



Midwestern State University

Financial Report (Unaudited) For the Year Ended August 31, 2018

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OFFICE OF THE PRESIDENT

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Wichita Falls, Texas 76308-2099
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msutexas.edu

November 15, 2018

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, State Comptroller
Julie Ivie, Assistant 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, 2018, in compliance with Texas Government Code Annotated Section 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



Administration and Finance
3410 Taft Boulevard Wichita Falls, Texas 76308-2099
o 940.397.4117 f 940.397.4302

November 15, 2018

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, 2018.

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; 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,

Chris Stovall
Controller

Approved:

Marilyn Fowlé, Vice President
Administration and Finance

Midwestern State University

ORGANIZATIONAL DATA August 31, 2018

THE BOARD OF REGENTS

Term Expires May 31, 2019

Ms. Leia De La Garza, 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. Marilyn Fowlé Vice President for Administration & Finance
Mr. Chris Stovall, CPA Controller

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(UNAUDITED)

Midwestern State University

Management's Discussion & Analysis - Unaudited

The objective of Management's Discussion and Analysis is to help readers of MSU's financial statements better understand the financial position and operating activities of the university for the fiscal years ended August 31, 2018 and 2017.

Management has prepared the financial statements and related footnote disclosures, along with the discussion and analysis in this section. Responsibility for completeness and fairness of this information rests with the university's administration. The following discussion should be read in conjunction with the accompanying transmittal letter, financial statements, and note disclosures.

The university's focus remains on recruitment, enrollment, retention, and graduation with an enrollment goal to reach 8,000 students by 2025. For the fall 2018 semester, MSU saw growth in headcount and credit hour production as headcount grew by 0.36% to 6,102 while credit hour production grew by 1.24% to 71,432.

Given the population growth and density in the Dallas area, there is continued emphasis on recruiting in the Dallas –Fort Worth (DFW) Metroplex. Regional recruiters are based out of the DFW area and are using the new Flower Mound site as a recruiting base and resource.

The Flower Mound site had its formal grand opening this summer and is offering undergraduate programs in Business (BAAS), Criminal Justice (BAAS), Human Services (BAAS), Nursing (RN to BSN), Radiologic Sciences (RT to BSRS), Respiratory Care (RRT to BSRC), and Teacher Education. Graduate programs are being offered in Business (MBA), Counseling (Clinical Mental Health), Education (M.Ed.), and Human Resources (MA). The Flower Mound site enrolled over 200 undergraduate and graduate students this fall.

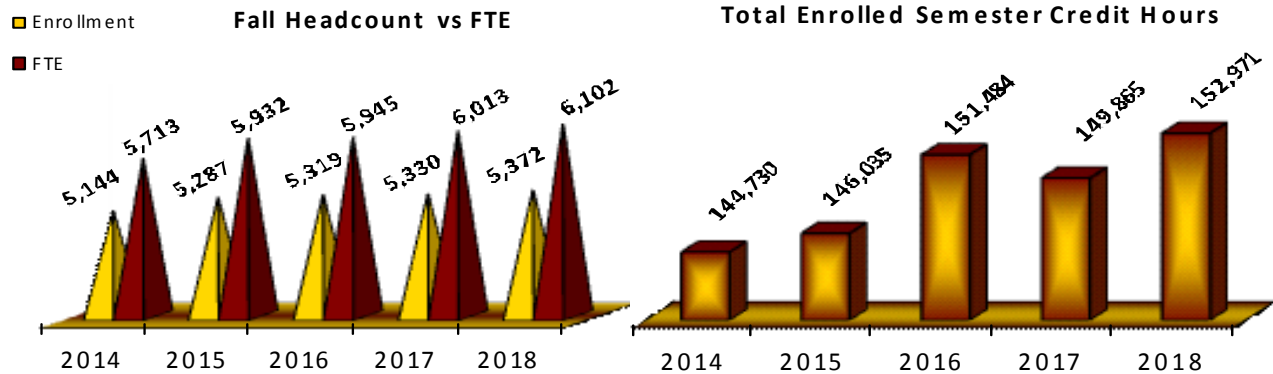
The university continues to utilize partnerships in enrollment efforts and has teamed up with Dallas County Promise to offer Dallas County students free tuition upon entering MSU after completion of a two-year degree. These students will be eligible for the Mustangs Guarantee Program, which allows students with an Adjusted Gross Income under \$50,000 to enroll tuition free. The university has also partnered with Café Con Leche to provide educational assistance to Hispanic serving families in the region. MSU's current enrollment consists of 20.5% Hispanic, which is an increase over the previous year, so this partnership is important to enrollment initiatives.

The Office of Enrollment Management was established in July 2018 and a new Vice President for that division was hired. The university restructured offices to report to this new division and now includes Admissions, Financial Aid, Registrar, and Institutional Research. This area can provide focus on enrollment and growth and there are several initiatives taking place, which are as follows:

- Development of an extensive Enrollment Plan to grow headcount to 8,000 students.
- Review of business processes in Financial Aid and Registrar to improve protocols and to become more efficient. Ellucian (Customer Relationship Management provider) consultants are meeting with these offices to go over best practice processes.
- Implementation of new recruitment software at the undergraduate and graduate levels was completed in August 2018. This improved software provides better communication to prospective students.
- Improving the process to sign up for campus tours and experience a campus visit for prospective students. New visit software was implemented in October 2018.
- A Financial Aid modeling study is under way through EAB, which involves reviewing awarding of new freshmen and possible aid strategies.
- Data mining of retention data in collaboration with Enrollment Management, Student Affairs, and Academic Affairs will offer insight into populations needing additional assistance in order to begin to provide more resources for advising, tutoring, and mentoring.
- MSU will be offering dual-credit opportunities at high schools throughout Texas beginning with the fall 2019 semester.
- Enrollment Management is considering the following programs for implementation in 2019: Student Search Program (freshmen outreach), Student Success Collaborative (retention), Transfer Collaborative (transfer students), and AdmitHub (Artificial Intelligence Programming).

Midwestern State University

Management's Discussion & Analysis - Unaudited

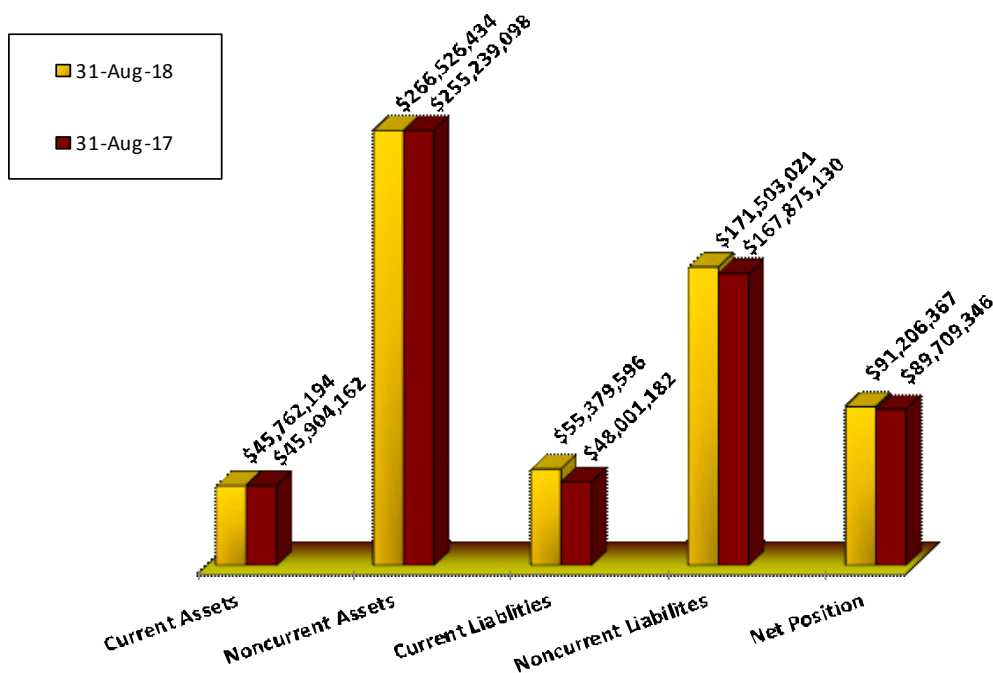


The Statement of Net Position

By reporting information on the university as a whole, these comparative statements highlight for the reader whether the year's activities strengthened or weakened the university'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 the university's operating results.

These comparative statements report the current status and changes to the university'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 the university's financial position. Increases in net position show an improvement in financial health, while decreases often indicate declining financial stability. 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 health of the university.

As the statement on the next page shows, the university's net position increased a total of \$1,497,021.46, from \$89,709,345.59 in 2017 to \$91,206,367.05 in 2018. A few factors contributing to this increase include a large software donation of \$10.7 million, \$1.7 million market appreciation on investment assets, a \$3 million increase in net student tuition and fee revenue and auxiliary income from housing and dining operations, and a \$2 million increase in external grants and contracts. Overall net increases to net position were offset by the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which required a restatement to beginning net position of \$13.6 million.



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Midwestern State University

Management's Discussion & Analysis - Unaudited

The Statement of Net Position

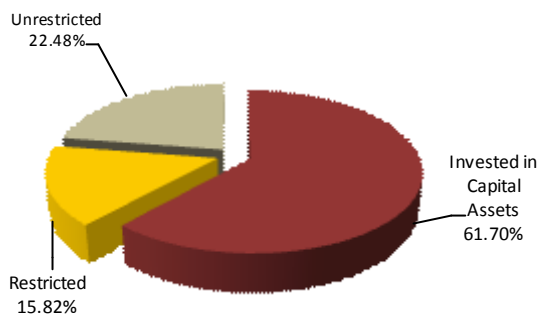
	<u>2018</u>	<u>2017</u>
Current Assets	\$ 45,762,193.89	\$ 45,904,161.92
Noncurrent Assets:		
Capital Assets	171,826,827.90	149,579,335.68
Other	94,699,605.60	105,659,762.25
Total Assets	<u>312,288,627.39</u>	<u>301,143,259.85</u>
Deferred Outflows of Resources:		
Pensions	2,421,142.00	2,264,410.00
Unamortized Loss on Debt Refunding	3,119,913.30	
Other Postemployment Benefits (OPEB)	4,720,653.00	3,314,907.86
Total Deferred Outflows of Resources	<u>10,261,708.30</u>	<u>5,579,317.86</u>
Total Assets and Deferred Outflows	<u>322,550,335.69</u>	<u>306,722,577.71</u>
Current Liabilities	55,379,596.41	48,001,181.86
Noncurrent Liabilities	171,503,021.23	167,875,130.26
Total Liabilities	<u>226,882,617.64</u>	<u>215,876,312.12</u>
Deferred Inflows of Resources:		
Pensions	1,879,521.00	1,136,920.00
Other Postemployment Benefits (OPEB)	2,581,830.00	
Total Deferred Inflows of Resources	<u>4,461,351.00</u>	<u>1,136,920.00</u>
Total Liabilities and Deferred Inflows	<u>231,343,968.64</u>	<u>217,013,232.12</u>
Net Position:		
Invested in Capital Assets	56,272,885.37	45,540,385.81
<u>Restricted for:</u>		
Nonexpendable	4,855,816.68	4,781,923.71
<u>Expendable:</u>		
Capital Projects	(123,492.27)	45,495.73
Restricted by Contributor	9,698,735.92	10,956,559.06
Unrestricted	20,502,421.35	28,384,981.28
Total Net Position	<u>91,206,367.05</u>	<u>89,709,345.59</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$322,550,335.69</u>	<u>\$306,722,577.71</u>

Midwestern State University

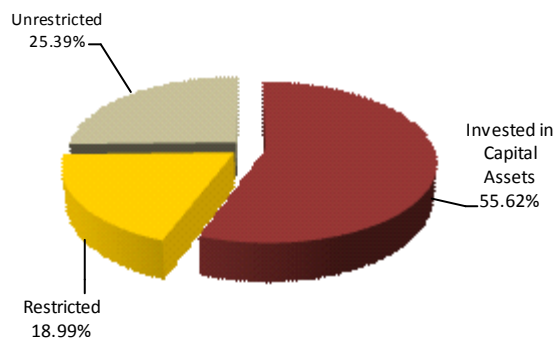
Management's Discussion & Analysis - Unaudited

The following charts indicate changes in net position for the years ended August 31, 2018 and August 31, 2017.

