: The Financial Reporting Entity

MSU is an agency of the State of Texas. The ten members of its Board of Regents are appointed by the Governor, and include one non-voting student Regent. MSU has no component units or joint ventures.

Note 20: Stewardship, Compliance, and Accountability

Note 1, *Summary of Significant Accounting Policies*, discusses the generally accepted accounting principles upon which the financial statements are based. The University had no violations of bond or note covenants. Per State law, the University cannot spend amounts in excess of appropriations granted by the Texas Legislature. There are no deficits reported in net position.

Note 21: Undefined by the Texas Comptroller

Reserved for future use by the Texas Comptroller.

Note 22: Donor Restricted Endowments

MSU is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Property Code Chapter 163. UPMIFA allows MSU to distribute net appreciation on donor restricted endowment investments to the extent prudent. This includes cumulative realized and unrealized appreciation in the fair market value of the endowment assets in excess of historical dollar value of the gifts.

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Midwestern State University

Notes to the Financial Statements For the Year Ended August 31, 2020

MSU endowments are invested to preserve principal while providing income and growth. Annual distributions from the earnings and cumulative net appreciation are made to fund scholarships, professorships, and other uses as stipulated by the donors. The administration reviews the total return on endowment accounts and recommends an annual distribution. MSU's spending policy provides for a target distribution rate between 3% and 5% annually.

For the fiscal year ended August 31, 2020, the net appreciation on investments of donor restricted endowments available for authorization of expenditure, after distributions, is as follows:

<u>Donor-Restricted Endowment</u>	<u>Amounts of Net Appreciation</u>	<u>Reported in Net Position</u>
True Endowments	None	Restricted for Nonexpendable
Term Endowments	\$1,535,643.35	Restricted for Nonexpendable
True Endowments	None	Restricted for Expendable

Note 23: Extraordinary and Special Items

Not Applicable.

Note 24: Disaggregation of Receivable and Payable Balances

Accounts Receivables

The components of Other Receivables, as reported in the Statement of Net Position, are as follows:

<u>Accounts Receivable Category</u>	<u>Current Amount</u>
3rd Party Contracts on Student Receivables	\$2,955,763.10
Follett Bookstore Receivable	14,058.22
Vending Commission Accruals	453.94
Employee Travel Advances	4,959.05
Employee Payroll Advances	4,043.27
Other Grants and Contracts Receivable	56,529.98
Endowment Distribution Receivable	262,425.12
DFW Shared Lease Receivable	110,205.66
Other Vendor Receivables	9,336.22
	<u>\$3,417,774.56</u>

Of these amounts, there are no significant receivables balances that MSU does not expect to collect within the next fiscal year.

Note 25: Termination Benefits

Not Applicable.

Note 26: Segment Information

Not Applicable.

Note 27: Service Concession Arrangements

Not Applicable.

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Notes to the Financial Statements

For the Year Ended August 31, 2020

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred Inflows and Outflows Related to Pensions:		
Difference between expected and actual experience	\$ 68,323.00	\$ 564,713.00
Changes of assumptions	5,045,899.00	2,085,204.00
Net difference between projected and actual investment return	163,309.00	
Change in proportion and contribution difference	1,059,706.00	241,667.00
Contributions subsequent to the measurement date	1,256,068.00	
Deferred Inflows and Outflows Related to OPEB:		
Difference between expected and actual experience		1,478,940.00
Changes of assumptions	4,044,767.00	12,700,852.00
Net difference between projected and actual investment return	23,367.00	
Effect of change in proportion and contribution difference	34,471,558.00	
Contributions subsequent to the measurement date	316,493.00	
Unamortized Loss on Debt Refunding	2,729,924.14	
Total	\$49,179,414.14	\$17,071,376.00

The \$1,256,068.00 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2021.

The \$316,493.00 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, 2021.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31st	Amount of Pension Expense to Be Recognized
2021	\$ 630,869.00
2022	485,207.00
2023	1,078,944.00
2024	1,045,166.00
2025	348,477.00
Thereafter	(143,010.00)
Total	\$3,445,653.00

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended August 31st	Amount of OPEB Expense to Be Recognized
2021	\$ 5,579,425.00
2022	5,579,425.00
2023	7,137,833.00
2024	5,482,787.00
2025	580,430.00
Thereafter	0.00
Total	\$24,359,900.00

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Notes to the Financial Statements

For the Year Ended August 31, 2020

The ending balance of \$2,729,924.14 in deferred outflows of resources was related to unamortized losses on refunding debt. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows, depending on whether the net result is a gain or loss. The deferred amount is then amortized over the life of the new debt or the life of the old debt, whichever is shorter. In this case, the deferred outflow will be amortized using the straight line method over the life of the old debt. The annual amortization expense will be \$194,994.58, and the deferred outflow will be fully amortized in fiscal year 2034.

