



Midwestern State University

Financial Report (Unaudited) For the Year Ended August 31, 2019

Table of Contents

| | |
|--|-------|
| Letter to Oversight Agencies..... | 1 |
| Letter of Transmittal..... | 2 |
| Organizational Data..... | 3 |
| Management’s Discussion & Analysis..... | 4-16 |
| Basic Financial Statements: | |
| • Exhibit I - Comparative Statement of Net Position..... | 18 |
| • Exhibit II - Comparative Statement of Revenues, Expenses, and Changes in Net Position..... | 20 |
| • Matrix of Operating Expenses Reported by Function..... | 22 |
| • Exhibit III - Statement of Cash Flows..... | 24 |
| Notes to the Financial Statements..... | 26-57 |
| Schedules: | |
| • Schedule 1A - Schedule of Expenditures of Federal Awards..... | 58-60 |
| • Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies..... | 61 |
| • Schedule 2A - Miscellaneous Bond Information..... | 63 |
| • Schedule 2B - Changes in Bonded Indebtedness..... | 64 |
| • Schedule 2C - Debt Service Requirements..... | 66 |
| • Schedule 2D - Analysis of Funds Available for Debt Service..... | 68 |
| • Schedule 2E - Defeased Bonds Outstanding..... | 69 |
| • Schedule 2F - Early Extinguishment and Refunding..... | 70 |
| • Schedule 3 - Reconciliation of Cash in State Treasury..... | 71 |

November 19, 2019

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, State Comptroller
Sarah Keyton, Assistant Director, Legislative Budget Board
John McGeady, 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, 2019, in compliance with TEX. GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

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

If you have any questions, please contact Mr. Chris Stovall at (940) 397-4273.

Sincerely,

A handwritten signature in blue ink, appearing to read "Suzanne Shipley".

Suzanne Shipley
President



November 19, 2019

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, 2019.

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

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

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

Respectfully Submitted,

Chris Stovall
Controller

Approved:

Beth Reissenweber, Vice President
Administration and Finance

Midwestern State University

ORGANIZATIONAL DATA
August 31, 2019

THE BOARD OF REGENTS

Term Expires May 31, 2020

Mr. Andrew Wolf, Student Regent Wichita Falls

Term Expires February 25, 2020

Mr. R. Caven Crosnoe Wichita Falls
Mr. Shawn G. Hessing Fort Worth
Ms. Nancy Marks Wichita Falls

Term Expires February 25, 2022

Mr. Warren T. Ayres Wichita Falls
Ms. Tiffany D. Burks Grand Prairie
Dr. Shelley Sweatt Wichita Falls

Term Expires February 25, 2024

Mr. Guy A. "Tony" Fidelie, Jr. Wichita Falls
Mr. Oku Okeke Wichita Falls
Ms. Karen Liu Pang Irving

Ms. Kathryn A. Yeager, Regent Emeritus
Mr. Mac Cannedy, Jr., Regent Emeritus

PRESIDENT

Dr. Suzanne Shipley

UNIVERSITY FISCAL OFFICERS

Dr. Beth Reissenweber 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 the Management's Discussion and Analysis is to provide the reader of Midwestern State University's (MSU) financial statements a clearer understanding of the financial position, operating activities, and overall fiscal well-being of the university for the years ended August 31, 2019 and 2018. While not meant to be a comprehensive statement on the university's impact and activities, further information can be found by visiting the MSU Texas website at www.msutexas.edu.

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

Overall, Midwestern State University's focus continues to be on recruitment, retention, academic support, and graduation of its students. From Fall 2017 to Fall 2018, MSU headcount grew from 6,013 to 6,102 total students. Given increasing competition and declining high school graduation rates nationwide, Fall 2019 enrollment declined slightly to 5,969. Total credit hour production has remained stable from 152,971 in FY2018 to 152,279 in FY2019. The university's long-term enrollment goal is to reach 8,000 students, and be designated a Hispanic Serving Institution, by 2025.

Especially noteworthy is the new site in Flower Mound that MSU established in 2018 to strategically position the university in the high-growth Dallas-Fort Worth (DFW) region; US Census results found DFW having the largest population growth in 2018 of any city in the United States. The Flower Mound director and site team actively recruit students while collaborating with local area community colleges, hospital systems, and corporate partners, to promote dual credit, adult degree completion, and graduate level enrollments, both on campus and online.

While only in its second year of operation, the Flower Mound site offers 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 Fall 2018 with a growth trajectory realized in Fall 2019 with 290 students.

Importantly, MSU seeks to provide accessible and affordable pathways to higher education especially for First Generation college students and other underserved populations. Partnerships with such organizations as Dallas County Promise provide Dallas County students free tuition upon entering MSU after completion of a two-year degree. Such students will also be eligible for the Mustangs Guarantee Program, which allows students with an Adjusted Gross Income under \$50,000 to enroll tuition free.

Another strategic partnership for promoting higher education includes Café Con Leche which provides educational assistance to Hispanic families in the region. These programs are especially important at MSU as Hispanic students comprise 20.5% of total enrollment and have high retention rates. Given the growing demographic trends in the United States, such partnerships are especially important to enrollment growth initiatives, as well as, providing high-quality educational programs for high-earning, high-demand careers, especially in applied science and healthcare.

In an article published in *Trusteeship* magazine titled "Student Need at a Turning Point," President Suzanne Shipley writes: "As board members and presidents struggle with decisions affecting the cost of college attendance, we must also expand support for our present demographic: the growing percentage of low-income and first-generation students." MSU is doing just that in maintaining affordable tuition, and in providing grants and donor-funded scholarships to allow students to graduate with lower loan levels, and with some programs, debt-free.

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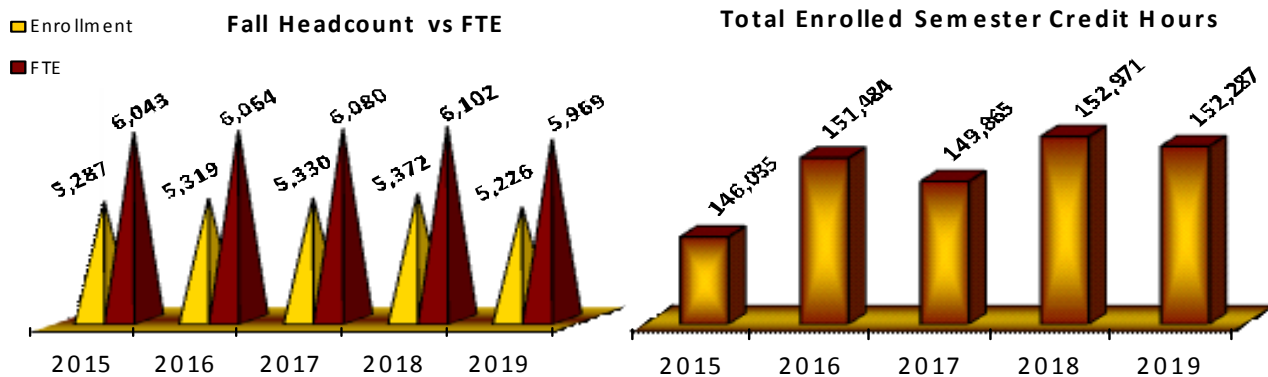
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Midwestern State University

Management's Discussion & Analysis - Unaudited

As noted in the FY2018 Annual Financial Report, the university created a separate Office of Enrollment Management in July 2018 to strategically position the university to enhance and expand best practices in serving prospective students and their families from inquiry, through application, enrollment, and graduation. The new Vice President for Enrollment Management leads the Admissions, Financial Aid, Registrar, and Institutional Effectiveness teams. The strategic vision and plan for enrollment expansion includes a number of growth initiatives. Several are noted below:

- Development of an extensive enrollment plan to grow headcount to 8,000 students.
- Review business processes in Financial Aid and Registrar to improve protocols and implement efficient practices.
- Implement new recruitment software to improve communication with undergraduate prospects while streamlining the application process for graduate level students.
- Improve the scheduling tool for campus visits and tours by prospective students and their families; new visit software was implemented in October 2018.
- Maximize financial aid awards to attract and retain first-year, full-time students; engaged consultant to review awards and opportunities for enhancing financial aid strategies.
- Engage Enrollment Management, Student Affairs and Academic Affairs in data mining to promote prompt intervention strategies for students needing additional advising, tutoring, and mentoring support.
- Offer dual credit opportunities to high school students throughout Texas beginning with the fall 2019 semester.
- Pursue further strategies for 2019: Student Search Program (freshmen outreach), Student Success Collaborative (retention), Transfer Collaborative (transfer students), and AdmitHub (Artificial Intelligence Programming).



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

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

- Top Public Regional University in the US News & World Reports' annual Best Colleges ranking for 2020.
- Ranked No. 3 in Best Online Colleges in Texas by Accredited Schools Online.
- Ranked No. 5 in the 45 Best Value Colleges and Universities in Texas by the website Best Values Schools.
- Top 10 School in the Texas Public University System by America Unraveled.
- Ranked No. 10 of the 50 Online Colleges for Best Return on Investment (ROI) for 2019 by College Consensus.