Net Position - August 31, 2018

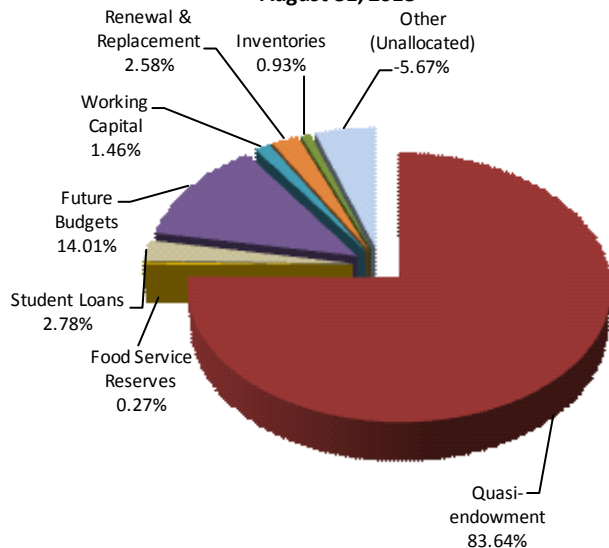


Net Position - August 31, 2017

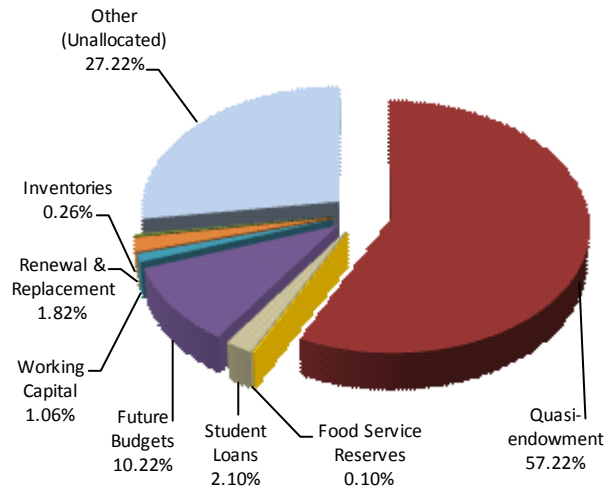


The university reports 22.48% of total net position as unrestricted for the year ended August 31, 2018 and 25.39% for the previous year. Although unrestricted, most of these funds have been designated for specific purposes. The following charts show how the funds have been allocated:

**Allocation of Unrestricted Net Position
August 31, 2018**



**Allocation of Unrestricted Net Position
August 31, 2017**



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Midwestern State University

Management's Discussion & Analysis - Unaudited

The University's Results of Operations

The Statement of Revenues, Expenses, and Changes in Net Position reflects the university's operating results for the fiscal years ended August 31, 2018 and 2017. The comprehensive statements indicate the financial condition of the university and comparatively analyze in what direction the university is moving. The following statements reveal the operating results of the university, 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. Annual state appropriations, while budgeted for operations, are considered as non-operating revenues according to generally accepted accounting principles. The statement below compares the operating results of the university for the years ended August 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Operating Revenue:		
Net Tuition and Fees	\$ 35,401,408.08	\$ 34,010,419.33
Grants and Contracts	7,039,955.81	5,947,242.60
Sales and Services of Educational Activities	1,441,650.94	1,482,742.95
Sales and Services of Auxiliary Enterprises	13,552,580.89	12,155,141.75
Other	<u>1,456,941.79</u>	<u>1,662,858.84</u>
Total Operating Revenue	58,892,537.51	55,258,405.47
Total Operating Expenses	<u>(101,733,272.44)</u>	<u>(102,050,751.82)</u>
Operating Loss	(42,840,734.93)	(46,792,346.35)
Non-Operating Revenues (Expenses):		
State Appropriations	21,836,476.00	18,522,721.00
Other State Appropriations	5,536,645.46	6,109,491.17
Federal Grants	10,459,109.85	9,523,650.09
Federal Pass-Through Grants	862.56	1,286.74
State Pass-Through Grants from Other Agencies		582.45
Gifts	4,978,103.66	4,300,824.13
Insurance Recovery in Subsequent Year		446,875.42
Other Non-Operating Revenues (Expenses)		1.46
Investment Income	2,255,782.59	2,287,642.37
Net Increase (Decrease) in Fair Value of Investments	1,740,217.49	2,875,327.88
Debt Issuance Costs		(751,559.69)
Net Book Value of Capital Asset Disposals	(232,087.58)	(317,069.37)
Interest Expense on Capital Asset Financing	<u>(2,918,263.69)</u>	<u>(4,327,792.88)</u>
Total Non-Operating Revenue (Expense)	43,656,846.34	38,671,980.77
Income (Loss) Before Capital Contributions, Additions to Endowments, and Special Items	816,111.41	(8,120,365.58)
Capital Contributions, Additions to Endowments, and Special Items		
Capital Contributions	10,875,249.98	291,161.71
HEAF Appropriation	5,061,412.00	5,061,412.00
Additions to Endowments	60,005.63	84,271.95
Transfers In	572,880.04	1,797,324.86
Transfers Out	(1,112,063.43)	(977,144.29)
Legislative Transfers In	102,645.00	4,625,780.00
Legislative Appropriations Lapsed	<u>(1,248,800.17)</u>	<u>(1,077,905.74)</u>
Increase (Decrease) in Net Position	15,127,440.46	1,684,534.91
Net Position, Beginning of Year	89,709,345.59	88,024,810.68
Restatements	(13,630,419.00)	
Net Position, Beginning of Year, Restated	76,078,926.59	
Net Position, End of Year	<u>\$91,206,367.05</u>	<u>\$89,709,345.59</u>

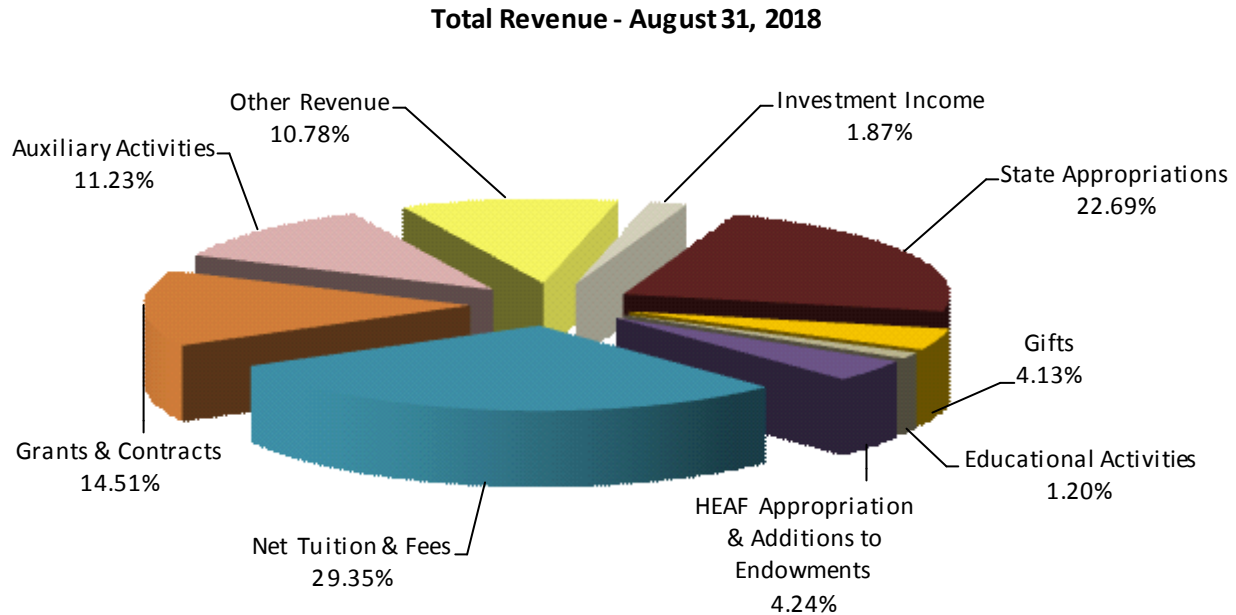
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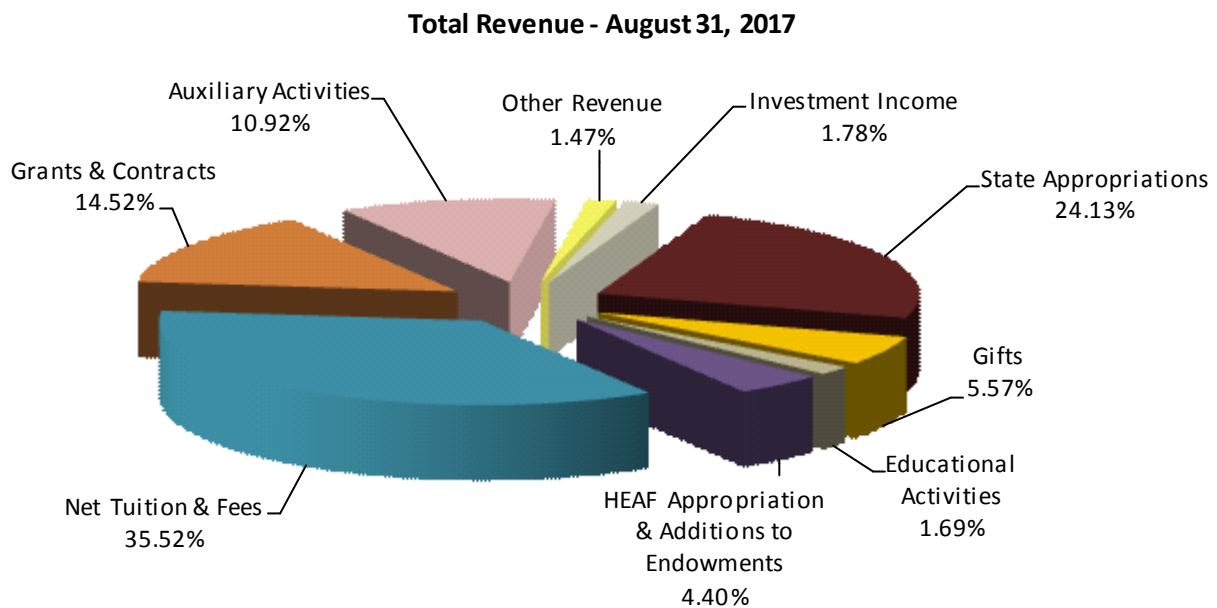
Midwestern State University

Management's Discussion & Analysis - Unaudited

This chart identifies the components of total revenue for the year ended August 31, 2018.



This chart reflects the same information for the year ended August 31, 2017.

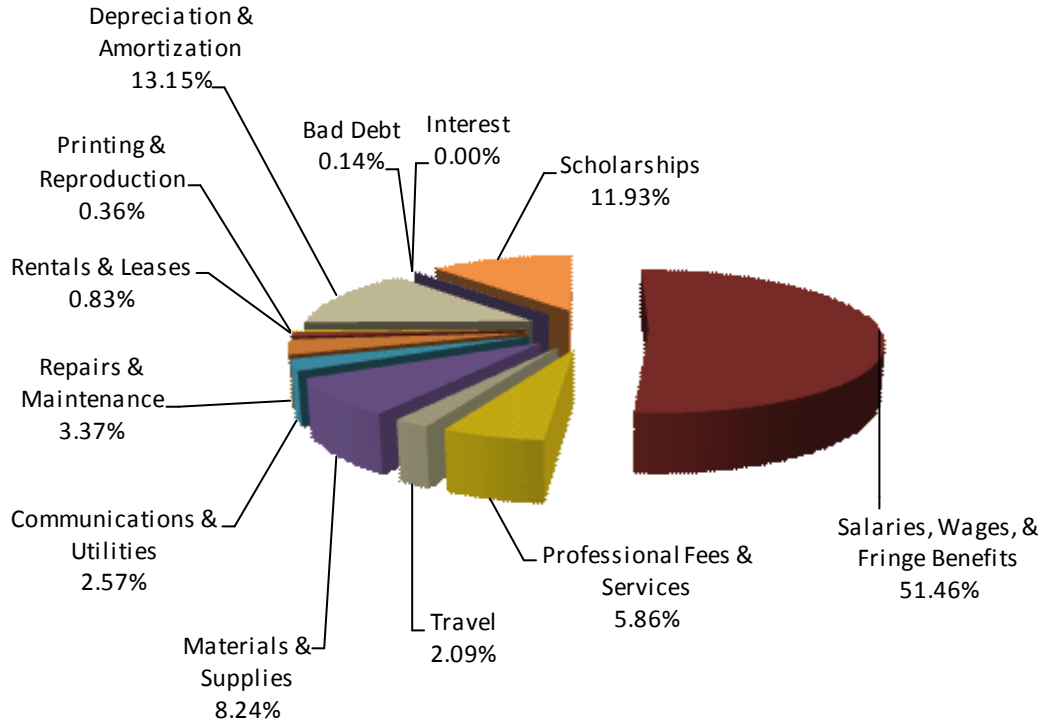


Midwestern State University

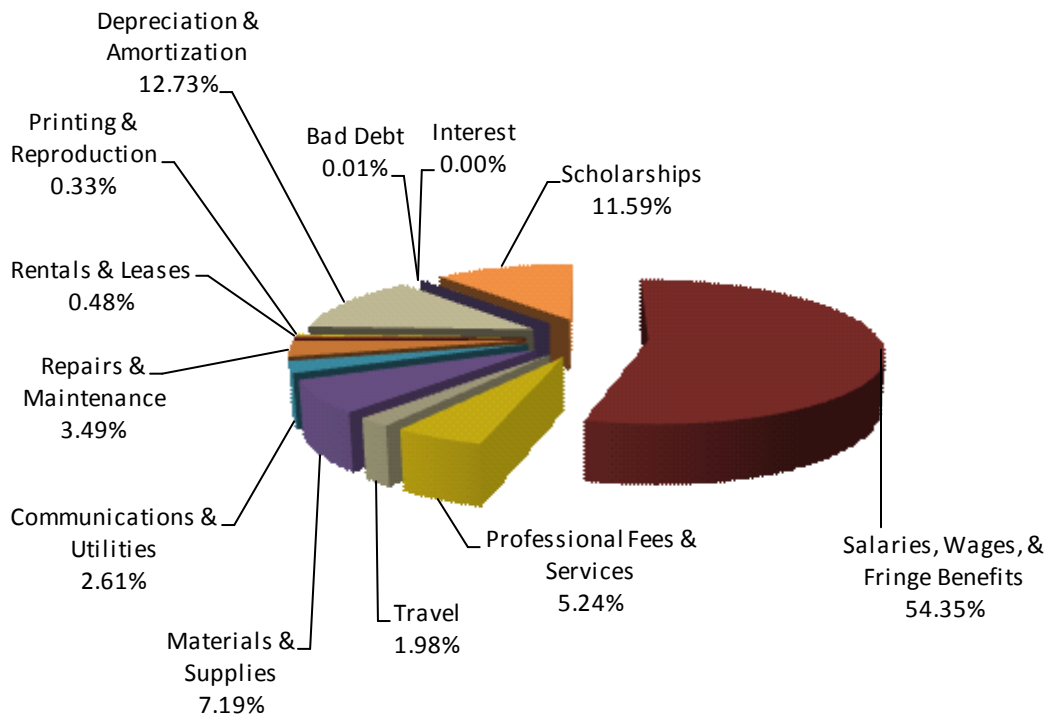
Management's Discussion & Analysis - Unaudited

Total operating expenses for fiscal years 2018 and 2017 were \$101,733,272.44 and \$102,050,751.82, respectively. The following charts compare the fiscal year 2018 distribution of operating expenses to those in fiscal year 2017.