Note 29: Troubled Debt Restructuring

Not Applicable.

Note 30: Non-Exchange Financial Guarantees

Not Applicable.

Note 31: Tax Abatements

Not Applicable.

Note 32: Fund Balance

Not Applicable.

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Midwestern State University

Unaudited

Schedule 1A - Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2020, with Comparative Totals for the Year Ended August 31, 2019

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	CFDA Number	ID #	Univ/ Agy #	Pass-Through From		
				Agency Amount	University Amount	Non-State Entities Amount
<u>U.S. Department of Education</u>						
COVID-19—Education Stabilization Fund	84.425					
Totals—U.S. Department of Education						
<u>Institute of Museum and Library Services</u>						
Pass-Through From:						
Grants to States						
Texas State Library and Archives Commission (TSLAC)	45.310		306	\$2,232.00		
<u>Small Business Administration</u>						
Pass-Through From:						
TTU-Small Business Development Center	59.037		733		\$110,990.83	
<u>National Science Foundation</u>						
Education and Human Resources	47.076					
<u>U.S. Department of Health and Human Services</u>						
Advanced Nursing Education Grant Program	93.247					
Trans-NIH Research Support	93.310					
Pass-Through From:						
Texas Tech University Health Sciences Center	93.107		739	210,060.56		
Totals—U.S. Department of Health and Human Services				210,060.56		
Research & Development Cluster						
<u>U.S. Department of Health and Human Services</u>						
Drug Abuse and Addiction Research Programs	93.279					
<u>U.S. Department of the Interior</u>						
National Land Remote Sensing Education Outreach & Research	15.815					
Student Financial Assistance Cluster						
<u>U.S. Department of Education</u>						
Direct Programs:						
Federal Supplemental Education Opportunity Grants	84.007					
Federal Work-Study Program	84.033					
Federal Pell Grant Program	84.063					
Federal Direct Student Loans	84.268					
Teacher Education Assistance for College & HE Grants (TEACH)	84.379					
Total Student Financial Assistance Cluster Programs						
TRIO Cluster						
<u>U.S. Department of Education</u>						
Direct Programs						
TRIO—Student Support Services	84.042					
Total Federal Financial Assistance				\$212,292.56	\$110,990.83	

Midwestern State University

Direct Program	Total of Pass-Through From & Direct Program	Pass-Through To		Expenditures	2020	2019
		Agency or Univ Amount	Non-State Entities Amount		Total PT To and Expenditures Amount	Total PT To and Expenditures Amount
\$ 4,255,857.79	\$ 4,255,857.79			\$ 4,255,857.79	\$ 4,255,857.79	
4,255,857.79	4,255,857.79			4,255,857.79	4,255,857.79	
	2,232.00			2,232.00	2,232.00	\$ 1,272.33
	110,990.83			110,990.83	110,990.83	128,229.99
290,152.84	290,152.84			290,152.84	290,152.84	387,152.51
610,334.41	610,334.41			610,334.41	610,334.41	802,056.54
6,459.46	6,459.46			6,459.46	6,459.46	0.00
	210,060.56			210,060.56	210,060.56	1,116.77
616,793.87	826,854.43			826,854.43	826,854.43	803,173.31
						4,889.19
10,981.12	10,981.12			10,981.12	10,981.12	21,963.47
212,566.00	212,566.00			212,566.00	212,566.00	225,147.00
170,352.78	170,352.78			170,352.78	170,352.78	136,467.75
10,657,506.18	10,657,506.18			10,657,506.18	10,657,506.18	10,412,717.10
29,429,723.00	29,429,723.00			29,429,723.00	29,429,723.00	30,380,055.00
73,337.00	73,337.00			73,337.00	73,337.00	188,502.00
40,543,484.96	40,543,484.96			40,543,484.96	40,543,484.96	41,342,888.85
276,020.69	276,020.69			276,020.69	276,020.69	237,419.63
\$45,993,291.27	\$46,316,574.66			\$46,316,574.66	\$46,316,574.66	\$42,926,989.28

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Note 1: Nonmonetary Assistance