Midwestern State University

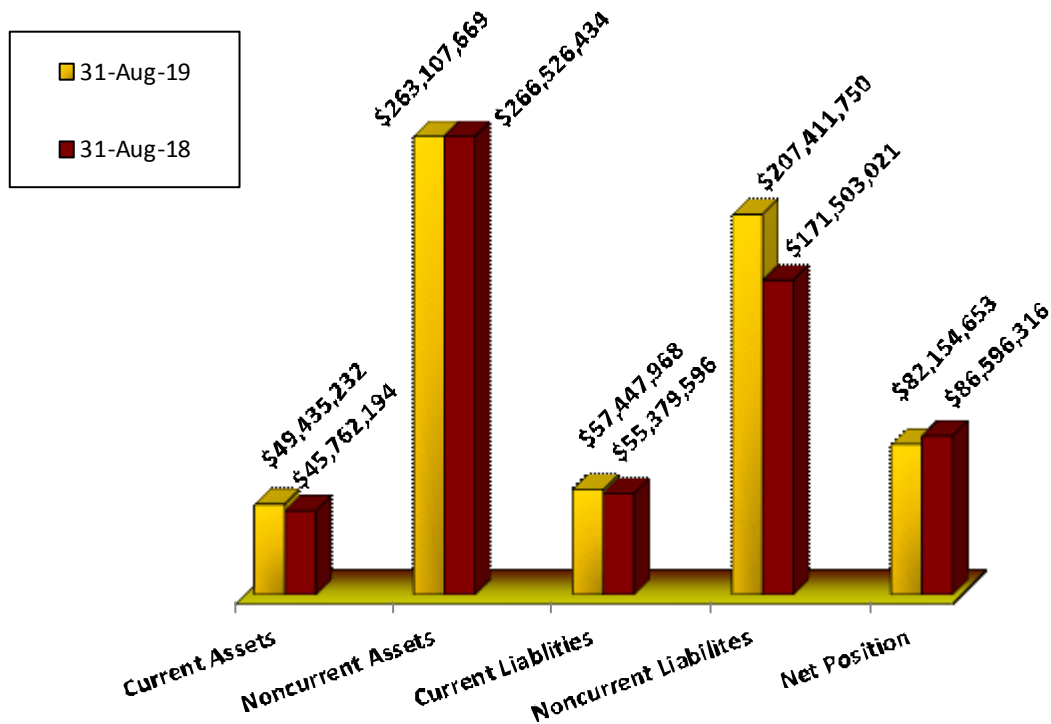
Management's Discussion & Analysis - Unaudited

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 increasing expense pressure. However, many other non-financial factors, such as the trend in admission applicants, enrollment, student retention, and condition of the facilities must be considered to accurately assess the overall fiscal health of the university.

As the statement on the next page shows, the university's net position decreased a total of \$4,441,663.44, from \$86,596,316.05 in 2018 to \$82,154,652.61 in 2019. The primary factor contributing to this decrease was a current year net impact of \$8.7 million related to Other Postemployment Benefits (OPEB) due to the Comptroller's Office change in the allocation methodology for this liability, which resulted in a greater expense for the university in 2019. Another factor contributing to the decrease was the early implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which disallows the capitalization of interest cost. Therefore, the interest expense increased over \$2 million compared to prior year. Overall decreases in net position were partially offset by large software donations of \$4.6 million, a \$3.5 million gain on the sale of mineral interests in Reeves County to benefit the Nursing and Music programs at MSU Texas, and a \$2 million increase in external grants and private gifts.



ANNUAL FINANCIAL REPORT

Midwestern State University

Management's Discussion & Analysis - Unaudited

The Statement of Net Position

| | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|
| Current Assets | \$ 49,435,232.39 | \$ 45,762,193.89 |
| Noncurrent Assets: | | |
| Capital Assets | 194,238,802.50 | 171,826,827.90 |
| Other | 68,868,866.27 | 94,699,605.60 |
| Total Assets | 312,542,901.16 | 312,288,627.39 |
| Deferred Outflows of Resources: | | |
| Pensions | 8,525,471.00 | 2,421,142.00 |
| Unamortized Loss on Debt Refunding | 2,924,918.72 | 3,119,913.30 |
| Other Postemployment Benefits (OPEB) | 42,578,063.00 | 110,602.00* |
| Total Deferred Outflows of Resources | 54,028,452.72 | 5,651,657.30 |
| Total Assets and Deferred Outflows | 366,571,353.88 | 317,940,284.69 |
| Current Liabilities | 57,447,968.45 | 55,379,596.41 |
| Noncurrent Liabilities | 207,411,749.82 | 171,503,021.23 |
| Total Liabilities | 264,859,718.27 | 226,882,617.64 |
| Deferred Inflows of Resources: | | |
| Pensions | 1,281,913.00 | 1,879,521.00 |
| Other Postemployment Benefits (OPEB) | 18,275,070.00 | 2,581,830.00 |
| Total Deferred Inflows of Resources | 19,556,983.00 | 4,461,351.00 |
| Total Liabilities and Deferred Inflows | 284,416,701.27 | 231,343,968.64 |
| Net Position: | | |
| Invested in Capital Assets | 54,360,308.71 | 56,272,885.37 |
| <u>Restricted for:</u> | | |
| Nonexpendable | 4,998,125.37 | 4,855,816.68 |
| <u>Expendable:</u> | | |
| Capital Projects | 1,111,412.39 | (123,492.27) |
| Restricted by Contributor | 13,912,818.01 | 9,698,735.92 |
| Unrestricted | 7,771,988.13 | 15,892,370.35* |
| Total Net Position | 82,154,652.61 | 86,596,316.05 |
| Total Liabilities, Deferred Inflows and Net Position | \$366,571,353.88 | \$317,940,284.69 |

*Amounts have been changed to reflect amounts reported by the State in the previous year's CAFR.

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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, 2019 and 2018. 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, 2019 and 2018.

| | <u>2019</u> | <u>2018</u> |
|--|-------------------------|--------------------------|
| Operating Revenue: | | |
| Net Tuition and Fees | \$ 35,507,877.02 | \$ 35,401,408.08 |
| Grants and Contracts | 8,657,380.69 | 7,039,955.81 |
| Sales and Services of Educational Activities | 1,627,902.94 | 1,441,650.94 |
| Sales and Services of Auxiliary Enterprises | 13,883,716.99 | 13,552,580.89 |
| Other | <u>5,026,225.30</u> | <u>1,456,941.79</u> |
| Total Operating Revenue | 64,703,102.94 | 58,892,537.51 |
| Total Operating Expenses | <u>(119,850,614.62)</u> | <u>(106,343,323.44)*</u> |
| Operating Loss | (55,147,511.68) | (47,450,785.93) |
| Non-Operating Revenues (Expenses): | | |
| State Appropriations | 21,855,599.00 | 21,836,476.00 |
| Other State Appropriations | 5,826,692.02 | 5,536,645.46 |
| Federal Grants | 10,412,717.10 | 10,459,109.85 |
| Federal Pass-Through Grants | 1,272.33 | 862.56 |
| State Pass-Through Grants from Other Agencies | 5,000.00 | |
| Gifts | 5,604,537.64 | 4,978,103.66 |
| Other Non-Operating Revenues (Expenses) | 2,259.00 | |
| Investment Income | 3,048,256.77 | 2,255,782.59 |
| Net Increase (Decrease) in Fair Value of Investments | (439,405.24) | 1,740,217.49 |
| Net Book Value of Capital Asset Disposals | (11,481.80) | (232,087.58) |
| Interest Expense on Capital Asset Financing | <u>(5,303,562.40)</u> | <u>(2,918,263.69)</u> |
| Total Non-Operating Revenue (Expense) | 41,001,884.42 | 43,656,846.34 |
| Income (Loss) Before Capital Contributions, Additions to Endowments, and Special Items | (14,145,627.26) | (3,793,939.59) |
| Capital Contributions, Additions to Endowments, & Special Items | | |
| Capital Contributions | 6,507,312.81 | 10,875,249.98 |
| HEAF Appropriation | 5,061,412.00 | 5,061,412.00 |
| Additions to Endowments | 172,472.16 | 60,005.63 |
| Transfers In | 415,118.65 | 572,880.04 |
| Transfers Out | (1,320,160.50) | (1,112,063.43) |
| Legislative Transfers In | 114,409.00 | 102,645.00 |
| Legislative Appropriations Lapsed | <u>(1,246,600.30)</u> | <u>(1,248,800.17)</u> |
| Increase (Decrease) in Net Position | <u>(4,441,663.44)</u> | <u>10,517,389.46</u> |
| Net Position, Beginning of Year | 86,596,316.05 | 89,709,345.59 |
| Restatements | | <u>(13,630,419.00)</u> |
| Net Position, Beginning of Year, Restated | <u>86,596,316.05</u> | <u>76,078,926.59</u> |
| Net Position, End of Year | <u>\$ 82,154,652.61</u> | <u>\$ 86,596,316.05</u> |

*Amounts have been changed to reflect an adjustment to OPEB expense reported by the State in the previous year's CAFR.

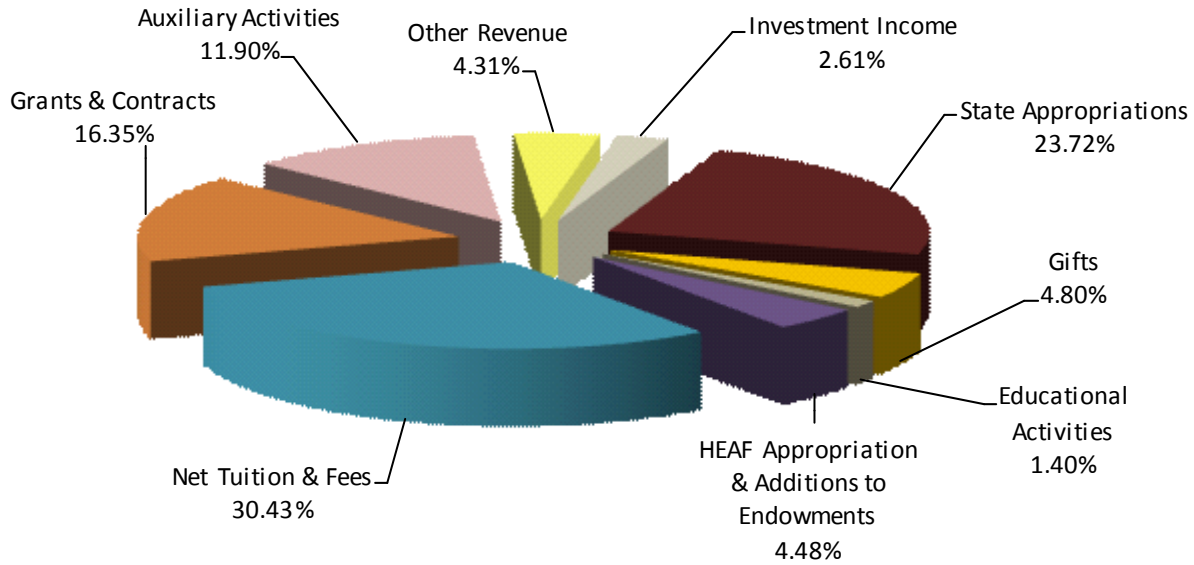
ANNUAL FINANCIAL REPORT

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(UNAUDITED)