Total Operating Expenses - August 31, 2018



Total Operating Expenses - August 31, 2017



Midwestern State University

Management's Discussion & Analysis - Unaudited

The University's Cash Flows

The Statement of Cash Flows represents the university's significant sources and uses of cash. It is designed to help users assess the university's ability to generate future cash flows, its ability to meet obligations as they come due, and its need for external financing.

	<u>2018</u>	<u>2017</u>
Cash provided (used) by:		
Operating activities	\$(26,121,266.79)	\$(35,443,085.52)
Noncapital financing activities	40,406,883.31	40,552,939.92
Capital and related financing activities	(28,746,882.11)	42,367,345.79
Investing activities	<u>15,098,267.80</u>	<u>(47,627,807.49)</u>
Net increase (decrease) in cash	637,002.21	(150,607.30)
Cash – Beginning of year	<u>7,967,497.68</u>	<u>8,118,104.98</u>
Cash – End of year	<u>\$ 8,604,499.89</u>	<u>\$ 7,967,497.68</u>

There was a net increase in cash of \$637,002.21.

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 \$36 million; grants accounted for \$7.6 million; and auxiliary enterprises, including housing and dining, accounted for \$13.96 million.

State appropriations in the amount of \$26.35 million were the primary sources of non-capital financing. Although the university 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 \$4.5 million, additions to endowments in the amount of \$60 thousand, and \$10.5 million in Federal non-operating grants.

Payments for the additions of capital assets totaled \$24.7 million and included construction of the new Gunn College of Health Sciences and Human Services building, Fire Marshal and ADA improvement projects, expansion of the Fantasy of Lights warehouse, the purchase of #6 Eureka Circle to house the university police, the \$1 million acquisition of new pianos for the music department through generous donations, and other various improvement projects across campus.

Proceeds from sales and maturities of investments within the investing section of the cash flow statement included \$21 million in expended bond proceeds to continue the construction of the new Gunn College of Health Sciences and Human Services building. In Fiscal Year 2017, Tuition Revenue Bond proceeds in the amount of \$58.4 million were invested in a flexible repurchase agreement with Bayerische Landesbank. Repurchases totaled \$16.8 million during the year and were used for the construction of the new Gunn College of Health Sciences and Human Services building, as well as renovations to several buildings across campus to address Fire Marshal and accessibility concerns.

Midwestern State University

Management's Discussion & Analysis - Unaudited

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2018, the university had \$171.8 million invested in capital assets. This figure is net of accumulated depreciation and amortization of \$176.8 million. Depreciation and amortization charges totaled \$13.3 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>2018</u>	<u>2017</u>
Land and Land Improvements	\$ 6,212,890.44	\$ 5,946,107.70
Construction in Progress	26,427,028.64	4,992,962.50
Buildings and Building Improvements	234,775,452.27	234,498,048.31
Infrastructure	13,351,147.45	13,351,147.45
Facilities Improvements	14,531,278.87	13,732,746.31
Furniture and Equipment	15,740,859.01	14,465,988.97
Vehicles	1,920,546.24	1,881,543.98
Computer Software	21,084,143.46	10,730,009.48
Other Capital Assets	14,622,060.23	14,955,588.62
Total	<u>\$348,665,406.61</u>	<u>\$314,554,143.32</u>

Additions to assets of \$35.8 million during fiscal year 2018 included: continued construction of the new Gunn College of Health Sciences and Human Services building and the renovations across campus to comply with the specifications established by the Fire Marshal and the Americans with Disabilities Act (ADA). The parking lot on the south side of Prothro-Yeager was resurfaced to open up additional parking spots. Also, a new parking lot was constructed east of the Life Long Learning Center and computer software in excess of \$10 million was donated to the Geosciences Department.

The construction in progress at the end of the year includes continuation of construction of the new Gunn College of Health Sciences and Human Services building (including parking and landscaping), continuation of renovations across campus to comply with the specifications established by the Fire Marshal and ADA, and continuation of renovations to Moffett Library and Bridwell Hall.

Further financial information about the university's capital assets is presented in Note 2 of the notes to the financial statements on page 28.

Debt

At year-end, the university had \$209.7 million in outstanding debt. Outstanding debt for the year ended August 31, 2017 was \$221.8 million. The table below summarizes the amount of outstanding debt by type of instrument for the year ended August 31, 2018 compared with August 31, 2017.

	<u>2018</u>	<u>2017</u>
Revenue Bonds	\$142,470,000.00	\$148,600,000.00
Accrued long-term interest payable on bonds	67,280,875.77	73,282,051.55
Total	<u>\$209,750,875.77</u>	<u>\$221,882,051.55</u>

Debt repayments made during the year included principal in the amount of \$6,130,000.00 and interest in the amount of \$6,001,175.69.

Moody's Investor Services has assigned an "A1" bond rating to the university's bonds, and Fitch has assigned an "AA-" rating. More detailed bond information is disclosed in Schedule 2A, 2B, 2C, 2D, 2E and 2F on pages 61-68.

Midwestern State University

Management's Discussion & Analysis - Unaudited

Factors Affecting the Future of Midwestern State University

Midwestern State University is strongly positioned to meet the challenges of the future and to capitalize on the numerous opportunities ahead. As the MSU Centennial approaches in 2022, the university celebrates its past success and prepares for a promising second century. In November 2017, the MSU Board of Regents approved the Boundless Opportunities plan for a comprehensive campaign to support the university's strategic plan. Together, these plans provide a framework to address the long-term prosperity of the 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 a positive reputation and a loyal base of donors. 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 receives substantial support from members of the local community.

Membership in the Council of Public Liberal Arts Colleges (COPLAC) – MSU is one of thirty 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 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 – MSU is able to provide excellent educational outcomes at a moderate price. In 2017, MSU earned the top spot in the *Diverse: Issues in Higher Education* magazine's list of the Top 100 minority health science degree producers among U.S. institutions of higher education. MSU Texas ranked in diagnostic, intervention, and treatment professions. The salaries of MSU graduates continue to place the university in the top ten Texas universities by graduates' earnings as reported by the website Best Value Schools. This ranking identified schools based on graduation rate, net price, acceptance rate, and 20-year net return on investment (ROI). MSU was noted for its 20-year ROI of \$300,000.

External Environment

A number of patterns in the operating environment will affect MSU in the future.

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 to serve transfer and adult populations.

Conversely, the Flower Mound Learning Center, which serves adult degree completers, is located in a growth area. 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/Latino, 13% White, 65% Black, and 75% 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.

Midwestern State University

Management's Discussion & Analysis - Unaudited

Preparation of Students

A sizable proportion of students seeking admission to MSU is now taking advantage of additional preparation and academic support for college level work through math and reading bridge programs and a robust tutoring program throughout their undergraduate preparation. Through facilities, staffing, donations, and institutional support, this shifting demographic will be able to complete degrees in a timely manner with minimal debt.

MSU provides targeted initiatives to attain retention goals as we seek to serve a large population of admitted students from groups such as first generation college students, students from lower socioeconomic backgrounds, and students who need to seek outside employment to complete their college education.

Technology

Technological change will continue to be rapid, requiring frequent updates and additions to keep pace with technological 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.

Similarly, current students are attracted to facilities that encourage interactive, up-to-date learning and MSU maintains an appealing mix of living and learning locations.

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. Capital investment to keep pace with technology is needed and, if state or federal financial aid dollars diminish, the demand for university financial aid support will increase.

MSU is celebrating solid success in attracting funding from foundations and private donors that supplement tuition and fees and state funding. These funds allow MSU to provide the rigorous education that prepares students to compete in an ever increasingly competitive job environment and to enter that market with minimal student debt.

Enrollment

MSU increased enrollment by 0.36%, or 21 students, for the fall 2018 term. The first-time full-time (FTFT) cohort was 889, which is an 8.5% increase over fall 2017. The entering transfer student cohort was 669, which is an increase of 6% over fall 2017. Additionally, Graduate School enrollment was 730 students.

There are 80 Texas counties represented among the FTFT cohort. The top five represented are Wichita, Tarrant, Dallas, Denton, and Montague and 81% of the entering freshmen came from within 150 miles of Wichita Falls. The incoming FTFT cohort is largely residential with 71.4% residing on campus. Total students residing on campus increased by 4.7% to 1,643 students living in residence halls.

The geographic make-up of the FTFT class includes 41.3% from DFW, 22.6% from Wichita County, 3.7% from Houston, and 2.6% from Austin. In addition to domestic students, international student enrollment now represents 9.4% of overall enrollment with 574 students from over 50 foreign countries.

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8-31-2018
(UNAUDITED)

Midwestern State University

Unaudited

Midwestern State University
Exhibit I
Comparative Statement of Net Position
August 31

2018

2017

ASSETS AND DEFERRED OUTFLOWS

Current Assets:

Cash and Cash Equivalents:

Cash on Hand	\$ 16,750.00	\$ 17,600.00
Cash in Bank	1,991,746.59	282,063.36
Cash in State Treasury	2,724,644.20	2,896,567.01
Short-term Investments	11,712,495.28	12,822,554.32
State Appropriations	1,727,765.35	1,949,448.10

Restricted:

Cash and Cash Equivalents:

Cash in Bank	3,871,359.10	4,771,267.31
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Net Receivables:

Student Receivables	10,090,560.81	10,624,798.71
Federal Receivables	912,162.00	811,942.63
Other Intergovernmental Receivables	359,900.57	449,274.65
Interest and Dividends	35,677.88	45,222.82
Other Receivables	2,106,001.28	1,280,579.87
Pledges Receivable	393,458.59	398,433.90
Consumable Inventories	189,744.18	189,511.15
Prepaid Expenses	9,629,928.06	9,364,898.09

Total Current Assets

	<u>45,762,193.89</u>	<u>45,904,161.92</u>
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Noncurrent Assets:

Restricted:

Short-term Investments	42,050,596.21	55,585,330.92
Investments	2,840,890.02	2,742,442.87
Other Long-term Investments	48,291,507.57	45,350,932.72
Pledges Receivable	1,516,611.80	1,981,055.74

Capital Assets, Non-depreciable:

Land and Land Improvements	\$ 6,212,890.44	\$ 5,946,107.70
Construction in Progress	26,427,028.64	4,992,962.50
Other Capital Assets	3,533,965.30	3,533,965.30
	36,173,884.38	14,473,035.50

Capital Assets, Depreciable:

Buildings and Building Improvements	234,775,452.27	234,498,048.31
Less Accumulated Depreciation	(127,780,802.55)	(118,369,974.29)
Infrastructure	13,351,147.45	13,351,147.45
Less Accumulated Depreciation	(7,726,108.47)	(7,248,827.43)
Facilities and Other Improvements	14,531,278.87	13,732,746.31
Less Accumulated Depreciation	(6,114,249.63)	(5,566,519.98)
Furniture and Equipment	15,740,859.01	14,465,988.97
Less Accumulated Depreciation	(12,128,371.58)	(11,878,464.18)
Vehicles	1,920,546.24	1,881,543.98
Less Accumulated Depreciation	(1,314,226.05)	(1,227,751.79)
Other Capital Assets	11,088,094.93	11,421,623.32
Less Accumulated Depreciation	(9,932,972.36)	(10,147,217.91)

Intangible Capital Assets, Amortizable:

Computer Software	21,084,143.46	10,730,009.48
Less Accumulated Amortization	(11,841,848.07)	(10,536,052.06)

Total Noncurrent Assets

	<u>266,526,433.50</u>	<u>255,239,097.93</u>
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Total Assets

	<u>\$312,288,627.39</u>	<u>\$301,143,259.85</u>
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Deferred Outflows of Resources:	2018	2017
Pensions	\$ 2,421,142.00	\$ 2,264,410.00
Unamortized Loss on Debt Refunding	3,119,913.30	3,314,907.86
Other Postemployment Benefits	4,720,653.00	
Total Deferred Outflows of Resources	10,261,708.30	5,579,317.86
Total Assets and Deferred Outflows	322,550,335.69	306,722,577.71

LIABILITIES AND DEFERRED INFLOWS

Current Liabilities:		
Accounts Payable	7,947,716.37	3,625,227.43
Accrued Payroll Payable	4,557,373.13	4,457,023.82
Employees' Compensable Leave	279,310.47	250,166.23
Net Other Postemployment Benefits Liability	59,250.00	
Room/Property Deposits	48,347.38	63,955.26
Unearned Revenues	34,182,046.54	32,190,318.96
Retainages and Contracts	807,479.00	176,138.57
Funds Held for Others	188,756.41	149,629.91
Due to Other Agencies (SECO Loan)	283,278.47	277,683.04
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	6,345,000.00	6,130,000.00
Total Current Liabilities	55,379,596.41	48,001,181.86
Noncurrent Liabilities:		
Employees' Compensable Leave	1,531,409.51	1,481,481.81
Net Pension Liability	9,321,176.00	10,004,773.00
Net Other Postemployment Benefits Liability	11,617,701.00	
Room/Property Deposits	145,042.16	191,865.78
Due to Other Agencies (SECO Loan)	423,821.34	707,099.81
Unamortized Premium on 2015A Rev Bonds	2,378,795.11	2,473,946.92
Unamortized Premium on 2016A Rev Bonds	9,960,076.11	10,545,962.94
Revenue Bonds Payable	136,125,000.00	142,470,000.00
Total Noncurrent Liabilities	171,503,021.23	167,875,130.26
Total Liabilities	226,882,617.64	215,876,312.12
Deferred Inflows of Resources:		
Pensions	1,879,521.00	1,136,920.00
Other Postemployment Benefits	2,581,830.00	
Total Deferred Inflows of Resources	4,461,351.00	1,136,920.00
Total Liabilities and Deferred Inflows	231,343,968.64	217,013,232.12