Not Applicable

Note 2: Reconciliation

08/31/2020

Federal Revenues—Per Exhibit II		
Federal Grant Revenue—Operating		\$ 1,650,204.30
Federal Grant Revenue—Non-Operating		14,913,363.97
Federal Pass-through Revenue—Operating		321,051.39
Federal Pass-through Revenue—Non-Operating		<u>2,232.00</u>
Total Federal Revenues		16,886,851.66
Reconciling Items: New Loans Processed		
Federal Direct Student Loans Processed		<u>29,429,723.00</u>
		<u>\$46,316,574.66</u>

Note 3a: Student Loans Processed and Administrative Costs Recovered

	Beginning Balance of Outstanding Loans as of 8/31/19	New Loans Processed, does not include Admin Cost Recovered	CY Admin Cost Recovered, includes PYs only if applicable
<u>Federal Grantor/CFDA Number/Program Name</u>			
U.S. Department of Education			
84.038 Federal Perkins Loan Program			
84.268 Federal Direct Student Loans Program		<u>\$29,429,723.00</u>	
Total Department of Education		<u>\$29,429,723.00</u>	
	Total Loans Processed & Admin Cost Recovered (from Schedule)	Repayment/ Adjustment Activity (PY + CY)	Outstanding Balance of Loans as of 8/31/20, includes all FYs
<u>Federal Grantor/CFDA Number/Program Name</u>			
U.S. Department of Education			
84.038 Federal Perkins Loan Program			
84.268 Federal Direct Student Loans Program	<u>\$29,429,723.00</u>	<u>\$29,429,723.00</u>	
Total Department of Education	<u>\$29,429,723.00</u>	<u>\$29,429,723.00</u>	

Note 5: Unemployment Insurance

Not Applicable

Note 6: Rebates from the Special Supplemental Food Program for Women, Infants, and Children (WIC)

Not Applicable

Note 7: Federal Deferred Revenue

Not Applicable

Note 8: Disaster Grants—Public Assistance

Not Applicable

Note 9: Economic Adjustment Assistance

Not Applicable

Note 10 - 10% de Minimis Indirect Cost Rate

The university does not elect to use the 10% de minimis indirect cost rate because it has a predetermined rate of 50% of direct salaries and wages including all fringe benefits on grants, contracts and other agreements with the Federal Government that was negotiated with the Department of Health and Human Services in 2018, which extends through August 31, 2022. The university will be submitting a new rate proposal in February of 2022. The 50% rate will become provisional on September 1, 2022 until August 31, 2024 or until a new rate is negotiated.

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Schedule 1B - Schedule of State Grant Pass-Through From/To State Agencies For the Years Ended August 31

<u>Operating Revenue:</u>	2020	2019
Pass-Through From:		
UT System (Agy #720)		
Joint Admission Medical Program (JAMP)	\$ 7,334.39	\$ 7,820.38
Texas State Board of Public Accountancy (Agy #457)		
Fifth Year Accounting Student Scholarship Program	5,786.00	
Office of the Governor (Agy #300)		
National Incident Based Reporting System (NIBRS)		86,136.10
Texas Military Department (TMD-Agy #401)	33,866.86	24,943.87
Texas Higher Education Coordinating Board (Agy #781)		
College Work Study Program	31,841.72	35,540.47
Strategic Planning and Funding		
Professional Nursing Shortage Reduction Program		46,141.46
TEXAS Grant Program	4,425,788.00	4,122,372.00
Top 10% Scholarships		
Total Operating Pass-Through Revenue (Exhibit II)	\$4,504,616.97	\$4,322,954.28
Pass-Through To:		
None		
<u>Non-Operating Revenue:</u>		
Pass-Through From:		
Texas Commission on the Arts (TCA—Agy #813)		\$5,000.00
Arts Create		
Pass-Through To:		
None		

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Midwestern State University
Schedule 2A - Miscellaneous Bond Information
For the Fiscal Year Ended August 31, 2020

Business Type Activities

Description of Issue	Bonds Issued To Date	Range of Interest Rates	Scheduled Maturities		First Call Date
			First Year	Last Year	
Revenue Bonds:					
Revenue and Refunding Bonds:					
Series 2007	\$ 28,855,000.00	4.00% - 4.625%	2008	2032	12-01-16
Revenue and Refunding Bonds:					
Series 2008	38,635,346.92	3.00% - 5.25%	2008	2034	12-01-18
Revenue Bonds:					
Series 2010	6,700,000.00	4.00% - 5.00%	2012	2036	12-01-20
Revenue and Refunding Bonds:					
Series 2012A	4,710,000.00	2.00% - 2.25%	2013	2020	12-01-20
Revenue and Refunding Bonds:					
Series 2012B	5,415,000.00	0.50% - 3.25%	2013	2024	12-01-24
Revenue and Refunding Bonds:					
Series 2015A	53,335,000.00	2.00% - 5.00%	2016	2045	06-01-25
Revenue and Refunding Bonds:					
Series 2015B	3,755,000.00	0.515%-2.957%	2016	2022	None
Revenue and Refunding Bonds:					
Series 2016A	72,250,000.00	2.00%-5.00%	2016	2035	12-01-18
Revenue and Refunding Bonds:					
Series 2016B	<u>11,790,000.00</u>	1.426%-2.666%	2019	2035	12-01-20
Total	<u>\$225,445,346.92</u>				