Midwestern State University Management's Discussion & Analysis - Unaudited

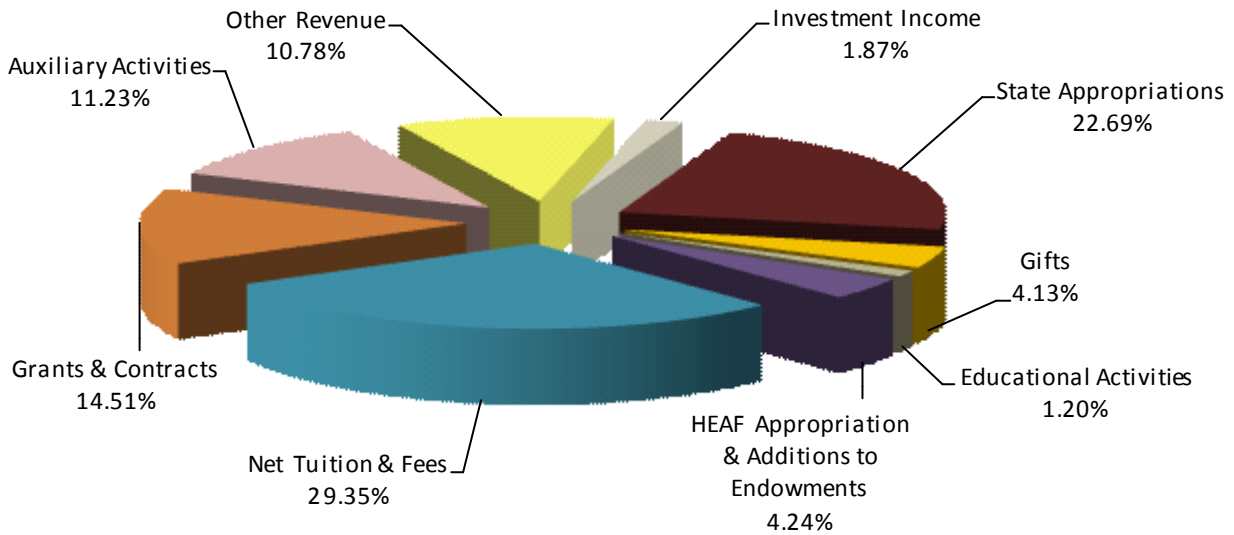
This chart identifies the components of total revenue for the year ended August 31, 2019.

Total Revenue - August 31, 2019



This chart reflects the same information for the year ended August 31, 2018.

Total Revenue - August 31, 2018



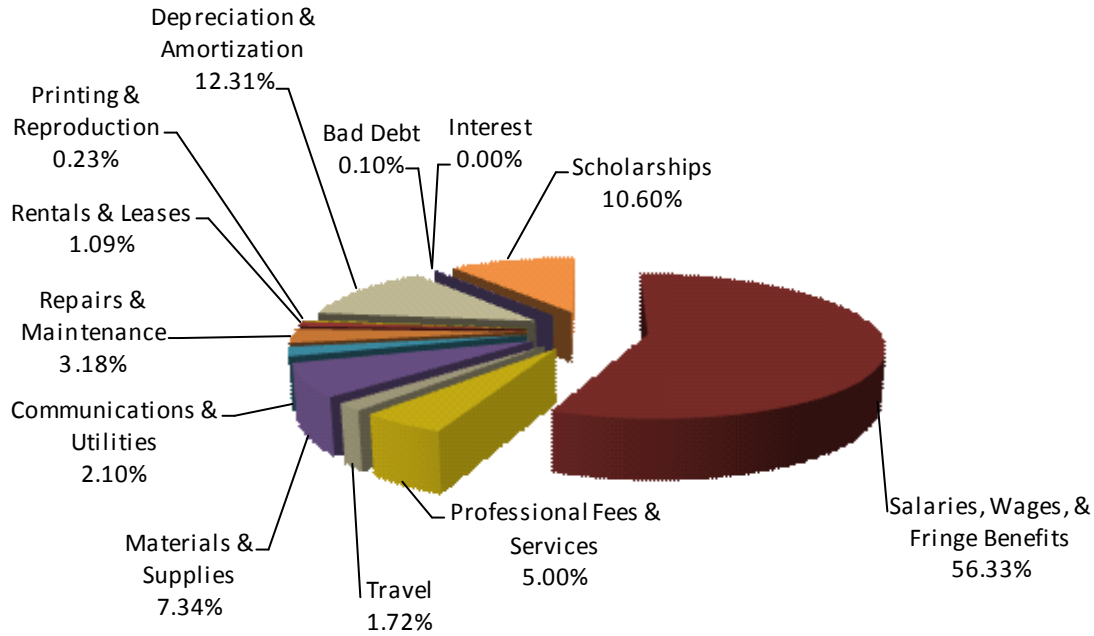
ANNUAL FINANCIAL REPORT

Midwestern State University

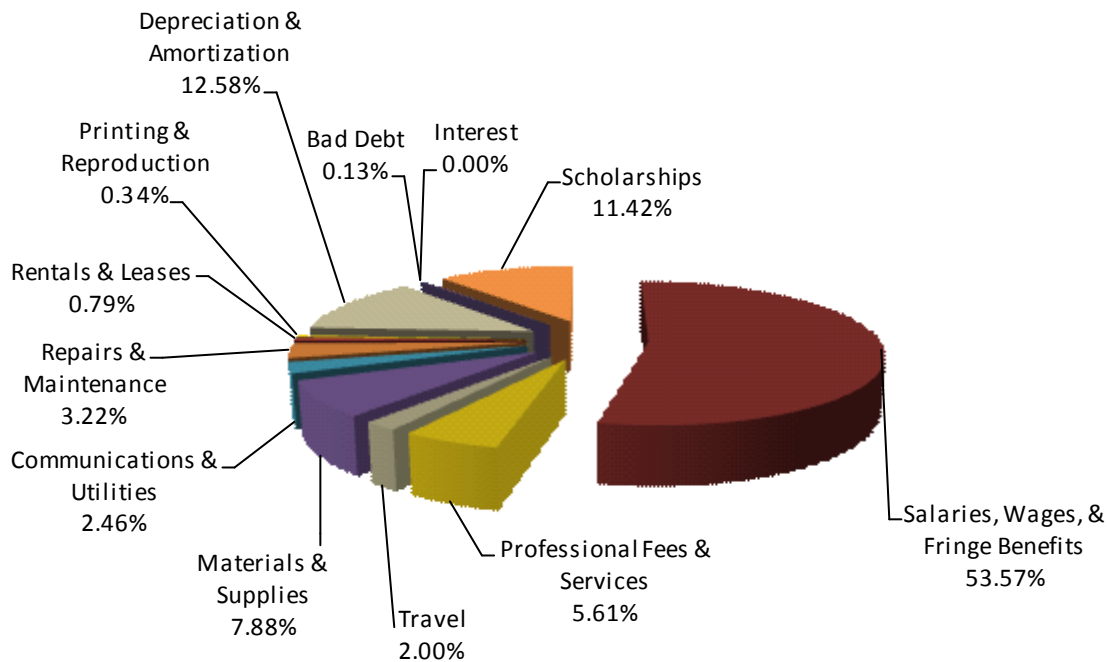
Management's Discussion & Analysis - Unaudited

Total operating expenses for fiscal years 2019 and 2018 were \$119,850,614.62 and \$106,343,323.44, respectively. The following charts compare the fiscal year 2019 distribution of operating expenses to those in fiscal year 2018.

Total Operating Expenses - August 31, 2019



Total Operating Expenses - August 31, 2018



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>2019</u> | <u>2018</u> |
|--|-------------------------------|-------------------------------|
| Cash provided (used) by: | | |
| Operating activities | \$(27,606,706.84) | \$(26,121,266.79) |
| Noncapital financing activities | 39,271,181.79 | 40,406,883.31 |
| Capital and related financing activities | (37,408,917.90) | (28,746,882.11) |
| Investing activities | <u>26,113,052.55</u> | <u>15,098,267.80</u> |
| Net increase (decrease) in cash | 368,609.60 | 637,002.21 |
| | | |
| Cash – Beginning of year | <u>8,604,499.89</u> | <u>7,967,497.68</u> |
| | | |
| Cash – End of year | <u>\$ 8,973,109.49</u> | <u>\$ 8,604,499.89</u> |

There was a net increase in cash of \$368,609.60.

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 \$35 million, grants accounted for \$8.5 million, and auxiliary enterprises, including housing and dining, accounted for \$13.8 million.

State appropriations in the amount of \$25.5 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 \$4.3 million, additions to endowments in the amount of \$172 thousand, and \$10.4 million in Federal non-operating grants.

Payments for the additions of capital assets totaled \$32.2 million and included construction of Centennial Hall which houses the Gunn College of Health Sciences and Human Services, Fire Marshal and ADA improvement projects, additional parking, and renovations to Moffett Library.

Proceeds from sales and maturities of investments within the investing section of the cash flow statement included \$29.3 million in expended bond proceeds to continue the construction of Centennial Hall, renovations to several campus buildings to address fire safety and accessibility concerns, renovations to Moffett Library, and to add additional parking on the north side of campus. In FY2017, Tuition Revenue Bond (TRB) proceeds in the amount of \$58.4 million were invested in a flexible repurchase agreement with Bayerische Landesbank (BLB). Repurchases totaled \$31.3 million during the year to continue and finish the various TRB projects.