NET POSITION

Net Investment in Capital Assets	56,272,885.37	45,540,385.81
Restricted for:		
Nonexpendable	4,855,816.68	4,781,923.71
<u>Expendable:</u>		
Capital Projects	(123,492.27)	45,495.73
Restricted by Contributor	9,698,735.92	10,956,559.06
Unrestricted	20,502,421.35	28,384,981.28
Total Net Position	91,206,367.05	89,709,345.59
Total Liabilities, Deferred Inflows, and Net Position	\$322,550,335.69	\$306,722,577.71

Midwestern State University

Unaudited

Midwestern State University

Exhibit II

Comparative Statement of Revenues, Expenses, and Changes in Net Position For the Years Ended August 31

Operating Revenues:

	<u>2018</u>	<u>2017</u>
Student Tuition and Fees (net of scholarship allowances of \$15,536,778.12 and \$14,117,781.14, respectively)	\$ 35,401,408.08	\$ 34,010,419.33
Federal Grants	1,583,961.25	801,496.93
Federal Pass-Through Grants	112,428.18	135,117.65
State Pass-Through Grants from Other State Agencies	4,100,437.95	4,238,491.26
Other Grants and Contracts	1,243,128.43	772,136.76
Sales and Services of Educational Activities	1,441,650.94	1,482,742.95
Sales and Services of Auxiliary Enterprises	13,552,580.89	12,155,141.75
Other Operating Revenue	1,456,941.79	1,662,858.84
Total Operating Revenues	58,892,537.51	55,258,405.47

Operating Expenses:

Salaries and Wages	42,467,837.08	41,601,290.84
Payroll-Related Costs	9,886,331.91	13,870,020.15
Professional Fees and Services	5,962,406.43	5,347,840.23
Travel	2,128,920.79	2,027,391.89
Materials and Supplies	8,378,379.59	7,336,248.30
Communications and Utilities	2,613,757.09	2,661,128.68
Repairs and Maintenance	3,427,203.39	3,559,201.91
Rentals and Leases	839,390.85	490,171.40
Printing and Reproduction	365,508.71	337,049.30
Depreciation and Amortization	13,380,218.81	12,988,811.62
Bad Debt Expense	140,938.16	5,741.99
Interest	832.46	1,124.31
Scholarships	12,141,547.17	11,824,731.20
Total Operating Expenses	101,733,272.44	102,050,751.82

Operating Loss

(42,840,734.93) (46,792,346.35)

Non-Operating Revenues (Expenses):

State Appropriations	21,836,476.00	18,522,721.00
Additional State Appropriations	5,536,645.46	6,109,491.17
Federal Grants	10,459,109.85	9,523,650.09
Federal Pass-Through Grants	862.56	1,286.74
State Pass-Through Grants from Other State Agencies		582.45
Gifts	4,978,103.66	4,300,824.13
Insurance Recovery in Subsequent Year		446,875.42
Other Non-Operating Revenues (Expenses)		1.46
Investment Income	2,255,782.59	2,287,642.37
Net Increase (Decrease) in Fair Value of Investments	1,740,217.49	2,875,327.88
Debt Issuance Costs		(751,559.69)
Net Book Value of Capital Asset Disposals	(232,087.58)	(317,069.37)
Interest Expense on Capital Asset Financing	(2,918,263.69)	(4,327,792.88)
Total Non-Operating Revenues (Expenses)	43,656,846.34	38,671,980.77

Income (Loss) Before Capital Contributions, Additions to Endowments, and Special Items

816,111.41 (8,120,365.58)

	<u>2018</u>	<u>2017</u>
Capital Contributions	\$ 10,875,249.98	\$ 291,161.71
HEAF Appropriation	5,061,412.00	5,061,412.00
Additions to Endowments	60,005.63	84,271.95
Transfers In	572,880.04	1,797,324.86
Transfers Out	(1,112,063.43)	(977,144.29)
Legislative Transfers In	102,645.00	4,625,780.00
Legislative Appropriations Lapsed	<u>(1,248,800.17)</u>	<u>(1,077,905.74)</u>
Increase (Decrease) in Net Position	15,127,440.46	1,684,534.91
Net Position, Beginning of Year	89,709,345.59	88,024,810.68
Restatements	(13,630,419.00)	
Net Position, Beginning of Year, Restated	76,078,926.59	88,024,810.68
Net Position, End of Year	<u>\$91,206,367.05</u>	<u>\$89,709,345.59</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Midwestern State University

Unaudited

Midwestern State University Matrix of Operating Expenses Reported by Function For the Year Ended August 31, 2018

	Total Operating Expenses	Instruction	Research	Public Service	Academic Support
Salaries and Wages	\$ 42,467,837.08	\$22,639,945.18	\$492,719.23	\$369,078.46	\$3,488,269.07
Payroll-Related Costs	9,886,331.91	4,968,415.97	73,086.04	77,171.17	931,342.71
Professional Fees and Services	5,962,406.43	808,991.50	55,121.87	42,997.03	1,672,504.83
Travel	2,128,920.79	998,298.94	74,708.77	16,667.64	301,392.14
Materials and Supplies	8,378,379.59	838,131.06	160,585.58	96,276.59	797,699.66
Communications and Utilities	2,613,757.09	91,969.34	763.74	1,910.12	55,339.82
Repairs and Maintenance	3,427,203.39	170,109.25	7,192.84	39,669.64	1,277,874.25
Rentals and Leases	839,390.85	82,764.45	1,635.00	57,943.99	348,057.13
Printing and Reproduction	365,508.71	36,769.70	1,762.62	11,157.51	167,012.66
Depreciation and Amortization	13,380,218.81				
Bad Debt Expense	140,938.16				
Interest	832.46	44.92			35.67
Scholarships	12,141,547.17				
Total Operating Expenses	\$101,733,272.44	\$30,635,440.31	\$867,575.69	\$712,872.15	\$9,039,527.94

Midwestern State University Matrix of Operating Expenses Reported by Function For the Year Ended August 31, 2017

	Total Operating Expenses	Instruction	Research	Public Service	Academic Support
Salaries and Wages	\$ 41,601,290.84	\$22,337,982.40	\$498,574.17	\$361,880.02	\$3,341,360.71
Payroll-Related Costs	13,870,020.15	7,312,750.06	62,245.55	88,694.16	1,106,678.41
Professional Fees and Services	5,347,840.23	812,990.69	30,429.55	71,355.33	1,250,609.40
Travel	2,027,391.89	752,356.11	117,964.50	8,542.98	330,430.72
Materials and Supplies	7,336,248.30	641,699.59	160,255.25	118,520.20	660,487.34
Communications and Utilities	2,661,128.68	90,540.70	650.17	1,906.15	53,724.28
Repairs and Maintenance	3,559,201.91	153,172.96	4,252.33	37,504.54	878,662.69
Rentals and Leases	490,171.40	79,353.16	1,097.12	90,359.82	45,213.43
Printing and Reproduction	337,049.30	43,113.27	2,647.10	9,866.51	116,212.62
Depreciation and Amortization	12,988,811.62				
Bad Debt Expense	5,741.99				
Interest	1,124.31	74.27			22.58
Scholarships	11,824,731.20				
Total Operating Expenses	\$102,050,751.82	\$32,224,033.21	\$878,115.74	\$788,629.71	\$7,783,402.18

Year
Ended
8-31-2018
(UNAUDITED)

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operation & Maintenance</u>	<u>Scholarships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation</u>
\$ 6,229,254.54	\$4,649,893.36	\$3,267,905.98		\$1,330,771.26	
1,504,473.80	907,643.35	1,189,589.13		234,609.74	
1,667,929.51	73,499.78	191,556.16		1,449,805.75	
595,706.12	115,006.15	1,234.81		25,906.22	
1,080,257.56	983,253.55	1,050,257.98		3,371,917.61	
371,410.00	(167,413.16)	1,206,144.31		1,053,632.92	
175,984.78	813,045.16	(182,783.64)		1,126,111.11	
222,466.96	56,252.41	40,874.46		29,396.45	
228,870.27	(89,954.21)	2,214.84		7,675.32	
					\$13,380,218.81
140,938.16					
(22.75)	81.48	645.82		47.32	
			\$12,141,547.17		
<u>\$12,217,268.95</u>	<u>\$7,341,307.87</u>	<u>\$6,767,639.85</u>	<u>\$12,141,547.17</u>	<u>\$8,629,873.70</u>	<u>\$13,380,218.81</u>

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operation & Maintenance</u>	<u>Scholarships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation</u>
\$ 6,302,327.57	\$4,423,414.95	\$3,178,510.45		\$1,157,240.57	
2,001,389.75	1,510,162.14	1,505,028.71		283,071.37	
1,807,205.57	35,461.08	169,283.73		1,170,504.88	
672,685.22	119,932.57	3,804.90		21,674.89	
988,546.90	914,248.09	843,016.29		3,009,474.64	
358,276.34	(166,567.40)	1,243,611.11		1,078,987.33	
175,899.91	798,536.87	227,382.68		1,283,789.93	
205,073.17	48,988.81	30,996.60		(10,910.71)	
222,354.41	(64,195.09)	1,325.43		5,725.05	
					\$12,988,811.62
5,741.99					
86.40	120.69	715.24		105.13	
			\$11,824,731.20		
<u>\$12,739,587.23</u>	<u>\$7,620,102.71</u>	<u>\$7,203,675.14</u>	<u>\$11,824,731.20</u>	<u>\$7,999,663.08</u>	<u>\$12,988,811.62</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Midwestern State University

Unaudited

Midwestern State University

Exhibit III

Statement of Cash Flows

For the Years Ended August 31

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 35,997,480.43	\$ 34,505,301.79
Proceeds Received for Sponsored Programs	7,589,151.18	6,316,433.79
Proceeds Received from Auxiliary Enterprises	13,956,073.79	13,471,423.93
Proceeds From Loan Programs	2,331.80	1,874.52
Proceeds From Other Revenues	2,898,592.73	3,145,601.79
Payments to Employees	(56,366,610.74)	(55,549,528.70)
Payments to Suppliers for Goods and Services	(17,767,571.38)	(25,757,606.44)
Payments for Scholarships	(12,429,882.14)	(11,575,461.89)
Payments for Interest	(832.46)	(1,124.31)
Net Cash Provided (Used) by Operating Activities	<u>(26,121,266.79)</u>	<u>(35,443,085.52)</u>
Cash Flows from Non-capital Financing Activities:		
Proceeds from State Appropriations	26,346,004.04	23,550,742.19
Proceeds from Endowment Gifts	60,005.63	84,271.95
Proceeds from Gifts	4,491,156.66	3,898,476.60
Proceeds (Payments) from Other Non-capital Financing Activities		(304,682.81)
Proceeds from Non-operating Grants	10,459,972.41	9,525,519.28
Transfers in from Other Funds	161,808.00	4,775,757.00
Transfers out to Other Funds	(1,112,063.43)	(977,144.29)
Net Cash Provided by Non-capital Financing Activities	<u>40,406,883.31</u>	<u>40,552,939.92</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Debt Issuance		59,151,559.69
Proceeds from Capital Gifts	200,000.00	279,683.00
Proceeds from HEAF Appropriations	5,061,412.00	5,061,412.00
Proceeds From Interest on Capital Investments	510,717.17	530,888.40
Payments for Additions to Capital Assets	(24,670,831.59)	(10,346,088.26)
Principal Paid on Capital-Related Debt	(7,088,721.68)	(6,768,461.62)
Interest Paid on Capital-Related Debt	(2,759,458.01)	(5,541,647.42)
Net Cash Provided by Capital and Related Financing Activities	<u>(28,746,882.11)</u>	<u>42,367,345.79</u>
Cash Flows from Investing Activities:		
Proceeds from Interest and Investment Income	2,578,542.20	3,018,774.73
Proceeds from Sales and Maturities of Investments	39,493,139.04	42,093,610.07
Payments to Acquire Investments	(26,973,413.44)	(92,740,192.29)
Net Cash Provided (Used) by Investing Activities	<u>15,098,267.80</u>	<u>(47,627,807.49)</u>
Increase (Decrease) in Cash and Cash Equivalents	637,002.21	(150,607.30)
Cash and Cash Equivalents, Beginning of Year	<u>7,967,497.68</u>	<u>8,118,104.98</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,604,499.89</u>	<u>\$ 7,967,497.68</u>

Year
Ended
8-31-2018
(UNAUDITED)

	<u>2018</u>	<u>2017</u>
Reconciliation to Cash and Cash Equivalents as Displayed on the Statement of Net Position:		
Current Assets:		
Cash On Hand	\$ 16,750.00	\$ 17,600.00
Cash In Bank	1,991,746.59	282,063.36
Cash in State Treasury	2,724,644.20	2,896,567.01
Restricted:		
Cash In Bank	3,871,359.10	4,771,267.31
	<u>\$ 8,604,499.89</u>	<u>\$ 7,967,497.68</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$(42,840,734.93)	\$(46,792,346.35)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Amortization and Depreciation	13,380,218.81	12,988,811.62
Bad Debt Expense	140,938.16	5,741.99
Net Pension Expense Reported in Payroll-Related Costs and Professional Fees	(97,728.00)	150,491.00
Net Other Postemployment Benefits Expense Reported in Payroll-Related Costs	(4,092,291.00)	
Donations of Non-Capital Assets	956,366.25	696,852.12
(Increase) Decrease in Receivables	(440,635.16)	(961,778.79)
(Increase) Decrease in Inventories	(233.03)	7,901.26
(Increase) Decrease in Prepaid Expenses	(265,029.97)	251,863.87
Increase (Decrease) in Payables	5,027,936.06	(4,955,064.14)
Increase (Decrease) in Unearned Revenues	1,991,727.58	3,144,009.14
Increase (Decrease) in Compensated Absences Liability	79,071.94	21,965.82
Increase (Decrease) in Other Liabilities	39,126.50	(1,533.06)
Total Adjustments	16,719,468.14	11,349,260.83
Net Cash Used by Operating Activities	<u>\$(26,121,266.79)</u>	<u>\$(35,443,085.52)</u>
Non-Cash Transactions		
Net Increase (Decrease) in Fair Market Value of Investments	\$ 1,740,217.49	\$ 2,875,327.88
(Loss) Gain on Asset Disposals	(232,087.58)	(317,069.37)
Donation of Capital Assets	10,675,249.98	11,161.71
Refunding of Long-Term Debt		33,035,000.00
Transfer in on Master Lease Purchase Program	513,717.04	1,647,347.86

The accompanying Notes to the Financial Statements are an integral part of this statement.