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Midwestern State University
Schedule 2B - Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2020

Business Type Activities

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Description of Issue	Bonds Outstanding 09-01-2019	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished
Revenue Bonds:				
Revenue Financing System Revenue Bonds: Series 2010	\$ 440,000.00		\$ 215,000.00	
Revenue Financing System Revenue & Refunding Bonds: Series 2012A	1,275,000.00		675,000.00	
Revenue Financing System Revenue & Refunding Bonds: Series 2012B	3,515,000.00		550,000.00	
Revenue Financing System Revenue & Refunding Bonds: Series 2015A	51,285,000.00		880,000.00	
Revenue Financing System Revenue & Refunding Bonds: Series 2015B	1,100,000.00		460,000.00	
Revenue Financing System Revenue & Refunding Bonds: Series 2016A	66,720,000.00		2,570,000.00	
Revenue Financing System Revenue & Refunding Bonds: Series 2016B	11,790,000.00		660,000.00	
Total	<u>\$136,125,000.00</u>	<u>\$0.00</u>	<u>\$6,010,000.00</u>	<u>\$0.00</u>

Midwestern State University

<u>Bonds Outstanding 08-31-2020</u>	<u>Amounts Due Within One Year</u>	<u>Unamortized Premium</u>	<u>Unamortized Discount</u>	<u>Net Bonds Outstanding 08-31-2020</u>	<u>Amounts Due Within One Year</u>
\$ 225,000.00	\$ 225,000.00			\$ 225,000.00	\$ 225,000.00
600,000.00	600,000.00			600,000.00	600,000.00
2,965,000.00	560,000.00			2,965,000.00	560,000.00
50,405,000.00	1,275,000.00	\$ 2,283,643.30		52,688,643.30	1,370,151.81
640,000.00	150,000.00			640,000.00	150,000.00
64,150,000.00	2,695,000.00	9,374,189.28		73,524,189.28	3,280,886.83
<u>11,130,000.00</u>	<u>670,000.00</u>			<u>11,130,000.00</u>	<u>670,000.00</u>
<u>\$130,115,000.00</u>	<u>\$6,175,000.00</u>	<u>\$11,657,832.58</u>	<u>\$0.00</u>	<u>\$141,772,832.58</u>	<u>\$6,856,038.64</u>

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**Midwestern State University
Schedule 2C - Debt Service Requirements
For the Fiscal Year Ended August 31, 2020**

Business Type Activities

Description of Issue	2021	2022	2023	2024	2025
Revenue Financing System Revenue and Refunding Bonds:					
Series 2010					
Principal	\$ 225,000.00				
Interest	5,625.00				
Revenue Financing System Revenue and Refunding Bonds:					
Series 2012A					
Principal	600,000.00				
Interest	6,750.00				
Revenue Financing System Revenue Bonds:					
Series 2012B					
Principal	560,000.00	\$ 575,000.00	\$ 590,000.00	\$ 610,000.00	\$ 630,000.00
Interest	81,695.86	65,993.18	48,854.35	30,150.85	10,209.15
Revenue Financing System Revenue and Refunding Bonds:					
Series 2015A					
Principal	1,275,000.00	1,030,000.00	1,635,000.00	1,750,000.00	1,880,000.00
Interest	2,206,106.26	2,154,856.26	2,088,231.26	2,003,606.26	1,912,856.26
Revenue Financing System Revenue and Refunding Bonds:					
Series 2015B					
Principal	150,000.00	490,000.00			
Interest	16,520.30	7,244.65			
Revenue Financing System Revenue and Refunding Bonds:					
Series 2016A					
Principal	2,695,000.00	3,065,000.00	3,215,000.00	3,375,000.00	3,545,000.00
Interest	2,775,275.00	2,631,275.00	2,474,275.00	2,309,525.00	2,136,525.00
Revenue Financing System Revenue and Refunding Bonds:					
Series 2016B					
Principal	670,000.00	680,000.00	695,000.00	715,000.00	735,000.00
Interest	309,699.20	297,349.70	283,390.95	267,669.00	250,369.65
Total	<u>\$11,576,671.62</u>	<u>\$10,996,718.79</u>	<u>\$11,029,751.56</u>	<u>\$11,060,951.11</u>	<u>\$11,099,960.06</u>
Less Interest	<u>(5,401,671.62)</u>	<u>(5,156,718.79)</u>	<u>(4,894,751.56)</u>	<u>(4,610,951.11)</u>	<u>(4,309,960.06)</u>
Total Principal	<u>\$ 6,175,000.00</u>	<u>\$ 5,840,000.00</u>	<u>\$ 6,135,000.00</u>	<u>\$ 6,450,000.00</u>	<u>\$ 6,790,000.00</u>