ANNUAL FINANCIAL REPORT

Midwestern State University

Management's Discussion & Analysis - Unaudited

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2019, the university had \$194.2 million invested in capital assets. This figure is net of accumulated depreciation and amortization of \$190.2 million. Depreciation and amortization charges totaled \$14.7 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>2019</u> | <u>2018</u> |
|-------------------------------------|--------------------------------|--------------------------------|
| Land and Land Improvements | \$ 6,212,890.44 | \$ 6,212,890.44 |
| Construction in Progress | 13,635,554.22 | 26,427,028.64 |
| Buildings and Building Improvements | 276,989,504.18 | 234,775,452.27 |
| Infrastructure | 13,351,147.45 | 13,351,147.45 |
| Facilities Improvements | 14,531,278.87 | 14,531,278.87 |
| Furniture and Equipment | 19,048,663.26 | 15,740,859.01 |
| Vehicles | 1,724,394.81 | 1,920,546.24 |
| Computer Software | 24,062,668.46 | 21,084,143.46 |
| Other Capital Assets | 14,866,784.30 | 14,622,060.23 |
| Total | <u>\$384,422,885.99</u> | <u>\$348,665,406.61</u> |

Additions to assets of \$37.1 million during fiscal year 2019 included: completion of Centennial Hall which houses the Gunn College of Health Sciences and Human Services, continued renovations across campus to comply with the specifications established by the Fire Marshal and the Americans with Disabilities Act (ADA), and computer software donations of \$3 million for the Geosciences Department.

The construction in progress at the end of the year includes: continuation of renovations across campus to comply with the specifications established by the Fire Marshal and ADA, renovations to Moffett Library, renovations to Bridwell Hall which was vacated by the Gunn College of Health Sciences and Human Services, construction of a new facilities services building, and construction of additional parking on the north side of campus.

Further financial information about the university's capital assets is presented in Note 2 of the notes to the financial statements on page 30.

Debt

At year-end, the university had \$197.5 million in outstanding debt. Outstanding debt for the year ended August 31, 2018 was \$209.7 million. The table below summarizes the amount of outstanding debt by type of instrument for the year ended August 31, 2019 compared with August 31, 2018.

| | <u>2019</u> | <u>2018</u> |
|---|--------------------------------|--------------------------------|
| Revenue Bonds | \$136,125,000.00 | \$142,470,000.00 |
| Accrued long term interest payable on bonds | 61,453,047.40 | 67,280,875.77 |
| Total | <u>\$197,578,047.40</u> | <u>\$209,750,875.77</u> |

Debt repayments made during the year included principal in the amount of \$6,345,000.00 and interest in the amount of \$5,827,828.37.

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 Schedules 2A, 2B, 2C, 2D, 2E and 2F on pages 63-70.

Midwestern State University

Management's Discussion & Analysis - Unaudited

Factors Affecting the Future of Midwestern State University

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

INTERNAL STRENGTHS

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

Positive reputation and generous support - MSU Texas 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 has enhanced the ability to recruit students and to benefit from external gifts. MSU Texas receives substantial support from members of the local community.

Membership in the Council of Public Liberal Arts Colleges (COPLAC) - MSU Texas is one of thirty members of COPLAC, which complements the university's standing as the only public liberal arts institution in Texas. MSU Texas' 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 – U.S. News & World Report ranked MSU Texas #46 in the category of Social Mobility for Regional Universities in the West in its 2020 “Best Colleges” rankings. The methodology used for social mobility ranking measures how well schools graduated students who received federal Pell Grants. The best college recognition is symbolic of the recent efforts by the university's staff, faculty and leadership to provide programming to support the needs of first generation students, many from households whose family incomes are less than \$50,000 annually. MSU Texas also garnered recognition as #31 in the Top Public Schools and #70 in Regional University West categories.

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

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

EXTERNAL ENVIRONMENT

MSU Texas is not immune to the external environment and its impact on university operations. Several areas highlighted on the next page will affect MSU Texas in the future. The key will be to continue to closely monitor these areas, understand possibilities, and strategically plan for alternative scenarios to minimize any negative impact, and alternatively, to maximize opportunity for the enduring good of the MSU Texas community.

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Midwestern State University

Management's Discussion & Analysis - Unaudited

LOCAL AND STATE DEMOGRAPHICS

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

The proportion of the Wichita Falls population that will be college-aged 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 Texas 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 7% other.

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

PREPARATION OF STUDENTS

MSU Texas continues to focus on retention, shortened time to degree completion, and overall support of our students. This effort has improved tutoring and academic support programs (TASP) with a walk-in, on-demand tutoring schedule, and online via videoconferencing. MSU Texas has also increased the number of supplemental instruction sections and expanded the student peer mentoring program. Additionally, MSU Texas saw an increase in the freshmen retention rate by 2.8% in 2019.

MSU Texas has also expanded capacity for students to take advantage of high-impact practices such as undergraduate research, study abroad, and service learning. MSU Texas serves a student population from backgrounds such as first generation, lower socioeconomic status, and those needing outside employment to pay for their college education. With this in mind, MSU Texas continues its efforts to make these transformative experiences accessible and affordable for all students.

TECHNOLOGY AND FACILITIES

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 and other personal devices. 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 Texas maintains an appealing mix of living and learning locations.

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Midwestern State University

Management's Discussion & Analysis - Unaudited

FINANCIAL

MSU Texas 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 Texas is successfully building a more sustainable revenue stream through the university's first comprehensive capital campaign. Its award-winning, seven-year Boundless Opportunities Campaign has attracted record-setting funding from foundations, corporations and private donors that help supplement tuition, fees and state funding sources. The generosity of alumni and friends has not only helped resource development, but in a strategic, process-driven plan for advancement, MSU Texas has increased the awareness of, engagement in, and giving to the university. This, in turn, empowers MSU Texas to provide a rigorous, personal and comprehensive education for all students, but in particular, for first generation students so they can enter the job market with minimal student debt.

ENROLLMENT

The incoming first-time, full-time (FTFT) enrollment was 859 students, which was the second largest freshmen class in MSU Texas' history. The freshmen class continues to represent Texas well with over 80 counties represented. Additionally, over 70% of new freshmen reside on campus, which puts housing occupancy almost to capacity.

- The retention rate of FTFT students rose 2.8% and came in at 67.4%, while the second year retention rate rose approximately 1% and came in at 52.2%.
- The six-, five-, and four-year graduation rates improved by 3.5%, 0.8%, and 1.5%. Additionally, MSU graduated its largest number of students during the 18-19 academic year with 1,452 students earning degrees. This is a 3% increase over the 17-18 year.
- MSU Texas has entered the dual credit market and has 56 students enrolled in courses, which is a 600% increase from the previous year.
- MSU Texas' site in Flower Mound, Texas offers degree completion programs at the undergraduate and graduate levels. Credit hour production for the fall 2019 semester improved 2,249 hours, which is an increase of 15.4% from the previous fall.
- The fall 2019 graduate headcount increased by 1.78% and came in at 743 students.

Finally as MSU Texas seeks to grow enrollment to 8,000 students by 2025, it sees opportunities for growth in online programs, community college partnerships, dual credit and capitalizing on the Flower Mound site and its proximity to the Dallas/Fort Worth Metroplex area.

As it approaches its 100th year in 2022, MSU Texas is strongly positioned to serve families seeking the promise of higher education in the great State of Texas.

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Midwestern State University

Unaudited

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

2019

2018

ASSETS AND DEFERRED OUTFLOWS

Current Assets:

Cash and Cash Equivalents:

| | | |
|------------------------|---------------|---------------|
| Cash on Hand | \$ 16,750.00 | \$ 16,750.00 |
| Cash in Bank | 1,819,383.25 | 1,991,746.59 |
| Cash in State Treasury | 2,886,801.81 | 2,724,644.20 |
| Short-term Investments | 13,354,654.86 | 11,712,495.28 |
| State Appropriations | 2,610,177.47 | 1,727,765.35 |

Restricted:

| | | |
|----------------------------|--------------|--------------|
| Cash and Cash Equivalents: | | |
| Cash in Bank | 4,250,174.43 | 3,871,359.10 |

Net Receivables:

| | | |
|-------------------------------------|---------------|---------------|
| Student Receivables | 10,602,770.54 | 10,090,560.81 |
| Federal Receivables | 349,419.49 | 912,162.00 |
| Other Intergovernmental Receivables | 434,664.12 | 359,900.57 |
| Interest and Dividends | 10,727.39 | 35,677.88 |
| Other Receivables | 2,117,356.25 | 2,106,001.28 |
| Pledges Receivable | 401,327.77 | 393,458.59 |
| Consumable Inventories | 182,563.45 | 189,744.18 |
| Prepaid Expenses | 10,398,461.56 | 9,629,928.06 |

Total Current Assets

| | |
|---------------|---------------|
| 49,435,232.39 | 45,762,193.89 |
|---------------|---------------|

Noncurrent Assets:

Restricted:

| | | |
|-----------------------------|---------------|---------------|
| Investments | 14,917,000.72 | 44,891,486.23 |
| Other Long-term Investments | 52,836,581.52 | 48,291,507.57 |
| Pledges Receivable | 1,115,284.03 | 1,516,611.80 |

Capital Assets, Non-depreciable:

| | | |
|----------------------------|-----------------|-----------------|
| Land and Land Improvements | \$ 6,212,890.44 | \$ 6,212,890.44 |
| Construction in Progress | 13,635,554.22 | 26,427,028.64 |
| Other Capital Assets | 3,533,965.30 | 23,382,409.96 |
| | 3,533,965.30 | 36,173,884.38 |

Capital Assets, Depreciable:

| | | |
|-----------------------------------|------------------|------------------|
| Buildings & Building Improvements | 276,989,504.18 | 234,775,452.27 |
| Less Accumulated Depreciation | (137,818,086.40) | 139,171,417.78 |
| Infrastructure | 13,351,147.45 | (127,780,802.55) |
| Less Accumulated Depreciation | (8,203,389.51) | 106,994,649.72 |
| Facilities and Other Improvements | 14,531,278.87 | 13,351,147.45 |
| Less Accumulated Depreciation | (6,694,369.67) | (7,726,108.47) |
| Furniture and Equipment | 19,048,663.26 | 5,625,038.98 |
| Less Accumulated Depreciation | (12,171,958.74) | (6,114,249.63) |
| Vehicles | 1,724,394.81 | 8,417,029.24 |
| Less Accumulated Depreciation | (1,265,521.86) | 15,740,859.01 |
| Other Capital Assets | 11,332,819.00 | (12,128,371.58) |
| Less Accumulated Depreciation | (9,830,834.23) | 1,920,546.24 |
| | 1,501,984.77 | (1,314,226.05) |
| | (9,932,972.36) | 606,320.19 |