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 1: Summary of Significant Accounting Policies

Introduction

MSU is a public institution of higher education and is an agency of the State of Texas (the State). The university's Board of Regents (the Board) is appointed by the Governor of the State. Accordingly, the university's financial position is in the State's Comprehensive Annual Financial Report. Transactions with the State relate primarily to appropriations for operations and capital improvements and grants from various state agencies.

Basis of Presentation

The financial statements of the university 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 as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* issued in June 1999; Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities* issued in November 1999; and Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* issued in June 2011. The financial statements also incorporate the requirements set forth in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which was issued by the GASB on December 30, 2010, and significantly reduces the need to rely on sources outside of the GASB's literature to locate the necessary accounting guidance for the governmental environment. The university does not apply FASB pronouncements issued after November 30, 1989 in the preparation of the accompanying financial statements.

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

MSU follows the "business-type activities" reporting requirement of GASB Statement No. 34 that provides a comprehensive one-line look at the university'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 the university 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 the university has a right to receive the revenues. Expenses are recognized when they are incurred.

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. GASB Statement No. 34 indicates that a consideration for defining a proprietary fund's operating revenues and expenditures is how individual transactions would be classified for purposes of preparing a Statement of Cash Flows according to GASB Statement No. 9.

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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.

Net Position

GASB Statement No. 63 reports equity as “Net Position” rather than “Net Assets,” as previously required under GASB Statement No. 34. Net position is classified according to external donor restrictions or availability of assets for satisfaction of university obligations.

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. Nonexpendable restricted net position includes gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net position represents funds that have been gifted for specific purposes. Restricted Net Position includes the university’s permanent endowments and donor restricted funds.

Unrestricted Net Position

Unrestricted net position consists of resources that are available for university use, and have been internally designated or reserved for specific purposes such as renewals and replacements, quasi-endowments, capital projects, student loans, budget commitments, and reserves for working capital.

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

MSU implemented GASB Statement No. 72, *Fair Value Measurement and Application*, in fiscal year 2016. 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. The university 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.

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Notes To The Financial Statements - Unaudited

Note 1: Continued

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.

Net Investment in Capital Assets

Net investment in capital assets consists of capital assets (the capitalization thresholds used by the university to determine whether an asset should be expensed or capitalized are listed below by type of capital asset), net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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. Depreciation is provided on physical properties on a straight-line basis over the estimated useful life of the asset, shown below by type of capital asset:

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

The university 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.

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Deferred Outflows and Inflows of Resources

Deferred Outflows of Resources are presented in separate sections on the Statement of Net Position effective fiscal year 2013, in compliance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and 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.

The implementation of GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, resulted in deferred outflows and deferred inflows of resources related to the new pension and other postemployment benefits (OPEB) reporting requirements, as detailed in Note 28. 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 on page 54.

Other Significant Accounting Policies

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

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Notes To The Financial Statements - Unaudited

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2018, is presented below.

BUSINESS-TYPE ACTIVITIES	Balance 09/01/17	Adjustment	Reclassifications Completed CIP
<u>Non-Depreciable or Non-Amortizable Assets:</u>			
Land and Land Improvements	\$ 5,946,107.70		
Construction in Progress	4,992,962.50		
Other Tangible Capital Assets	3,533,965.30		
Total Non-Depreciable Assets or Non-Amortizable Assets	14,473,035.50	\$0.00	\$0.00
<u>Depreciable Assets:</u>			
Buildings and Building Improvements	234,498,048.31		
Infrastructure	13,351,147.45		
Facilities and Other Improvements	13,732,746.31		
Furniture and Equipment	14,465,988.97		
Vehicles	1,881,543.98		
Other Capital Assets	11,421,623.32		
Total Depreciable Assets	289,351,098.34	0.00	0.00
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(118,369,974.29)		
Infrastructure	(7,248,827.43)		
Facilities and Other Improvements	(5,566,519.98)		
Furniture and Equipment	(11,878,464.18)		
Vehicles	(1,227,751.79)		
Other Capital Assets	(10,147,217.91)		
Total Accumulated Depreciation	(154,438,755.58)	0.00	0.00
Depreciable Assets, Net	134,912,342.76	0.00	0.00
<u>Amortizable Assets - Intangible</u>			
Computer Software	10,730,009.48		
Total Amortizable Assets - Intangible	10,730,009.48	0.00	0.00
Less Accumulated Amortization for:			
Computer Software	(10,536,052.06)		
Total Accumulated Amortization	(10,536,052.06)	0.00	0.00
Amortizable Assets - Intangible, Net	193,957.42	0.00	0.00
Business-Type Activities Capital Assets, Net	\$149,579,335.68	\$0.00	\$0.00

Additions	Deletions	Balance 08/31/18
\$ 310,282.74	\$ (43,500.00)	\$ 6,212,890.44
21,434,066.14		26,427,028.64
		3,533,965.30
21,744,348.88	(43,500.00)	36,173,884.38
976,756.37	(699,352.41)	234,775,452.27
		13,351,147.45
798,532.56		14,531,278.87
1,764,619.56	(489,749.52)	15,740,859.01
107,822.00	(68,819.74)	1,920,546.24
113,585.26	(447,113.65)	11,088,094.93
3,761,315.75	(1,705,035.32)	291,407,378.77
(9,926,643.59)	515,815.33	(127,780,802.55)
(477,281.04)		(7,726,108.47)
(547,729.65)		(6,114,249.63)
(734,606.42)	484,699.02	(12,128,371.58)
(155,294.00)	68,819.74	(1,314,226.05)
(232,868.10)	447,113.65	(9,932,972.36)
(12,074,422.80)	1,516,447.74	(164,996,730.64)
(8,313,107.05)	(188,587.58)	126,410,648.13
10,354,133.98		21,084,143.46
10,354,133.98	0.00	21,084,143.46
(1,305,796.01)		(11,841,848.07)
(1,305,796.01)	0.00	(11,841,848.07)
9,048,337.97	0.00	9,242,295.39
\$22,479,579.80	\$(232,087.58)	\$171,826,827.90

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Notes To The Financial Statements - Unaudited

Note 3: Deposits, Investments and Repurchase Agreements

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 of Texas 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 of Texas universities exempt from this act (see additional disclosures), and
6. Other instruments and obligations authorized by statute.

The university also employs an investment manager to manage the assets of its endowments, which total \$9,918,701.69, and are invested under a separate investment policy that permits equities, as well as fixed income and alternative assets. Additionally, the university contracts with the Texas A&M University System to manage university 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 CCP and the SEF managed by Texas A&M University System at August 31, 2018 were \$28,049,543.70 and \$13,042,278.52, respectively. Additional information about these investments is disclosed separately on pages 33-38.

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

	<u>2018</u>	<u>2017</u>
Cash on Hand	\$ 16,750.00	\$ 17,600.00
Cash in Bank	5,863,105.69	5,053,330.67
Cash in State Treasury	2,724,644.20	2,896,567.01
Total Cash and Cash Equivalents	<u>\$8,604,499.89</u>	<u>\$7,967,497.68</u>

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

Current Assets—Cash and Cash Equivalents:

Cash on Hand	\$ 16,750.00	\$ 17,600.00
Cash in Bank	1,991,746.59	282,063.36
Cash in State Treasury	2,724,644.20	2,896,567.01

Current Assets—Restricted Cash and Cash Equivalents:

Cash in Bank	3,871,359.10	4,771,267.31
Total Cash and Cash Equivalents	<u>\$8,604,499.89</u>	<u>\$7,967,497.68</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, the university will not be able to recover deposits or will not be able to recover collateral securities in the possession of an outside party. The university's policies and state statute require the university'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 university deposits if they are not fully insured by FDIC.

The university's bank balance at August 31, 2018 was \$7,363,704.38. \$250,000 of this amount was covered by FDIC Insurance and \$7,113,704.38 was collateralized with securities pledged by the bank granting the university a first priority security interest in the collateral which was held by the Bank of New York Mellon acting as custodian for the university and the bank (as defined above). The value of securities pledged as collateral as of August 31, 2018 was reported by the custodian as \$7,395,709.12 or 103.96% of the university's uninsured bank deposits.

MSU also entered into a flexible repurchase agreement with Bayerische Landesbank for investment of construction bond proceeds. The value of the investments at August 31, 2018 was \$42,557,009.92. Per the contract, Wells Fargo Bank acts as the third-party custodial agent for all purchased securities pledged as collateral in the university'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, 2018 was \$46,691,106.27, or 105.39% of the value of the investments in the flexible repurchase agreement.

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Fair Value of Investments as of August 31 by Investment Type	<u>2018</u>	<u>2017</u>
U.S. Government Agency Obligations	\$ 194,187.80	\$ 243,359.32
Corporate Bonds	2,960,540.69	2,235,155.00
Equities	6,452,731.49	6,330,886.16
Other Commingled Funds—Texas A&M System Investment Pool*	41,091,822.22	38,717,976.27
Other Commingled Funds—Texpool	2,556,253.09	4,014,803.23
Other Commingled Funds—LOGIC	4,091,550.60	4,036,163.18
Other Commingled Funds—Texas Class	4,098,876.16	4,041,742.85
Other Commingled Funds—Goldman Sachs	459,401.72	76,988.43
Flexible Repurchase Agreements	42,557,009.92	56,238,187.55
Alternative Investments (including hedge funds)	433,115.39	565,998.84
Total Investments	\$104,895,489.08	\$116,501,260.83

Fair Value of Investments as of August 31 by Balance Sheet Category		
Current Assets—Short-Term Investments	\$ 11,712,495.28	\$ 12,822,554.32
Non-Current Assets—Restricted Short Term Investments	42,050,596.21	55,585,330.92
Non-Current Assets—Restricted Investments	2,840,890.02	2,742,442.87
Non-Current Assets—Other Long Term Investments	48,291,507.57	45,350,932.72
Total Investments	\$104,895,489.08	\$116,501,260.83

*See additional disclosures on pages 33-38 for investments managed by the Texas A&M University System.

Fair Value Hierarchy of Investments

The university implemented GASB Statement No. 72, *Fair Value Measurement and Application*, 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 Receipt's 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, 2018 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, 2018 NAV by the estimated performance as of August 31, 2018 as reported by the investment manager.

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Note 3: Continued		Fair Value Hierarchy			Fair Value as of August 31, 2018
Investment Type	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	NAV	
U.S. Government Agency Obligations		\$ 194,187.80			\$ 194,187.80
Corporate Bonds		2,960,540.69			2,960,540.69
Equities	\$6,452,731.49				6,452,731.49
Other Commingled Funds - Texas A&M System Investment Pool*					41,091,822.22
Other Commingled Funds - Texpool				\$2,556,253.09	2,556,253.09
Other Commingled Funds - LOGIC				4,091,550.60	4,091,550.60
Other Commingled Funds - Texas Class				4,098,876.16	4,098,876.16
Other Commingled Funds - Goldman Sachs				459,401.72	459,401.72
Flexible Repurchase Agreements				42,557,009.92	42,557,009.92
Alternative Investments (including hedge funds)		285,747.00	\$147,368.39		433,115.39
Total Investments					\$104,895,489.08

*See additional disclosures on pages 33-38 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, 2018, the university'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)	\$ 194,187.80			
Corporate Bonds		\$752,612.94	\$ 252,622.80	\$1,955,304.95
Commingled Funds—Texpool and LOGIC	\$10,746,679.85			

Investment Type	BB	B	Collateralized	Not Rated
Other Commingled Funds—Goldman Sachs				\$ 459,401.72
Flexible Repurchase Agreements			\$ 42,557,009.92	
Equities				\$6,452,731.49
Alternative Investments (including hedge funds)				\$ 433,115.39

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2018, the university's concentration of credit risk is immaterial to any single issuer.

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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 the university's investments to changes in interest rates.