ANNUAL FINANCIAL REPORT

Midwestern State University

2026-30	2031-35	2036-40	2041-45	Total Requirements
				\$ 225,000.00
				5,625.00
				600,000.00
				6,750.00
				2,965,000.00
				236,903.39
\$10,045,000.00	\$ 9,060,000.00	\$ 10,030,000.00	\$13,700,000.00	50,405,000.00
8,032,156.30	5,727,581.30	3,865,331.30	1,480,190.69	29,470,915.89
				640,000.00
				23,764.95
20,480,000.00	23,815,000.00	3,960,000.00		64,150,000.00
7,851,950.00	3,174,700.00	79,200.00		23,432,725.00
3,905,000.00	3,730,000.00			11,130,000.00
942,855.30	300,418.35			2,651,752.15
\$51,256,961.60	\$45,807,699.65	\$17,934,531.30	\$15,180,190.69	\$185,943,436.38
(16,826,961.60)	(9,202,699.65)	(3,944,531.30)	(1,480,190.69)	(55,828,436.38)
\$34,430,000.00	\$36,605,000.00	\$13,990,000.00	\$13,700,000.00	\$130,115,000.00

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Midwestern State University
Schedule 2D - Analysis of Funds Available for Debt Service
For the Year Ended August 31, 2020

ANNUAL FINANCIAL REPORT

Business Type Activities
Description of Issue

	Pledged and Other Sources and Related Expenditures for FY 2020			
	Net Available for Debt Service			
	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Debt Service	
Revenue Financing System Revenue Bonds			Principal	Interest
Revenue Bonds				
Series 2010			\$ 215,000.00	\$ 16,625.00
Revenue and Refunding Bonds:				
Series 2012A			675,000.00	20,250.00
Revenue and Refunding Bonds:				
Series 2012B			550,000.00	95,594.16
Revenue and Refunding Bonds:				
Series 2015A			880,000.00	2,253,606.26
Revenue and Refunding Bonds:				
Series 2015B			460,000.00	24,204.70
Revenue and Refunding Bonds:				
Series 2016A		\$6,211,824.55	2,570,000.00	2,894,050.00
Revenue and Refunding Bonds:				
Series 2016B			660,000.00	320,280.90
Total for all Revenue Financing System Revenue Bonds	\$44,335,491.76	\$6,211,824.55	\$6,010,000.00	\$5,624,611.02

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Midwestern State University
 Schedule 2E - Defeased Bonds Outstanding
 For the Fiscal Year Ended August 31, 2020

Business Type Activities

Description of Issue	Year	Par Value
	Refunded	Outstanding
Revenue Financing System Revenue and Refunding Bonds Series 2007	2015	\$13,365,000.00
Revenue Financing System Revenue and Refunding Bonds Series 2008	2016	26,840,000.00
Revenue Financing System Revenue and Refunding Bonds Series 2010	2016	4,860,000.00
	Total	\$45,065,000.00

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Schedule 2F - Early Extinguishment and Refunding
For the Fiscal Year Ended August 31, 2020

Business Type Activities

Description of Issue	Category	Amount Extinguished/ Refunded	Refunded Issued Par Value	Cash Flow Increase/ (Decrease)	Economic Gain/(Loss)
None for the Year Ended August 31, 2020		_____	_____	_____	_____
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Schedule 3 - Reconciliation of Cash in State Treasury
For the Years Ended August 31

Cash in State Treasury	Unrestricted	Restricted	Current Year 2020	Prior Year 2019
General Revenue - Dedicated Fund 0264	\$3,326,408.09		\$3,326,408.09	\$2,885,703.36
Special Mineral Fund - 0412				1,098.45
Total Cash – State Treasury (Stmnt of Net Position)	<u>\$3,326,408.09</u>		<u>\$3,326,408.09</u>	<u>\$2,886,801.81</u>

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