Intangible Capital Assets, Amortizable:

| | | |
|-------------------------------|-----------------|-----------------|
| Computer Software | 24,062,668.46 | 21,084,143.46 |
| Less Accumulated Amortization | (14,199,923.08) | (11,841,848.07) |

Total Noncurrent Assets

| | |
|----------------|----------------|
| 263,107,668.77 | 266,526,433.50 |
|----------------|----------------|

Total Assets

| | |
|------------------|------------------|
| \$312,542,901.16 | \$312,288,627.39 |
|------------------|------------------|

ANNUAL

FINANCIAL

REPORT

| | | |
|---|-----------------------|-----------------------|
| Deferred Outflows of Resources: | 2019 | 2018 |
| Pensions | \$ 8,525,471.00 | \$ 2,421,142.00 |
| Unamortized Loss on Debt Refunding | 2,924,918.72 | 3,119,913.30 |
| Other Postemployment Benefits (OPEB) | 42,578,063.00 | 110,602.00* |
| Total Deferred Outflows of Resources | 54,028,452.72 | 5,651,657.30 |
| Total Assets and Deferred Outflows | 366,571,353.88 | 317,940,284.69 |

LIABILITIES AND DEFERRED INFLOWS

| | | |
|---|-----------------------|-----------------------|
| Current Liabilities: | | |
| Accounts Payable | 9,346,079.68 | 7,947,716.37 |
| Accrued Payroll Payable | 4,581,467.57 | 4,557,373.13 |
| Employees' Compensable Leave | 222,598.93 | 279,310.47 |
| Net Other Postemployment Benefits Liability | 694,518.00 | 59,250.00 |
| Room/Property Deposits | | 48,347.38 |
| Unearned Revenues | 33,625,305.37 | 34,182,046.54 |
| Retainages and Contracts | 1,588,469.56 | 807,479.00 |
| Funds Held for Others | 409,504.01 | 188,756.41 |
| Due to Other Agencies (SECO Loan) | 288,986.69 | 283,278.47 |
| 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 | 6,010,000.00 | 6,345,000.00 |
| Total Current Liabilities | 57,447,968.45 | 55,379,596.41 |
| Noncurrent Liabilities: | | |
| Employees' Compensable Leave | 1,833,624.64 | 1,531,409.51 |
| Net Pension Liability | 17,048,013.00 | 9,321,176.00 |
| Net Other Postemployment Benefits Liability | 46,520,064.00 | 11,617,701.00 |
| Room/Property Deposits | 102,380.95 | 145,042.16 |
| Due to Other Agencies (SECO Loan) | 134,834.65 | 423,821.34 |
| Unamortized Premium on 2015A Rev Bonds | 2,283,643.30 | 2,378,795.11 |
| Unamortized Premium on 2016A Rev Bonds | 9,374,189.28 | 9,960,076.11 |
| Revenue Bonds Payable | 130,115,000.00 | 136,125,000.00 |
| Total Noncurrent Liabilities | 207,411,749.82 | 171,503,021.23 |
| Total Liabilities | 264,859,718.27 | 226,882,617.64 |
| Deferred Inflows of Resources: | | |
| Pensions | 1,281,913.00 | 1,879,521.00 |
| Other Postemployment Benefits (OPEB) | 18,275,070.00 | 2,581,830.00 |
| Total Deferred Inflows of Resources | 19,556,983.00 | 4,461,351.00 |
| Total Liabilities and Deferred Inflows | 284,416,701.27 | 231,343,968.64 |

NET POSITION

| | | |
|---|-------------------------|-------------------------|
| Net Investment in Capital Assets | 54,360,308.71 | 56,272,885.37 |
| Restricted for: | | |
| Nonexpendable | 4,998,125.37 | 4,855,816.68 |
| Expendable: | | |
| Capital Projects | 1,111,412.39 | (123,492.27) |
| Restricted by Contributor | 13,912,818.01 | 9,698,735.92 |
| Unrestricted | 7,771,988.13 | 15,892,370.35* |
| Total Net Position | 82,154,652.61 | 86,596,316.05 |
| Total Liabilities, Deferred Inflows and Net Position | \$366,571,353.88 | \$317,940,284.69 |

*Amounts have been changed to reflect totals reported by the State in the previous year's CAFR.

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>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Student Tuition and Fees (net of scholarship allowances of \$17,409,117.58 and \$15,536,778.12, respectively) | \$ 35,507,877.02 | \$ 35,401,408.08 |
| Federal Grants | 2,003,598.09 | 1,583,961.25 |
| Federal Pass-Through Grants | 129,346.76 | 112,428.18 |
| State Pass-Through Grants from Other State Agencies | 4,322,954.28 | 4,100,437.95 |
| Other Grants and Contracts | 2,201,481.56 | 1,243,128.43 |
| Sales and Services of Educational Activities | 1,627,902.94 | 1,441,650.94 |
| Sales and Services of Auxiliary Enterprises | 13,883,716.99 | 13,552,580.89 |
| Other Operating Revenue | 5,026,225.30 | 1,456,941.79 |
| Total Operating Revenues | <u>64,703,102.94</u> | <u>58,892,537.51</u> |

Operating Expenses:

| | | |
|---------------------------------|-----------------------|-----------------------|
| Salaries and Wages | 43,461,982.77 | 42,467,837.08 |
| Payroll Related Costs | 24,068,187.00 | 14,496,382.91* |
| Professional Fees and Services | 5,987,171.37 | 5,962,406.43 |
| Travel | 2,072,633.92 | 2,128,920.79 |
| Materials and Supplies | 8,796,943.47 | 8,378,379.59 |
| Communications and Utilities | 2,519,057.74 | 2,613,757.09 |
| Repairs and Maintenance | 3,814,624.50 | 3,427,203.39 |
| Rentals and Leases | 1,302,193.69 | 839,390.85 |
| Printing and Reproduction | 273,716.31 | 365,508.71 |
| Depreciation and Amortization | 14,740,003.85 | 13,380,218.81 |
| Bad Debt Expense | 113,192.48 | 140,938.16 |
| Interest | 2,582.34 | 832.46 |
| Scholarships | 12,698,325.18 | 12,141,547.17 |
| Total Operating Expenses | <u>119,850,614.62</u> | <u>106,343,323.44</u> |

Operating Loss

(55,147,511.68) (47,450,785.93)

Non-Operating Revenues (Expenses):

| | | |
|--|----------------------|----------------------|
| State Appropriations | 21,855,599.00 | 21,836,476.00 |
| Additional State Appropriations | 5,826,692.02 | 5,536,645.46 |
| Federal Grants | 10,412,717.10 | 10,459,109.85 |
| Federal Pass-Through Grants | 1,272.33 | 862.56 |
| State Pass-Through Grants from Other State Agencies | 5,000.00 | |
| Gifts | 5,604,537.64 | 4,978,103.66 |
| Other Non-Operating Revenues (Expenses) | 2,259.00 | |
| Investment Income | 3,048,256.77 | 2,255,782.59 |
| Net Increase (Decrease) in Fair Value of Investments | (439,405.24) | 1,740,217.49 |
| Net Book Value of Capital Asset Disposals | (11,481.80) | (232,087.58) |
| Interest Expense on Capital Asset Financing | (5,303,562.40) | (2,918,263.69) |
| Total Non-Operating Revenues (Expenses) | <u>41,001,884.42</u> | <u>43,656,846.34</u> |

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

(14,145,627.26) (3,793,939.59)

*Amounts have been changed to reflect an adjustment to OPEB expense reported by the State in the previous year's CAFR.

Midwestern State University

Unaudited

Midwestern State University
Matrix of Operating Expenses Reported by Function
For the Year Ended August 31, 2019

| | Total Operating Expenses | Instruction | Research | Public Service | Academic Support |
|---------------------------------|--------------------------------|------------------------|-----------------------|-----------------------|------------------------|
| Salaries and Wages | \$ 43,461,982.77 | \$22,984,832.89 | \$494,719.42 | \$431,840.68 | \$3,498,468.39 |
| Payroll Related Costs | 24,068,187.00 | 13,374,508.17 | 143,276.99 | 159,137.62 | 1,917,271.62 |
| Professional Fees and Services | 5,987,171.37 | 837,961.96 | 191,156.50 | 88,110.49 | 1,428,986.27 |
| Travel | 2,072,633.92 | 861,413.85 | 76,741.48 | 19,035.89 | 328,229.36 |
| Materials and Supplies | 8,796,943.47 | 714,671.25 | 181,541.12 | 251,122.07 | 934,638.60 |
| Communications and Utilities | 2,519,057.74 | 71,500.12 | 548.93 | 6,310.60 | 38,876.71 |
| Repairs and Maintenance | 3,814,624.50 | 121,712.16 | 5,709.51 | 49,300.06 | 1,953,667.36 |
| Rentals and Leases | 1,302,193.69 | 77,047.80 | 3,813.88 | 166,358.16 | 827,551.15 |
| Printing and Reproduction | 273,716.31 | 43,915.90 | 2,264.05 | 11,874.89 | 115,491.41 |
| Depreciation and Amortization | 14,740,003.85 | | | | |
| Bad Debt Expense | 113,192.48 | | | | |
| Interest | 2,582.34 | | | | 904.56 |
| Scholarships | 12,698,325.18 | | | | |
| Total Operating Expenses | \$119,850,614.62 | \$39,087,564.10 | \$1,099,771.88 | \$1,183,090.46 | \$11,044,085.43 |

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 | 14,496,382.91* | 7,843,332.12 | 96,100.76 | 99,694.76 | 1,227,850.58 |
| 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 | \$106,343,323.44 | \$33,510,356.46 | \$890,590.41 | \$735,395.74 | \$9,336,035.81 |

*Amounts have been changed to reflect an adjustment to OPEB expense reported by the State in the previous year's CAFR.