The university's investments exposed to interest rate risk as of August 31, 2018 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration</u>
U.S. Government Agency Obligations	\$ 194,187.80	3.89
Corporate Bonds	\$ 2,960,540.69	4.52

Texas A&M Investment Pool

The fair value of MSU's investments managed by the Texas A&M University System as of August 31, 2018 is presented below:

<u>Investment Type</u>	<u>CCP</u>	<u>SEF</u>	<u>Total Combined Fair Value</u>
U.S. Treasury Securities	\$ 1,857,117.11	\$ 246,142.68	\$ 2,103,259.79
U.S. Treasury TIPS	97,336.20	24,897.53	122,233.73
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.)	1,073,954.23	226,813.26	1,300,767.49
Corporate Obligations	2,667,084.62	538,489.57	3,205,574.19
Corporate Asset and Mortgage-Backed Securities	1,341,258.83	242,351.17	1,583,610.00
Equity (Domestic)	5,559,102.61	2,299,285.77	7,858,388.38
International Obligations (Govt and Corp)	1,646,056.73	242,757.61	1,888,814.34
International Equity	3,744,339.62	1,607,556.49	5,351,896.11
Fixed Income Money Market and Bond Mutual Funds	420,285.16	246,973.56	667,258.72
Mutual Funds—International Equity (registered with SEC)	3,120,255.08	1,193,303.16	4,313,558.24
Other Commingled Funds—Fixed Income	336,492.07	153,991.70	490,483.77
Derivatives	(93.20)	(46.92)	(140.12)
<u>Alternative Investments:</u>			
Hedge Funds—Domestic	2,844,411.12	945,423.93	3,789,835.05
Hedge Funds—International	3,323,461.67	1,163,615.43	4,487,077.10
Limited Partnerships—Private Equity		1,537,578.04	1,537,578.04
Limited Partnerships—International Private Equity		1,056,651.21	1,056,651.21
Limited Partnerships—Real Estate		295,624.89	295,624.89
Limited Partnerships—International Real Estate		12,101.33	12,101.33
Limited Partnerships—Natural Resources		1,075,571.84	1,075,571.84
Limited Partnerships—International Natural Resources		82,500.75	82,500.75
<u>Miscellaneous:</u>			
Political Subdivisions	3,615.61		3,615.61
Total Investments	\$28,034,677.46	\$13,191,583.00	\$41,226,260.46

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Note 3: Continued	Fair Value Hierarchy					Fair Value as of August 31, 2018
Investment Type	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Amortized Cost	NAV	
U.S. Treasury Securities	\$2,103,259.79					\$ 2,103,259.79
U.S. Treasury TIPS	122,233.73					122,233.73
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.)		\$1,300,767.49				1,300,767.49
Corporate Obligations		3,205,574.19				3,205,574.19
Corporate Asset and Mortgage-Backed Securities		1,583,610.00				1,583,610.00
Equity (Domestic)	7,858,388.38					7,858,388.38
International Obligations (Govt and Corp)		1,888,814.34				1,888,814.34
International Equity	5,351,896.11					5,351,896.11
Fixed Income Money Market and Bond Mutual Funds				\$667,258.72		667,258.72
Mutual Funds—International Equity (registered with SEC)	2,995,751.55		\$1,317,806.69			4,313,558.24
Other Commingled Funds—Fixed Income	238,188.71		252,295.06			490,483.77
Derivatives		(140.12)				(140.12)
Alternative Investments:						
Hedge Funds—Domestic					\$3,789,835.05	3,789,835.05
Hedge Funds—International					4,487,077.10	4,487,077.10
Limited Partnerships—Private Equity					1,537,578.04	1,537,578.04
Limited Partnerships—International Private Equity					1,056,651.21	1,056,651.21
Limited Partnerships—Real Estate					295,624.89	295,624.89
Limited Partnerships—International Real Estate					12,101.33	12,101.33
Limited Partnerships—Natural Resources					1,075,571.84	1,075,571.84
Limited Partnerships—International Natural Resources					82,500.75	82,500.75
Miscellaneous:						
Political Subdivisions		3,615.61				3,615.61
Total Investments						\$41,226,260.46
Fair Value of Investments as of August 31, 2018 by Balance Sheet Category						
Foreign Currency presented as Cash						\$ 5,283.39
Cash						61.75
Receivables:						
Interest/Dividends Receivable						98,731.31
Foreign Currency Fluctuations—Receivable						(186.61)
Foreign Exchange Contract Receivable						48,012.12
Pending Sale						25,743.47
Payables:						
Payable for Manager Fees						(17,252.18)
Payable for 4th quarter System Endowment Fund distribution						(143,367.03)
Foreign Currency Fluctuations—Payable						8.91
Foreign Exchange Contract Payable						(48,012.12)
Pending Purchase						(103,286.09)
Other Payables						(173.14)
Rounding due to allocation						(2.02)
Total Cash and Accruals						(134,438.24)
Investments (detailed on page 33 and above by Investment Type)						41,226,260.46
Net Asset Value						\$41,091,822.22

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Ended
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Midwestern State University

Notes To The Financial Statements - Unaudited

The table below reflects the notification and liquidity parameters applicable to The Texas A&M University System 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.

Investments Reported at NAV		Redemption	
Investment Strategy	Fair Value	Frequency Range Low	Frequency Range High
Hedge Funds - Domestic	\$3,789,835.05	Quarterly	Semi-annually
Hedge Funds - International	4,487,077.10	Quarterly	Semi-annually
Limited Partnerships - Private Equity	1,537,578.04	N/A	N/A
Limited Partnerships - International Private Equity	1,056,651.21	N/A	N/A
Limited Partnerships - Real Estate	295,624.89	N/A	N/A
Limited Partnerships - International Real Estate	12,101.33	N/A	N/A
Limited Partnerships - Natural Resources	1,075,571.84	N/A	N/A
Limited Partnerships - International Natural Resources	82,500.75	N/A	N/A

Investments Reported at NAV		Redemption		Unfunded
Investment Strategy	Notice Period Range Low	Notice Period Range High		Commitment
Hedge Funds - Domestic	65 days	2 years		\$119,980.57
Hedge Funds - International	65 days	2 years		139,492.98
Limited Partnerships - Private Equity	N/A	N/A		306,786.00
Limited Partnerships - International Private Equity	N/A	N/A		421,399.00
Limited Partnerships - Real Estate	N/A	N/A		426,625.00
Limited Partnerships - International Real Estate	N/A	N/A		176,848.00
Limited Partnerships - Natural Resources	N/A	N/A		495,702.00
Limited Partnerships - International Natural Resources	N/A	N/A		8,700.00

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 3: Continued

Investments Exposed to Credit Risk

Investment Type	AAA	AA	A	BBB
U.S. Government Agency Obligations		\$1,244,395.63		\$ 16,296.78
Corporate Obligations	\$ 76,998.53	217,668.39	\$567,336.52	1,774,183.78
Corporate Asset and Mortgage-Backed Securities	211,883.72	202,459.62	184,364.31	16,514.88
International Obligations	201,416.87	156,673.08	301,729.81	698,022.54
Fixed Income Money Market and Bond Mutual Fund	667,258.72			

Investment Type	BB	B	CCC	Not Rated
U.S. Government Agency Obligations				\$ 40,075.08
Corporate Obligations	\$387,451.93	\$ 125,110.91		56,824.13
Corporate Asset and Mortgage Backed Securities	88,473.22			879,914.25
International Obligations	92,530.96	25,018.21		413,422.87
Other Commingled Funds - Fixed Income				490,483.77
Miscellaneous (municipals and CDs)				3,615.61

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
05	9999	U.S. Dollar Denominated Foreign Securities	\$1,760,720.20	\$1,963,514.30	\$4,313,558.24
05	9999	Australian Dollar		78,269.87	
05	9999	Brazil Real		68,330.05	
05	9999	British Pound Sterling	7,702.34	419,124.79	
05	9999	Canadian Dollar		224,789.12	
05	9999	Danish Krone		29,882.44	
05	9999	Euro Currency Unit	1,093.69	1,059,023.70	
05	9999	Hong Kong Dollar		117,863.04	
05	9999	Japanese Yen		601,399.45	
05	9999	Mexican Peso	28,133.27		
05	9999	New Taiwan Dollar		48,788.41	
05	9999	New Zealand	91,164.84		
05	9999	Singapore Dollar		41,277.60	
05	9999	South Korean Won		70,533.27	
05	9999	Swedish Krona		86,133.34	
05	9999	Swiss Franc		470,781.94	
05	9999	Thailand Baht		54,206.57	
05	9999	New Turkish Lira		17,978.22	
TOTAL			\$1,888,814.34	\$5,351,896.11	\$4,313,558.24

Midwestern State University

Notes To The Financial Statements - Unaudited

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	\$4,487,077.10	\$ 905,135.87	\$82,500.75	\$12,101.33
05	9999	Euro Currency Unit		151,515.34		
		TOTAL	\$4,487,077.10	\$1,056,651.21	\$82,500.75	\$12,101.33

Investments Exposed to Interest Rate Risk

Investment Types	Effective Duration	Unaccrued Market Value System Total
U.S. Treasury Securities	5.836	\$ 2,103,259.79
U.S. Treasury TIPS	6.952	122,233.73
U.S. Government Agency Obligations	3.792	1,300,767.49
Corporate Obligations	5.301	3,205,574.19
Corporate Asset and Mortgage Backed Securities	3.970	1,583,610.00
International Obligations	3.148	1,888,814.34
Other Commingled Funds - Fixed Income	2.200	490,483.77
Miscellaneous (political subdivision and CDs)	0.816	3,615.61
Total Fair Value		\$10,698,358.92

Derivative Investing

MSU invests funds in the Texas A&M University System's (A&M System) investment pool, which includes investment derivatives in the form of forward currency exchange contracts used for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. Additional information on these contracts can be found in the A&M System's financial statement note disclosures.

The table below summarizes MSU's share of the pending foreign exchange contracts as of August 31, 2018:

Currency	Sell	Buy	Unrealized Gain on Foreign Exchange Contract	Unrealized Loss on Foreign Exchange Contract
Australian Dollar		\$ 795.39	\$ 0.53	
British Pound Sterling	\$21,525.48	2,322.17	0.51	\$130.37
Canadian Dollar		3,683.38	1.84	3.65
Danish Krone		341.66		0.44
Euro	4,499.26	6,808.33	15.08	9.57
Hong Kong Dollar		1,593.69	0.06	
Japanese Yen		1,488.21		1.83
Singapore Dollar		469.63	0.16	
Swedish Krona		696.03		0.80
Swiss Franc		1,846.59	1.14	
Turkish Lira		1,942.30		12.78
	\$26,024.74	\$21,987.38	\$19.32	\$159.44

ANNUAL

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REPORT

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Midwestern State University

Notes To The Financial Statements - Unaudited

Note 3: Continued

The university's share of the fair value of open foreign currency exchange contracts as of August 31, 2018 was \$19.32, which is included in the net increase (decrease) in fair value of investments on the Statement of Revenues, Expenses, and Changes in Net Position.

The gross counterparty exposure related to MSU's share of these contracts as of August 31, 2018 was as follows:

Notional Amount	Assets Fair Value as of August 31, 2018	Liabilities Fair Value as of August 31, 2018	S&P Counterparty Rating
\$16,070.08		\$ 48.30	AA-
1,130.65	\$ 1.64	0.80	A
6,715.37		10.01	A+
11,875.32	9.99	97.25	BBB+
1,607.70		3.08	A+
7,693.67	5.69		A+
2,449.70	1.84		AA-
469.63	0.16		A
\$48,012.12	\$19.32	\$159.44	

Note 4: Short-Term Debt

Not Applicable

Note 5: Long-Term Liabilities

During the year ended August 31, 2018, the following changes occurred in liabilities:

Business-Type Activities	Balance 09-01-17	Restatement	Additions	Reductions	Balance 08-31-18
Revenue Bonds Payable	\$148,600,000.00			\$6,130,000.00	\$142,470,000.00
Unamortized Premium on Revenue Bonds	13,700,948.50			681,038.64	13,019,909.86
Subtotal	162,300,948.50			6,811,038.64	155,489,909.86
Compensable Leave	1,731,648.04		\$260,834.60	181,762.66	1,810,719.98
Total	<u>\$164,032,596.54</u>	<u>\$0.00</u>	<u>\$260,834.60</u>	<u>\$6,992,801.30</u>	<u>\$157,300,629.84</u>

Amounts due within one year are as follows:

Revenue Bonds Payable	Unamortized Premium on Revenue Bonds	Compensable Leave	Total
\$6,345,000.00	\$681,038.64	\$279,310.47	\$7,305,349.11

Midwestern State University

Notes To The Financial Statements - Unaudited

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 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 \$1,810,719.98. The university made lump-sum payments totaling \$181,762.66 for accrued vacation to employees who separated from state service during the fiscal year ended August 31, 2018 and payments of \$210,581.27 for August 31, 2017.

The university has an undetermined and unrecorded liability for employee 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. The university'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

Detailed supplemental bond information is disclosed in:

- Schedule 2A—Miscellaneous Bond Information
- Schedule 2B—Changes in Bonded Indebtedness
- Schedule 2C—Debt Service Requirements
- Schedule 2D—Analysis of Funds Available for Debt Service
- Schedule 2E—Defeased Bonds Outstanding
- Schedule 2F—Early Extinguishment and Refunding

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

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—\$1,230,000; Outstanding at Year End—\$1,285,000.

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Notes To The Financial Statements - Unaudited

Note 6: Continued

Revenue Financing System Revenue Bonds, Series 2010

- Issued by the TPFA on behalf of the university. To pay for improving, renovating, enlarging, and/or equipping the university'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—\$195,000; Outstanding at Year End—\$645,000.

Revenue and Refunding Bonds, Series 2012A

- Issued by the TPFA on behalf of the university. 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—\$645,000; Outstanding at Year End—\$1,935,000.

Revenue and Refunding Bonds, Series 2012B

- Issued by the TPFA on behalf of the university. 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 university 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—\$520,000; Outstanding at Year End—\$4,050,000.

Midwestern State University

Notes To The Financial Statements - Unaudited

Revenue and Refunding Bonds, Series 2015A

- Issued by the TPFA on behalf of the university. 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 university residence halls, including fire safety and other general modernization improvements; the refunding of \$6,025,000 of the Series 2007 Tuition Revenue Bond (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.
- The deferred outflow of the loss on the refunding of the bonds will be amortized over the next two fiscal years per the requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.
- 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—\$305,000; Outstanding at Year End—\$52,160,000.

Revenue and Refunding Bonds, Series 2015B

- Issued by the TPFA on behalf of the university. 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—\$1,550,000; Outstanding at Year End—\$2,155,000.

Revenue and Refunding Bonds, Series 2016A

- Issued by the TPFA on behalf of the university. \$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; 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
- 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—\$1,685,000; Outstanding at Year End—\$68,450,000.

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 6: Continued

Revenue and Refunding Bonds, Series 2016B

- Issued by the TPFA on behalf of the university. 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—\$0; Outstanding at Year End—\$11,790,000.