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

| <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 | |
| 1,962,099.23 | 1,345,904.37 | 1,603,709.80 | | 317,691.29 | |
| 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>\$12,674,894.38</u> | <u>\$7,779,568.89</u> | <u>\$7,181,760.52</u> | <u>\$12,141,547.17</u> | <u>\$8,712,955.25</u> | <u>\$13,380,218.81</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

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| | <u>2019</u> | <u>2018</u> |
|--|------------------------|------------------------|
| Cash Flows from Operating Activities: | | |
| Proceeds Received from Students | \$ 35,027,476.56 | \$ 35,997,480.43 |
| Proceeds Received for Sponsored Programs | 8,534,650.81 | 7,589,151.18 |
| Proceeds Received from Auxiliary Enterprises | 13,781,327.94 | 13,956,073.79 |
| Proceeds From Loan Programs | 2,286.79 | 2,331.80 |
| Proceeds From Other Revenues | 6,654,128.24 | 2,898,592.73 |
| Payments to Employees | (57,470,002.74) | (56,366,610.74) |
| Payments to Suppliers for Goods and Services | (20,796,872.43) | (17,767,571.38) |
| Payments for Scholarships | (13,337,119.67) | (12,429,882.14) |
| Payments for Interest | (2,582.34) | (832.46) |
| Net Cash Provided (Used) by Operating Activities | <u>(27,606,706.84)</u> | <u>(26,121,266.79)</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| Proceeds from State Appropriations | 25,553,278.60 | 26,346,004.04 |
| Proceeds from Endowment Gifts | 172,472.16 | 60,005.63 |
| Proceeds from Gifts | 4,265,547.10 | 4,491,156.66 |
| Proceeds from Non-operating Grants | 10,418,989.43 | 10,459,972.41 |
| Transfers in from Other Funds | 181,055.00 | 161,808.00 |
| Transfers out to Other Funds | (1,320,160.50) | (1,112,063.43) |
| Net Cash Provided by Noncapital Financing Activities | <u>39,271,181.79</u> | <u>40,406,883.31</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Proceeds from Capital Gifts | 1,850,000.00 | 200,000.00 |
| Proceeds from HEAF Appropriations | 5,061,412.00 | 5,061,412.00 |
| Proceeds From Interest on Capital Investments | 305,714.66 | 510,717.17 |
| Payments for Additions to Capital Assets | (32,157,674.79) | (24,670,831.59) |
| Principal Paid on Capital Related Debt | (7,309,317.11) | (7,088,721.68) |
| Interest Paid on Capital Related Debt | (5,159,052.66) | (2,759,458.01) |
| Net Cash Provided by Capital and Related Financing Activities | <u>(37,408,917.90)</u> | <u>(28,746,882.11)</u> |
| Cash Flows from Investing Activities: | | |
| Proceeds from Interest and Investment Income | 2,334,756.02 | 2,578,542.20 |
| Proceeds from Sales and Maturities of Investments | 67,891,453.57 | 39,493,139.04 |
| Payments to Acquire Investments | (44,113,157.04) | (26,973,413.44) |
| Net Cash Provided (Used) by Investing Activities | <u>26,113,052.55</u> | <u>15,098,267.80</u> |
| Increase (Decrease) in Cash and Cash Equivalents | 368,609.60 | 637,002.21 |
| Cash and Cash Equivalents, Beginning of Year | <u>8,604,499.89</u> | <u>7,967,497.68</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 8,973,109.49</u> | <u>\$ 8,604,499.89</u> |

Year
Ended
8-31-2019
(UNAUDITED)

| | <u>2019</u> | <u>2018</u> |
|---|--------------------------|--------------------------|
| Reconciliation to Cash and Cash Equivalents as Displayed on the Statement of Net Position: | | |
| Current Assets: | | |
| Cash on Hand | \$ 16,750.00 | \$ 16,750.00 |
| Cash in Bank | 1,819,383.25 | 1,991,746.59 |
| Cash in State Treasury | 2,886,801.81 | 2,724,644.20 |
| Restricted: | | |
| Cash in Bank | 4,250,174.43 | 3,871,359.10 |
| Cash and Cash Equivalents, End of Year | <u>\$ 8,973,109.49</u> | <u>\$ 8,604,499.89</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | |
| Operating Income (Loss) | \$(55,147,511.68) | \$(47,450,785.93)* |
| Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities: | | |
| Amortization and Depreciation | 14,740,003.85 | 13,380,218.81 |
| Bad Debt Expense | 113,192.48 | 140,938.16 |
| Net Pension Expense Reported in Payroll Related Costs & Professional Fees | 1,024,900.00 | (97,728.00) |
| Net OPEB Expense Reported in Payroll Related Costs | 8,765,669.00 | 517,760.00* |
| Donations of Non-Capital Assets | 1,732,449.13 | 956,366.25 |
| (Increase) Decrease in Receivables | (146,491.43) | (440,635.16) |
| (Increase) Decrease in Inventories | 7,180.73 | (233.03) |
| (Increase) Decrease in Prepaid Expenses | (768,533.50) | (265,029.97) |
| Increase (Decrease) in Payables | 2,162,924.56 | 5,027,936.06 |
| Increase (Decrease) in Unearned Revenues | (556,741.17) | 1,991,727.58 |
| Increase (Decrease) in Compensated Absences Liability | 245,503.59 | 79,071.94 |
| Increase (Decrease) in Other Liabilities | 220,747.60 | 39,126.50 |
| Total Adjustments | <u>27,540,804.84</u> | <u>21,329,519.14</u> |
| Net Cash Used by Operating Activities | <u>\$(27,606,706.84)</u> | <u>\$(26,121,266.79)</u> |
| Non Cash Transactions | | |
| Net Increase (Decrease) in FMV of Investments | \$ (439,405.24) | \$ 1,740,217.49 |
| (Loss) Gain on Asset Disposals | (11,481.80) | (232,087.58) |
| Donation of Capital Assets | 4,657,312.81 | 10,675,249.98 |
| Transfer in on Master Lease Purchase Program | 348,472.65 | 513,717.04 |

*Amounts have been changed to reflect totals reported by the State in the previous year's CAFR.

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 1: Summary of Significant Accounting Policies

Introduction

Midwestern State University is a public institution of higher education and is an agency of the State of Texas. The university's Board of Regents is appointed by the Governor of the state. Accordingly, the university's financial position is in the State of Texas 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 Midwestern State 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 of Texas 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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Midwestern State University

Notes To The Financial Statements - Unaudited

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

Midwestern State University 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.

Midwestern State University

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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Midwestern State University

Notes To The Financial Statements - Unaudited

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 pages 56-57.

Other Significant Accounting Policies

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

Midwestern State University

Notes To The Financial Statements - Unaudited

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2019, is presented below.

| BUSINESS-TYPE ACTIVITIES | Balance 09/01/18 | Adjustment | Reclassifications Completed CIP |
|---|--------------------------------|----------------------|---------------------------------------|
| <u>Non-depreciable or Non-Amortizable Assets:</u> | | | |
| Land and Land Improvements | \$ 6,212,890.44 | | |
| Construction in Progress | 26,427,028.64 | | \$(42,214,051.91) |
| Other Tangible Capital Assets | 3,533,965.30 | | |
| Total Non-depreciable Assets or Non-Amortizable Assets | <u>36,173,884.38</u> | <u>\$0.00</u> | <u>(42,214,051.91)</u> |
| <u>Depreciable Assets:</u> | | | |
| Buildings and Building Improvements | 234,775,452.27 | | 42,214,051.91 |
| Infrastructure | 13,351,147.45 | | |
| Facilities and Other Improvements | 14,531,278.87 | | |
| Furniture and Equipment | 15,740,859.01 | | |
| Vehicles | 1,920,546.24 | | |
| Other Capital Assets | 11,088,094.93 | | |
| Total Depreciable Assets: | <u>291,407,378.77</u> | <u>0.00</u> | <u>42,214,051.91</u> |
| Less Accumulated Depreciation for: | | | |
| Buildings and Building Improvements | (127,780,802.55) | | |
| Infrastructure | (7,726,108.47) | | |
| Facilities and Other Improvements | (6,114,249.63) | | |
| Furniture and Equipment | (12,128,371.58) | | |
| Vehicles | (1,314,226.05) | | |
| Other Capital Assets | (9,932,972.36) | | |
| Total Accumulated Depreciation | <u>(164,996,730.64)</u> | <u>0.00</u> | <u>0.00</u> |
| Depreciable Assets, Net | <u>126,410,648.13</u> | <u>0.00</u> | <u>42,214,051.91</u> |
| <u>Amortizable Assets - Intangible:</u> | | | |
| Computer Software | 21,084,143.46 | | |
| Total Amortizable Assets - Intangible | 21,084,143.46 | 0.00 | 0.00 |
| Less Accumulated Amortization for: | | | |
| Computer Software | (11,841,848.07) | | |
| Total Accumulated Amortization | <u>(11,841,848.07)</u> | <u>0.00</u> | <u>0.00</u> |
| Amortizable Assets - Intangible, Net | <u>9,242,295.39</u> | <u>0.00</u> | <u>0.00</u> |
| Business-Type Activities Capital Assets, Net | <u>\$171,826,827.90</u> | <u>\$0.00</u> | <u>\$ 0.00</u> |

| Additions | Deletions | Balance 08/31/19 |
|------------------------|-----------------------|-------------------------|
| | | \$ 6,212,890.44 |
| \$29,422,577.49 | | 13,635,554.22 |
| | | 3,533,965.30 |
| <u>29,422,577.49</u> | <u>\$ 0.00</u> | <u>23,382,409.96</u> |
| | | 276,989,504.18 |
| | | 13,351,147.45 |
| | | 14,531,278.87 |
| 4,201,934.69 | (894,130.44) | 19,048,663.26 |
| | (196,151.43) | 1,724,394.81 |
| 560,423.07 | (315,699.00) | 11,332,819.00 |
| <u>4,762,357.76</u> | <u>(1,405,980.87)</u> | <u>336,977,807.57</u> |
| (10,037,283.85) | | (137,818,086.40) |
| (477,281.04) | | (8,203,389.51) |
| (580,120.04) | | (6,694,369.67) |
| (926,235.80) | 882,648.64 | (12,171,958.74) |
| (147,447.24) | 196,151.43 | (1,265,521.86) |
| (213,560.87) | 315,699.00 | (9,830,834.23) |
| <u>(12,381,928.84)</u> | <u>1,394,499.07</u> | <u>(175,984,160.41)</u> |
| <u>(7,619,571.08)</u> | <u>(11,481.80)</u> | <u>160,993,647.16</u> |
| 2,978,525.00 | | 24,062,668.46 |
| <u>2,978,525.00</u> | <u>0.00</u> | <u>24,062,668.46</u> |
| (2,358,075.01) | | (14,199,923.08) |
| <u>(2,358,075.01)</u> | <u>0.00</u> | <u>(14,199,923.08)</u> |
| 620,449.99 | 0.00 | 9,862,745.38 |
| <u>\$22,423,456.40</u> | <u>\$ (11,481.80)</u> | <u>\$194,238,802.50</u> |