Note 7: Derivative Instruments

A derivative security is a financial instrument which derives its value from another security, currency, commodity, or index. Investment derivatives are entered into with the intention of managing transaction or currency exchange risk in purchasing, selling, or holding investments. These include future and forward contracts.

MSU invests funds in the A&M System's investment pools, which include investment derivatives in the form of forward currency exchange contracts used for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. Additional information on these contracts can be found in the A&M System's financial statement note disclosures. The table below summarizes MSU's share of the pending foreign exchange contracts as of August 31, 2018.

Investment Derivatives	Changes in Fair Value		Fair Value as of 8/31/2018		Notional Amount
	Classification	Amount	Classification	Amount	
Foreign Exchange Contracts	Investment Income	\$(140.12)	Investment	\$(140.12)	\$48,012.12

Note 8: Leases

Capital Leases

MSU has no capital leases as of August 31, 2018.

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
2019	\$135,648.88
2020	121,304.48
2021	90,135.46
2022	75,736.81
2023	31,255.42
Total Future Minimum Lease Payments	\$454,081.05

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 9: Pension Plans

Teacher Retirement System Pension Plan

Teacher Retirement System (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 of Texas, TRS, 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 system. Employees of TRS and state of Texas 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).

The audited Comprehensive Annual Financial Report for TRS may be obtained from: Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698.

During the measurement period of 2017 for fiscal 2018 reporting, the amount of MSU's contributions recognized by the TRS Plan was \$953,582.00. The contribution rates are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the state and the members in the measurement period are presented in the table below:

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, 2017 measurement date:

Actuarial Methods and Assumptions	TRS Plan
Actuarial Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
<u>Actuarial Assumptions:</u>	
Discount Rate	8.0%
Investment Rate of Return	8.0%
Inflation	2.50%
Salary Increase	3.50% to 9.50%, including inflation
<u>Mortality:</u>	
Active	90% of the RP 2014 Employee Mortality Tables for males and females.
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables.
Ad Hoc Postemployment Benefit Changes	None

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the four-year period ending August 31, 2014 and adopted September 2015. The mortality rates were based on 90% of the RP 2014 employee Mortality Tables for the active members. The post-retirement mortality rates were based on 2015 TRS Healthy Pensioner Mortality Tables.

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Notes To The Financial Statements - Unaudited

Note 9: Continued

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

The discount rate of 8% was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement period. 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. Under this assumption, the TRS Plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8% long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

The long-term expected rate of return on TRS Plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, 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 geometric 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%	4.6%
Non-U.S. Developed	13%	5.1%
Emerging Markets	9%	5.9%
Directional Hedge Funds	4%	3.2%
Private Equity	13%	7.0%
Stable Value		
U.S. Treasury	11%	0.7%
Absolute Return	0%	1.8%
Stable Value Hedge Funds	4%	3.0%
Cash	1%	-0.2%
Real Return		
Global Inflation Linked Bonds	3%	0.9%
Real Assets	16%	5.1%
Energy and Natural Resources	3%	6.6%
Commodities	0%	1.2%
Risk Parity		
Risk Parity	5%	6.7%
Total	100%	

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 (7%)	Current Discount Rate (8%)	1% Increase in Discount Rate (9%)
\$15,713,662	\$9,321,176	\$3,998,395

Midwestern State University

Notes To The Financial Statements - Unaudited

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 plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs. More detailed information on the TRS Plan's investment policy, assets, and fiduciary net position may be obtained from TRS' fiscal 2017 Comprehensive Annual Financial Report.

At August 31, 2018, MSU reported a liability of \$9,321,176.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university's proportion at August 31, 2018 was 0.0291518% which was an increase from the 0.0264757% 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 all of the employer's and non-employer contributing entities' contributions to the TRS Plan for the period September 1, 2016 through August 31, 2017.

For the year ending August 31, 2018, MSU recognized pension expense of \$966,046.00. At August 31, 2018, the university 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	\$ 136,373.00	\$ 502,679.00
Changes of assumptions	424,594.00	243,070.00
Net difference between projected and actual investment return		679,307.00
Change in proportion and contribution difference	794,557.00	454,465.00
Contributions subsequent to the measurement date	1,065,618.00	
Total	\$2,421,142.00	\$1,879,521.00

The \$1,065,618.00 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, 2019. 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
2019	\$ (272,760.00)
2020	322,235.00
2021	(318,471.00)
2022	(453,768.00)
2023	103,888.00
Thereafter	94,880.00
Total	\$(523,996.00)

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 9: Continued

Optional Retirement Program

The state has established an Optional Retirement Program (ORP) for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS 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 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 the university. 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 this program, and MSU bears no responsibility for retirement commitments beyond contributions. The contributions made to the ORP by the members and employer for the fiscal year ended August 31, 2018, compared to the previous year, are shown below:

	Year Ended August 31, 2018	Year Ended August 31, 2017
Member Contributions	\$1,021,229.01	\$1,047,238.02
Employer Contributions	1,091,491.25	1,122,733.61
Total Remittance	<u>\$2,112,720.26</u>	<u>\$2,169,971.63</u>

Note 10: Deferred Compensation

University 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. Deferred compensation plans are administered by the Employees Retirement System.

The state's 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 account for each participant. The state has no liability under the 457 Plan, and it is unlikely that the 457 plan assets will be used to satisfy the claims of general creditors in the future.

The university 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 this Tax-Deferred Account Program do not belong to the university, and thus it does not have a liability related to this 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 of Texas 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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The SRHP provides postemployment health care and 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.

The audited Comprehensive Annual Financial Report for ERS may be obtained from: Employees Retirement System of Texas, 200 E. 18th Street, Austin, Texas 78701.

During the measurement period of 2017 for the fiscal 2018 reporting, the amount of MSU's contributions recognized by the SRHP were \$4,197,119.35. The university 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	\$ 617.30
Retiree and Spouse	970.98
Retiree and Children	854.10
Retiree and Family	1,207.78

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, 2017 measurement date.

Actuarial Methods and Assumptions	SRHP
Actuarial Valuation Date	August 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
<u>Actuarial Assumptions:</u>	
Discount Rate	3.51%
Inflation	2.50%
Salary Increase	3.50% to 9.50%, including inflation
Healthcare Cost and Trend Rate	8.50% for FY 2019, decreasing 0.50% per year to 4.50% for FY 2027 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	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
Inactive Members	
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

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Notes To The Financial Statements - Unaudited

Note 11—Continued

Mortality:

Higher Education Members

Service Retirees, Survivors, and Other

Inactive Members

Disabled Retirees

Active Members

Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014

Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members

Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB

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 September 1, 2011 to August 31, 2016 for state agency members and for the period September 1, 2010 to August 31, 2014 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 benefit revisions have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary:

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

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 3.51% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.84%. 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 the SRHP plan investments was 2.84%.

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 MSU's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate (\$ thousands)		
1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
\$13,939	\$11,677	\$9,925

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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 MSU's Proportionate Share of the Net OPEB Liability to Changes in the Health care Cost Trend Rate (\$ thousands)		
1% Decrease (7.50% decreasing to 3.50%)	Current Health care Cost Trend Rates (8.50% decreasing to 4.50%)	1% Increase (9.50% decreasing to 5.50%)
\$9,817	\$11,677	\$14,091

The SRHP 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 Plan. Investments of the Other Employee Benefit Trust Fund are reported at fair value in accordance with GASB Statement No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the SRHP Plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2017 CAFR.

At August 31, 2018, MSU reported a liability of \$11,676,951.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of August 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actual valuation as of that date. MSU's proportion at August 31, 2017 was 0.03427038%. MSU's proportion of the collective net OPEB liability was based on its contributions to the SRHP Plan relative to the contributions of all the employers and non-employer contributions to the plan for the period September 1, 2016 through August 31, 2017.

For the year ending August 31, 2018, MSU recognized OPEB expense of \$624,905.00. At August 31, 2018, 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		\$ 140,320.00
Changes of assumptions		2,441,510.00
Net difference between projected and actual investment return	\$ 3,457.00	
Contributions subsequent to the measurement date	4,717,196.00	
Total	\$4,720,653.00	\$2,581,830.00

The \$4,717,196.00 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, 2019.

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

Year Ended	2019	2020	2021	2022	2023	Thereafter
Amount of OPEB Expense to be Recognized	(580,629.00)	(580,629.00)	(580,629.00)	(580,629.00)	(255,857.00)	0.00

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Notes To The Financial Statements - Unaudited

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		\$283,278.47	
D23 Fund 7999		\$283,278.47	SECO Federal Revolving Loan

Interfund Receivables and Payables—Non Current:

State Energy Conservation Office, 907		\$423,821.34	
D23 Fund 7999		\$423,821.34	SECO Federal Revolving Loan

Due to/Due From:	Due From Other Agencies	Due To Other Agencies	Purpose
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Texas Tech University, 733			
D23 Fund 7999	\$110,441.12		Small Business Development Center
Total Due To/Due From	\$110,441.12		

<u>Operating Transfers:</u>	Transfer In	Transfer Out	
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Texas Department of Motor Vehicles, 608			Texas Collegiate License
D23 Fund 0802		\$ 1.00	Plate Fund

Texas Public Finance Authority, 347			
D23 Fund 7999	\$513,717.04	1,112,063.43	Master Lease Purchase Transfers

Texas State Comptroller's Office, 902			
D23 Fund 0210	59,163.00		Hazlewood Exemption Program

Total Transfers	\$572,880.04	\$1,112,063.43	
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<u>Legislative Transfers:</u>	Transfer In	Transfer Out	
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Texas State Comptroller's Office, 902			
D23 Fund 0001	\$102,645.00		Hazlewood Reimbursement-TVC
Total Transfers	\$102,645.00		

Detailed State Grant Pass-Through information is listed on page 59 in Schedule 1B.

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 13: Continuance Subject to Review

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

Note 14: Adjustments to Fund Balance/Net Position

The university implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018. This pronouncement established new accounting and financial reporting requirements for institutions that provide employees with OPEB, such as retiree health insurance. The university participates in the SRHP, administered by ERS, which is considered a multiple-employer cost-sharing defined benefit OPEB plan with a special funding situation. The implementation of GASB Statement No. 75 resulted in a restatement in the amount of \$13,630,419.00 to previous net position. This amount was calculated to be the university's proportionate share of the overall restatement by the Texas State Comptroller's Office using the university's contributions to the benefit plan as a basis for the calculation.

Note 15: Contingencies and Commitments

At August 31, 2018, there were no material pending lawsuits or claims involving MSU. Any claims incurred but not asserted against the university cannot be reasonably estimated at this time, and any such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the university.

Note 16: Subsequent Events

On October 30, 2018, the university received \$3.5 million in proceeds from the sale of mineral interests in Reeves County, Texas. The funds will be used in accordance with the bequest from Mr. Homer Donohoo, Jr., with one-half of the funds to support the Music Department and one-half to support the Nursing Department.

On November 8, 2018, at its regularly scheduled board meeting, the Board approved using the proceeds from the sale of mineral interests to establish two quasi-endowment funds to benefit music and nursing programs at MSU. These quasi-endowment funds will be invested in the A&M System Endowment Fund, and the income will be distributed quarterly beginning in March 2019.

Note 17: Risk Management

The university is exposed to a variety of civil claims resulting from the performance of its duties. It is the university'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 the university. The university participates in the statewide property insurance program and purchases educators legal liability insurance. The university 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.

The university'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, 2018, there were no known claim liabilities.

The State provides coverage for workers' compensation and unemployment benefits from appropriations made to other state agencies for university employees. The university was assessed \$129,028.24 and \$186,186.14 for workers' compensation coverage for fiscal years ending August 31, 2018 and 2017, respectively. Unemployment compensation is funded on a pay as you go method, with the State contributing half of the cost of benefits and the university contributing the other half for employees paid by State appropriated funds. The university must pay 100% of the cost of benefits for employees paid from local funds.

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Notes To The Financial Statements - Unaudited

Note 17—Continued

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, the university 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

See Introduction.

Note 19: The Financial Reporting Entity

MSU is an agency of the State of Texas. The ten members of its Board are appointed by the Governor, and include one non-voting student Regent. The university has no component units, joint ventures, or related parties; however, there are two affiliated parties described below.

The Midwestern State University Foundation and Charitable Trust are nonprofit organizations with the sole purpose of supporting the educational and other activities of the university. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of \$922,825.00 to MSU during the year ended August 31, 2018, and \$725,609.00 for the prior year. The MSU Charitable Trust remitted restricted gifts of \$945,441.00 to the university during the year ended August 31, 2018 and \$1,016,945.00 for the prior year. The assets of the Foundation and the Charitable Trust as of August 31, 2018 are reported by their trustees in the amount of \$25,568,636.14 and \$32,412,384.25, respectively.

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: Not Applicable to the AFR

Note 22: Donor-Restricted Endowments

The university is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Property Code Chapter 163. UPMIFA allows the university 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.

University 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. The university's spending policy provides for a target distribution rate between 3% and 5% annually.

Midwestern State University

Notes To The Financial Statements - Unaudited

For the fiscal year ended August 31, 2018, 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 Non-expendable
Term Endowments	\$143,868.50	Restricted for Non-expendable
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	\$1,771,480.49
Follett Bookstore Receivable	101,143.71
Vending Commission Accruals	1,563.53
Employee Travel Advances	5,696.23
Employee Payroll Advances	3,993.29
Other Grants and Contracts Receivable	33,259.23
Endowment Distribution Receivable	171,553.99
DFW Shared Lease Receivable	8,071.00
Vendor Refund Receivable	110.70
Other Miscellaneous Receivables	9,129.11
Total	\$2,106,001.28

Of these amounts, there are no significant receivable balances that the university 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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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	\$ 136,373.00	\$ 502,679.00
Changes of assumptions	424,594.00	243,070.00
Net difference between projected and actual investment return		679,307.00
Change in proportion and contribution difference	794,557.00	454,465.00
Contributions subsequent to the measurement date	1,065,618.00	
Deferred Inflows and Outflows Related to OPEB:		
Difference between expected and actual experience		140,320.00
Changes of assumptions		2,441,510.00
Net difference between projected and actual investment return	3,457.00	
Contributions subsequent to the measurement date	4,717,196.00	
Unamortized Loss on Debt Refunding	3,119,913.30	
Total	\$10,261,708.30	\$4,461,351.00

The \$1,065,618.00 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, 2019.