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 3: Deposits, Investments and Repurchase Agreements

Authorized Investments

Midwestern State University 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 \$9,854,700.68 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 Long Term CCP and the SEF managed by Texas A&M University System at August 31, 2019 were \$29,016,540.21 and \$16,397,568.11, respectively. Additional information about these investments is disclosed separately on pages 35-40.

| Carrying Amount of Deposits of Cash in Bank as of August 31 | <u>2019</u> | <u>2018</u> |
|--|------------------------------|------------------------------|
| Cash on Hand | \$ 16,750.00 | \$ 16,750.00 |
| Cash in Bank | 6,069,557.68 | 5,863,105.69 |
| Cash in State Treasury | <u>2,886,801.81</u> | <u>2,724,644.20</u> |
| Total Cash and Cash Equivalents | <u>\$8,973,109.49</u> | <u>\$8,604,499.89</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 | \$ 16,750.00 |
| Cash in Bank | 1,819,383.25 | 1,991,746.59 |
| Cash in State Treasury | 2,886,801.81 | 2,724,644.20 |
| Current Assets— Restricted Cash and Cash Equivalents: | | |
| Cash in Bank | <u>4,250,174.43</u> | <u>3,871,359.10</u> |
| Total Cash and Cash Equivalents | <u>\$8,973,109.49</u> | <u>\$8,604,499.89</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, 2019 was \$7,058,239.18. \$250,000 of this amount was covered by FDIC Insurance, and \$6,808,239.18 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, 2019 was reported by the custodian as \$10,169,694.50 or 149.26% of the university's uninsured bank deposits.

MSU also entered into a flexible repurchase agreement with Bayerische Landesbank (BLB) for investment of construction bond proceeds. The value of the investments at August 31, 2019 was \$11,144,496.67. 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, 2019 was \$12,381,886.89, or 111.10% of the value of the investments in the flexible repurchase agreement.

Midwestern State University

Notes To The Financial Statements - Unaudited

| Fair Value of Investments as of August 31 by Investment Type | <u>2019</u> | <u>2018</u> |
|---|-------------------------------|--------------------------------|
| U.S. Government Agency Obligations | \$ 165,027.28 | \$ 194,187.80 |
| Corporate Bonds | 3,126,522.60 | 2,960,540.69 |
| Equities | 6,619,444.13 | 6,452,731.49 |
| Other Commingled Funds—Texas A&M System Investment Pool* | 45,414,108.32 | 41,091,822.22 |
| Other Commingled Funds—Texpool | 3,017,029.64 | 2,556,253.09 |
| Other Commingled Funds—LOGIC | 4,470,898.52 | 4,091,550.60 |
| Other Commingled Funds—Texas Class | 2,529,871.05 | 4,098,876.16 |
| Other Commingled Funds—American National Bank | 2,024,775.07 | |
| Other Commingled Funds—First National Bank | 2,022,535.25 | |
| Other Commingled Funds—Goldman Sachs | 113,986.69 | 459,401.72 |
| Flexible Repurchase Agreements | 11,144,496.67 | 42,557,009.92 |
| Alternative Investments (including hedge funds) | 459,541.88 | 433,115.39 |
| Total Investments | <u>\$81,108,237.10</u> | <u>\$104,895,489.08</u> |

| Fair Value of Investments as of August 31 by Balance Sheet Category | | |
|--|-------------------------------|--------------------------------|
| Current Assets—Short-Term Investments | \$13,354,654.86 | \$ 11,712,495.28 |
| Non-Current Assets—Restricted Investments | 14,917,000.72 | 44,891,486.23 |
| Non-Current Assets—Other Long Term Investments | 52,836,581.52 | 48,291,507.57 |
| Total Investments | <u>\$81,108,237.10</u> | <u>\$104,895,489.08</u> |

*See additional disclosures on pages 35-40 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 ADR'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.
- 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, 2019 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, 2019 NAV by the estimated performance as of August 31, 2019 as reported by the investment manager.

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Year
Ended
8-31-2019
(UNAUDITED)

Midwestern State University

Notes To The Financial Statements - Unaudited

ANNUAL FINANCIAL REPORT

| Investment Type | Fair Value Hierarchy | | | | Fair Value as of August 31, 2019 |
|--|----------------------|----------------|----------------|-----------------|----------------------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | NAV | |
| U.S. Government Agency Obligations | | \$ 165,027.28 | | | \$ 165,027.28 |
| Corporate Bonds | | 3,126,522.60 | | | 3,126,522.60 |
| Equities | \$6,619,444.13 | | | | 6,619,444.13 |
| Other Commingled Funds - Texas A&M System Investment Pool* | | | | | 45,414,108.32 |
| Other Commingled Funds - Texpool | | | | \$ 3,017,029.64 | 3,017,029.64 |
| Other Commingled Funds - LOGIC | | | | 4,470,898.52 | 4,470,898.52 |
| Other Commingled Funds - Texas Class | | | | 2,529,871.05 | 2,529,871.05 |
| Other Commingled Funds - American National Bank | 2,024,775.07 | | | | 2,024,775.07 |
| Other Commingled Funds - First National Bank | 2,022,535.25 | | | | 2,022,535.25 |
| Other Commingled Funds - Goldman Sachs | | | | 113,986.69 | 113,986.69 |
| Flexible Repurchase Agreements | | | | 11,144,496.67 | 11,144,496.67 |
| Alternative Investments (including hedge funds) | | 355,682.25 | \$103,859.63 | | 459,541.88 |
| Total Investments | | | | | \$81,108,237.10 |

*See additional disclosures on pages 35-40 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, 2019, 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) | \$ 165,027.28 | | | |
| Corporate Bonds | | \$396,385.81 | \$ 664,739.76 | \$ 2,065,397.03 |
| Commingled Funds—Texpool and LOGIC | 10,017,799.21 | | | |

| Investment Type | BB | B | Collateralized | Not Rated |
|---|----|---|------------------|---------------|
| Other Commingled Funds—Goldman Sachs | | | | \$ 113,986.69 |
| Flexible Repurchase Agreements | | | \$ 11,144,496.67 | |
| Money Market—American National Bank | | | 2,024,775.07 | |
| Money Market—First National Bank | | | 2,022,535.25 | |
| Other Fixed Income Mutual Funds | | | | |
| Equities | | | | 6,619,444.13 |
| Alternative Investments (including hedge funds) | | | | 459,541.88 |

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2019, the university's concentration of credit risk is immaterial to any single issuer.

Midwestern State University

Notes To The Financial Statements - Unaudited

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, 2019, were as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Modified Duration</u> |
|------------------------------------|-------------------|--------------------------|
| U.S. Government Agency Obligations | \$ 165,027.28 | 3.52 |
| Corporate Bonds | 3,126,522.60 | 3.85 |

Texas A&M Investment Pool

| <u>Investment Type</u> | <u>LT CCP</u> | <u>SEF</u> | <u>Total Combined Fair Value</u> |
|--|------------------------|------------------------|----------------------------------|
| U.S. Treasury Securities | \$ 1,706,813.22 | \$ 199,487.97 | \$ 1,906,301.19 |
| U.S. Treasury TIPS | 57,663.98 | 15,864.15 | 73,528.13 |
| U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.) | 2,006,347.59 | 500,099.63 | 2,506,447.22 |
| Corporate Obligations | 2,860,957.44 | 692,327.98 | 3,553,285.42 |
| Corporate Asset and Mortgage-Backed Securities | 917,562.34 | 108,444.11 | 1,026,006.45 |
| Equity (Domestic) | 5,563,255.40 | 2,792,927.39 | 8,356,182.79 |
| International Obligations (Govt and Corp) | 1,772,813.36 | 365,751.18 | 2,138,564.54 |
| International Equity | 3,938,928.82 | 2,024,425.25 | 5,963,354.07 |
| Fixed Income Money Market and Bond Mutual Funds | 488,298.49 | 311,944.76 | 800,243.25 |
| Mutual Funds—International Equity (registered with SEC) | 1,708,074.54 | 804,304.30 | 2,512,378.84 |
| Other Commingled Funds—Fixed Income | 464,708.62 | 260,848.47 | 725,557.09 |
| International Other Commingled Funds—Equity | 1,288,304.26 | 602,638.33 | 1,890,942.59 |
| Derivatives | 1,827.33 | 521.47 | 2,348.80 |
| <u>Alternative Investments:</u> | | | |
| Hedge Funds—Domestic | 3,368,552.01 | 1,290,491.35 | 4,659,043.36 |
| Hedge Funds—International | 2,853,923.79 | 1,193,850.66 | 4,047,774.45 |
| Limited Partnerships—Private Equity | | 1,874,738.27 | 1,874,738.27 |
| Limited Partnerships—International Private Equity | | 1,365,456.55 | 1,365,456.55 |
| Limited Partnerships—Real Estate | | 424,508.52 | 424,508.52 |
| Limited Partnerships—International Real Estate | | 76,174.83 | 76,174.83 |
| Limited Partnerships—Natural Resources | | 1,516,523.64 | 1,516,523.64 |
| Limited Partnerships—International Natural Resources | | 165,211.06 | 165,211.06 |
| <u>Miscellaneous:</u> | | | |
| Political Subdivisions | 55,641.42 | 15,496.90 | 71,138.32 |
| Total Investments | \$29,053,672.61 | \$16,602,036.77 | \$45,655,709.38 |

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Year
Ended
8-31-2019
(UNAUDITED)