The \$4,717,196.00 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, 2019.

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

Year Ended August 31st	2019	2020	2021	2022	2023	Thereafter
Amount of Pension Expense to be Recognized	\$(272,760.00)	\$322,235.00	\$(318,471.00)	\$(453,768.00)	\$103,888.00	\$94,880.00

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

Year Ended August 31st	2019	2020	2021	2022	2023	Thereafter
Amount of OPEB Expense to be Recognized	\$(580,629.00)	\$(580,629.00)	\$(580,629.00)	\$(580,629.00)	\$(255,857.00)	\$0.00

The ending balance of \$3,119,913.30 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.

Midwestern State University

Notes To The Financial Statements - Unaudited

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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Total Federal Financial Assistance

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Direct Program	Total of Pass-Through From & Direct Program	Pass-Through To		Expenditures	2018	2017
		Agency or Univ Amount	Non-State Entities Amount		Total PT To and Expenditures Amount	Total PT To and Expenditures Amount
\$ 4,500.00	\$ 4,500.00			\$ 4,500.00	\$ 4,500.00	
4,500.00	4,500.00			4,500.00	4,500.00	
	862.56			862.56	862.56	\$ 1,286.74
	112,428.18			112,428.18	112,428.18	135,117.65
228,152.58	228,152.58			228,152.58	228,152.58	121,155.18
637,631.21	637,631.21			637,631.21	637,631.21	4,166.66
14,423.57	14,423.57			14,423.57	14,423.57	16,675.94
207,449.00	207,449.00			207,449.00	207,449.00	187,895.00
142,730.67	142,730.67			142,730.67	142,730.67	104,906.83
10,459,109.85	10,459,109.85			10,459,109.85	10,459,109.85	9,523,650.09
31,686,253.00	31,686,253.00			31,686,253.00	31,686,253.00	31,005,478.00
121,221.00	121,221.00			121,221.00	121,221.00	152,470.00
42,616,763.52	42,616,763.52			42,616,763.52	42,616,763.52	40,974,399.92
227,853.22	227,853.22			227,853.22	227,853.22	214,227.32
\$43,729,324.10	\$43,842,614.84			\$43,842,614.84	\$43,842,614.84	\$41,467,029.41

Midwestern State University

Note 1: Nonmonetary Assistance

Not applicable.

Note 2: Reconciliation

08/31/2018

Federal Revenues—Per Exhibit II

Federal Grant Revenue—Operating \$ 1,583,961.25

Federal Grant Revenue—Non-Operating 10,459,109.85

Federal Pass-through Revenue—Operating 112,428.18

Federal Pass-through Revenue—Non-Operating 862.56

Total Federal Revenues 12,156,361.84

Reconciling Items: New Loans Processed

Federal Direct Student Loans Processed 31,686,253.00

\$43,842,614.84

Note 3a: Student Loans Processed and Administrative Costs Recovered

Federal Grantor/CFDA Number/Program Name	Beginning Balance of Outstanding Loans as of 8/31/17	New Loans Processed, does not include Admin Cost Recovered	CY Admin Cost Recovered, includes PYs only if applicable
U.S. Department of Education			
84.038 Federal Perkins Loan Program			
84.268 Federal Direct Student Loans Program		\$31,686,253.00	
Total Department of Education		\$31,686,253.00	
Federal Grantor/CFDA Number/Program Name	Total Loans Processed & Admin Cost Recovered	Repayment/ Adjustment Activity (PY + CY)	Outstanding Balance of Loans as of 8/31/18,
U.S. Department of Education			
84.038 Federal Perkins Loan Program			
84.268 Federal Direct Student Loans Program	\$31,686,253.00	\$31,686,253.00	
Total Department of Education	\$31,686,253.00	\$31,686,253.00	

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

Universities are exempt from Note 7.

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 and 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>	<u>2018</u>	<u>2017</u>
Pass-Through From:		
UT System (Agy #720) - Joint Admission Medical Program (JAMP)	\$ 9,148.03	\$ 7,785.70
Texas Commission on the Arts (TCA—Agy #813)		
Arts Create	5,000.00	
Arts Respond		4,987.00
Texas Higher Education Coordinating Board (Agy #781)		
College Work Study Program	34,182.92	35,009.83
Strategic Planning and Funding	5,000.00	
Engineering Recruitment Program		11,727.00
Professional Nursing Shortage Reduction Program		69,178.73
TEXAS Grant Program	4,033,107.00	4,077,803.00
Top 10% Scholarships	14,000.00	32,000.00
Total Operating Pass-Through Revenue (Exhibit II)	<u>\$4,100,437.95</u>	<u>\$4,238,491.26</u>
Pass-Through To:		
None		
<u>Non-Operating Revenue:</u>		
Pass-Through From:		
Texas Higher Education Coordinating Board (Agy #781)		
Nursing & Allied Health		\$ 582.45
Total Non-Operating Pass-Through Revenue (Exhibit II)		<u>\$ 582.45</u>
Pass-Through To:		
None		

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Midwestern State University
Schedule 2A - Miscellaneous Bond Information
For the Fiscal Year Ended August 31, 2018

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 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	11,790,000.00	1.426%-2.666%	2019	2035	12-01-20
Total	\$196,590,346.92				

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Midwestern State University
Schedule 2B - Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2018

Business-Type Activities

Description of Issue	Bonds Outstanding 09-01-2017	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished
<u>Revenue Bonds:</u>				
Revenue Financing System Revenue and Refunding Series 2008	\$ 2,515,000.00		\$1,230,000.00	
Revenue Financing System Series 2010	840,000.00		195,000.00	
Revenue Financing System Revenue and Refunding Series 2012A	2,580,000.00		645,000.00	
Revenue Financing System Revenue and Refunding Bonds: Series 2012B	4,570,000.00		520,000.00	
Revenue Financing System Revenue and Refunding Series 2015A	52,465,000.00		305,000.00	
Revenue Financing System Revenue and Refunding Bonds: Series 2015B	3,705,000.00		1,550,000.00	
Revenue Financing System Revenue and Refunding Bonds: Series 2016A	70,135,000.00		1,685,000.00	
Revenue Financing System Revenue and Refunding Bonds: Series 2016B	11,790,000.00		0.00	
Total	\$148,600,000.00	\$0.00	\$6,130,000.00	\$0.00

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Bonds Outstanding 08-31-2018	Amounts Due Within One Year	Unamortized Premium	Unamortized Discount	Net Bonds Outstanding 08-31-2018	Amounts Due Within One Year
\$ 1,285,000.00	\$1,285,000.00			\$ 1,285,000.00	\$1,285,000.00
645,000.00	205,000.00			645,000.00	205,000.00
1,935,000.00	660,000.00			1,935,000.00	660,000.00
4,050,000.00	535,000.00			4,050,000.00	535,000.00
52,160,000.00	875,000.00	\$ 2,473,946.92		54,633,946.92	970,151.81
2,155,000.00	1,055,000.00			2,155,000.00	1,055,000.00
68,450,000.00	1,730,000.00	10,545,962.94		78,995,962.94	2,315,886.83
11,790,000.00				11,790,000.00	
<u>\$142,470,000.00</u>	<u>\$6,345,000.00</u>	<u>\$13,019,909.86</u>	<u>\$0.00</u>	<u>\$155,489,909.86</u>	<u>\$7,026,038.64</u>

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Midwestern State University
Schedule 2C - Debt Service Requirements
For the Fiscal Year Ended August 31, 2018

Business-Type Activities

Description of Issue	2019	2020	2021	2022	2023
Revenue Financing System Revenue and Refunding Bonds:					
Series 2008					
Principal	\$ 1,285,000.00				
Interest	25,700.00				
Revenue Financing System Revenue and Refunding Bonds:					
Series 2010					
Principal	205,000.00	\$ 215,000.00	\$ 225,000.00		
Interest	27,125.00	16,625.00	5,625.00		
Revenue Financing System Revenue and Refunding Bonds:					
Series 2012A					
Principal	660,000.00	675,000.00	600,000.00		
Interest	33,600.00	20,250.00	6,750.00		
Revenue Financing System Revenue Bonds:					
Series 2012B					
Principal	535,000.00	550,000.00	560,000.00	\$ 575,000.00	\$ 590,000.00
Interest	107,612.61	95,594.16	81,695.86	65,993.18	48,854.35
Revenue Financing System Revenue and Refunding Bonds:					
Series 2015A					
Principal	875,000.00	880,000.00	1,275,000.00	1,030,000.00	1,635,000.00
Interest	2,297,481.26	2,253,606.26	2,206,106.26	2,154,856.26	2,088,231.26
Revenue Financing System Revenue and Refunding Bonds:					
Series 2015B					
Principal	1,055,000.00	460,000.00	150,000.00	490,000.00	
Interest	39,922.80	24,204.70	16,520.30	7,244.65	
Revenue Financing System Revenue and Refunding Bonds:					
Series 2016A					
Principal	1,730,000.00	2,570,000.00	2,695,000.00	3,065,000.00	3,215,000.00
Interest	2,971,400.00	2,894,050.00	2,775,275.00	2,631,275.00	2,474,275.00
Revenue Financing System Revenue and Refunding Bonds:					
Series 2016B					
Principal	0.00	660,000.00	670,000.00	680,000.00	695,000.00
Interest	324,986.70	320,280.90	309,699.20	297,349.70	283,390.95
Total	\$12,172,828.37	\$11,634,611.02	\$11,576,671.62	\$10,996,718.79	\$11,029,751.56
Less Interest	(5,827,828.37)	(5,624,611.02)	(5,401,671.62)	(5,156,718.79)	(4,894,751.56)
Total Principal	<u>\$6,345,000.00</u>	<u>\$ 6,010,000.00</u>	<u>\$ 6,175,000.00</u>	<u>\$ 5,840,000.00</u>	<u>\$ 6,135,000.00</u>

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2024-28	2029-33	2034-38	2039-43	2044-48	Total Requirements
					\$1,285,000.00
					25,700.00
					645,000.00
					49,375.00
					1,935,000.00
					60,600.00
\$ 1,240,000.00					4,050,000.00
40,360.00					440,110.16
10,135,000.00	\$ 9,435,000.00	\$ 8,790,000.00	\$12,120,000.00	\$5,985,000.00	52,160,000.00
9,041,156.30	6,579,731.30	4,617,531.30	2,532,812.56	250,490.65	34,022,003.41
					2,155,000.00
					87,892.45
18,690,000.00	22,985,000.00	13,500,000.00			68,450,000.00
9,726,000.00	5,063,700.00	762,200.00			29,298,175.00
3,760,000.00	4,100,000.00	1,225,000.00			11,790,000.00
1,151,852.95	574,883.55	34,575.80			3,297,019.75
\$53,784,369.25	\$48,738,314.85	\$28,929,307.10	\$14,652,812.56	\$6,235,490.65	\$209,750,875.77
(19,959,369.25)	(12,218,314.85)	(5,414,307.10)	(2,532,812.56)	(250,490.65)	(67,280,875.77)
\$33,825,000.00	\$36,520,000.00	\$23,515,000.00	\$12,120,000.00	\$5,985,000.00	\$142,470,000.00

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Midwestern State University
Schedule 2D - Analysis of Funds Available for Debt Service
For the Year Ended August 31, 2018

Business-Type Activities
Description of Issue

Pledged and Other Sources and Related Expenditures for FY 2018

	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 and Refunding Bonds:				
Series 2008			\$1,230,000.00	\$ 76,000.00
Revenue Bonds				
Series 2010			195,000.00	37,125.00
Revenue and Refunding Bonds:				
Series 2012A			645,000.00	46,650.00
Revenue and Refunding Bonds:				
Series 2012B			520,000.00	117,778.58
Revenue and Refunding Bonds:				
Series 2015A		\$ 46,354.91	305,000.00	2,323,931.26
Revenue and Refunding Bonds:				
Series 2015B			1,550,000.00	60,504.25
Revenue and Refunding Bonds:				
Series 2016A		18,872,781.89	1,685,000.00	3,014,200.00
Revenue and Refunding Bonds:				
Series 2016B				324,986.70
Total for all Revenue Financing System Revenue Bonds	\$68,032,479.46	\$18,919,136.80	\$6,130,000.00	\$6,001,175.79

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Midwestern State University
Schedule 2E - Defeased Bonds Outstanding
For the Fiscal Year Ended August 31, 2018

Business Type Activities

<u>Description of Issue</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
Revenue Financing System Revenue and Refunding Bonds Series 2007	2015	\$16,015,000.00
Revenue Financing System Revenue and Refunding Bonds Series 2008	2017	28,175,000.00
Revenue Financing System Revenue and Refunding Bonds Series 2010	2017	4,860,000.00
Total		<u>\$49,050,000.00</u>

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Schedule 2F - Early Extinguishment and Refunding
For the Fiscal Year Ended August 31, 2018

Business-Type Activities

		Amount Extinguished/ Refunded	Refunded Issued Par Value	Cash Flow Increase/ (Decrease)	Economic Gain/(Loss)
Description of Issue	Category				
None for the Year Ended August 31, 2018					

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Schedule 3 - Reconciliation of Cash in State Treasury
For the Years Ended August 31

<u>Cash in State Treasury</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Current Year 2018</u>	<u>Prior Year 2017</u>
General Revenue - Dedicated Fund 0264	\$2,724,644.20		\$2,724,644.20	\$2,896,567.01
Total Cash – State Treasury (Stmt of Net Position)	<u>\$2,724,644.20</u>		<u>\$2,724,644.20</u>	<u>\$2,896,567.01</u>

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