Midwestern State University

Notes To The Financial Statements - Unaudited

| <i>Note 3: Continued</i> | Fair Value Hierarchy | | | | | Fair Value as of August 31, 2019 |
|--|----------------------|----------------|------------------------|------------------------|----------------|----------------------------------|
| Investment Type | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Amortized Cost | NAV | |
| U.S. Treasury Securities | \$1,906,301.19 | | | | | \$ 1,906,301.19 |
| U.S. Treasury TIPS | 73,528.13 | | | | | 73,528.13 |
| U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.) | | \$2,506,447.22 | | | | 2,506,447.22 |
| Corporate Obligations | | 3,433,440.01 | \$ 119,845.41 | | | 3,553,285.42 |
| Corporate Asset and Mortgage-Backed Securities | | 1,026,006.45 | | | | 1,026,006.45 |
| Equity (Domestic) | 8,356,182.79 | | | | | 8,356,182.79 |
| International Obligations (Govt and Corp) | | 2,130,334.35 | 8,230.19 | | | 2,138,564.54 |
| International Equity | 5,963,354.07 | | | | | 5,963,354.07 |
| Fixed Income Money Market and Bond Mutual Funds | | | | \$800,243.25 | | 800,243.25 |
| Mutual Funds—International Equity (registered with SEC) | 1,287,221.40 | | 1,225,157.44 | | | 2,512,378.84 |
| Other Commingled Funds—Fixed Income | 480,865.45 | | 244,691.64 | | | 725,557.09 |
| International Other Commingled Funds—Equity | | | 1,890,942.59 | | | 1,890,942.59 |
| Derivatives | | 2,348.80 | | | | 2,348.80 |
| <u>Alternative Investments:</u> | | | | | | |
| Hedge Funds—Domestic | | | | | \$4,659,043.36 | 4,659,043.36 |
| Hedge Funds—International | | | | | 4,047,774.45 | 4,047,774.45 |
| Limited Partnerships—Private Equity | | | | | 1,874,738.27 | 1,874,738.27 |
| Limited Partnerships—International Private Equity | | | | | 1,365,456.55 | 1,365,456.55 |
| Limited Partnerships—Real Estate | | | | | 424,508.52 | 424,508.52 |
| Limited Partnerships—International Real Estate | | | | | 76,174.83 | 76,174.83 |
| Limited Partnerships—Natural Resources | | | | | 1,516,523.64 | 1,516,523.64 |
| Limited Partnerships—International Natural Resources | | | | | 165,211.06 | 165,211.06 |
| <u>Miscellaneous:</u> | | | | | | |
| Political Subdivisions | | 71,138.32 | | | | 71,138.32 |
| Total Investments | | | | | | \$45,655,709.38 |
| Fair Value of Investments as of August 31, 2019 by Balance Sheet Category | | | | | | |
| Foreign Currency presented as Cash | | | \$ 9,101.86 | \$ 3,861.01 | | \$ 12,962.87 |
| Cash | | | 98.46 | 51.67 | | 150.13 |
| <u>Receivables:</u> | | | | | | |
| Other Receivable—Cash Due from Broker | | | 4,920.51 | 1,813.24 | | 6,733.75 |
| Int/Dividends Receivable | | | 85,471.23 | 26,817.93 | | 112,289.16 |
| Investment Trade Receivable—Foreign Currency Fluctuations | | | (264.88) | (103.63) | | (368.51) |
| Investment Trade Receivable—FFX Contract Receivable | | | 44,867.30 | 15,411.03 | | 60,278.33 |
| Investment Trade Receivable—Pending Sale | | | 439,574.91 | 14,617.57 | | 454,192.48 |
| Other Receivable—Treasury Futures | | | 4,178.27 | 1,132.34 | | 5,310.61 |
| <u>Payables:</u> | | | | | | |
| Other Payable—Manager Fees | | | (13,111.14) | (6,515.21) | | (19,626.35) |
| Other Payable— 4th quarter SEF distribution (payable from SEF pool) | | | | (188,192.97) | | (188,192.97) |
| Investment Trade Payable—Foreign Currency Fluctuations | | | (0.33) | (0.27) | | (0.60) |
| Investment Trade Payable—FFX Contract Payable | | | (44,867.30) | (15,411.03) | | (60,278.33) |
| Investment Trade Payable—Pending Purchase | | | (563,370.53) | (56,856.34) | | (620,226.87) |
| Other Payable—Investment Derivative (Currency Forward) - Liability Position | | | (21.75) | (9.11) | | (30.86) |
| Other Payable—Treasury Futures | | | (3,571.89) | (1,026.56) | | (4,598.45) |
| Other Payables | | | (136.23) | (58.35) | | (194.58) |
| Rounding due to allocation | | | (0.89) | 0.02 | | (0.87) |
| Total Cash and Accruals | | | (37,132.40) | (204,468.66) | | (241,601.06) |
| Investments (detailed on page 35 and above by Investment Type) | | | 29,053,672.61 | 16,602,036.77 | | 45,655,709.38 |
| Net Asset Value | | | \$29,016,540.21 | \$16,397,568.11 | | \$45,414,108.32 |

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 Cash Concentration Pool (CCP) and System Endowment Fund (SEF). Midwestern State University (MSU) has elected to invest in both the CCP and the SEF. By agreement, MSU may withdraw funds from the Cash Concentration Pool 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 System Endowment Fund are not subject to withdrawal except in the event of termination of the agreement and full liquidation. The liquidation schedule for the System Endowment Fund 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 | \$4,659,043.36 | Quarterly | Semi-annually |
| Hedge Funds - International | 4,047,774.45 | Quarterly | Semi-annually |
| Limited Partnerships - Private Equity | 1,874,738.27 | N/A | N/A |
| Limited Partnerships - International Private Equity | 1,365,456.55 | N/A | N/A |
| Limited Partnerships - Real Estate | 424,508.52 | N/A | N/A |
| Limited Partnerships - International Real Estate | 76,174.83 | N/A | N/A |
| Limited Partnerships - Natural Resources | 1,516,523.64 | N/A | N/A |
| Limited Partnerships - International Natural Resources | 165,211.06 | 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 | \$ 72,371.04 |
| Hedge Funds - International | 65 days | 2 years | 46,907.72 |
| Limited Partnerships - Private Equity | N/A | N/A | 623,938.00 |
| Limited Partnerships - International Private Equity | N/A | N/A | 434,985.00 |
| Limited Partnerships - Real Estate | N/A | N/A | 432,941.00 |
| Limited Partnerships - International Real Estate | N/A | N/A | 143,472.00 |
| Limited Partnerships - Natural Resources | N/A | N/A | 459,137.00 |
| Limited Partnerships - International Natural | N/A | N/A | 111,000.00 |

ANNUAL FINANCIAL REPORT

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 | \$ 9,497.40 | \$2,408,419.06 | \$ 21,808.31 | \$ 5,907.82 |
| Corporate Obligations | 36,786.47 | 155,321.84 | 778,807.16 | 1,988,946.09 |
| Corporate Asset and Mortgage-Backed Securities | 266,602.35 | 256,209.59 | 29,674.66 | 47,528.56 |
| International Obligations | 33,742.39 | 128,732.91 | 280,055.68 | 838,811.91 |
| Fixed Income Money Market & Bond Mutual Fund | 800,243.25 | | | |
| Miscellaneous (Municipals and CDs) | | 34,266.94 | 19,026.45 | 17,844.93 |

| Investment Type | BB | B | CCC | Not Rated |
|--|--------------|-------------|--------------|--------------|
| U.S. Government Agency Obligations | | \$ 9,652.88 | | \$ 51,161.75 |
| Corporate Obligations | \$369,950.03 | 165,825.44 | \$ 16,814.47 | 40,833.92 |
| Corporate Asset & Mortgage Backed Securities | | | 17,082.74 | 408,908.55 |
| International Obligations | 442,834.11 | 41,992.28 | 6,363.32 | 366,031.94 |
| Other Commingled Funds - Fixed Income | | | | 725,557.09 |

Investments Exposed to Foreign Currency Risk

| Fund Type | GAAP Fund | Foreign Currency | International Obligation (Govt and Corp and MF) | International Equity | Equity Mutual Funds—International | Equity Commingled Funds—International |
|--------------|-----------|--|---|-----------------------|-----------------------------------|---------------------------------------|
| 05 | 9999 | U.S. Dollar Denominated Foreign Securities | \$1,950,110.43 | \$1,329,768.45 | \$2,512,378.84 | \$1,890,942.59 |
| 05 | 9999 | Argentina Peso | 454.48 | | | |
| 05 | 9999 | Australian Dollar | | 97,345.69 | | |
| 05 | 9999 | Brazil Real | 73,607.08 | 29,895.10 | | |
| 05 | 9999 | British Pound Sterling | | 327,457.64 | | |
| 05 | 9999 | Canadian Dollar | 31,751.68 | 464,180.53 | | |
| 05 | 9999 | Chinese Yuan | 6,215.90 | | | |
| 05 | 9999 | Danish Krone | | 123,983.75 | | |
| 05 | 9999 | Euro Currency Unit | | 2,039,563.33 | | |
| 05 | 9999 | Hong Kong Dollar | | 29,936.67 | | |
| 05 | 9999 | Indonesian Rupiah | 17,051.95 | | | |
| 05 | 9999 | Japanese Yen | | 764,929.32 | | |
| 05 | 9999 | Mexican Peso | 59,373.03 | 40,578.76 | | |
| 05 | 9999 | New Taiwan Dollar | | 32,729.41 | | |
| 05 | 9999 | Singapore Dollar | (0.01) | 32,588.62 | | |
| 05 | 9999 | South Korean Won | | 154,886.20 | | |
| 05 | 9999 | Swedish Krona | | 51,095.84 | | |
| 05 | 9999 | Swiss Franc | | 345,614.73 | | |
| 05 | 9999 | Thailand Baht | | 64,814.93 | | |
| 05 | 9999 | New Turkish Lira | | 33,985.10 | | |
| TOTAL | | | \$2,138,564.54 | \$5,963,354.07 | \$2,512,378.84 | \$1,890,942.59 |

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 | \$4,047,774.45 | \$ 1,210,603.04 | \$165,211.06 | \$76,174.83 |
| 05 | 9999 | Euro Currency Unit | | 154,853.51 | | |
| TOTAL | | | \$4,047,774.45 | \$1,365,456.55 | \$165,211.06 | \$76,174.83 |

Investments Exposed to Interest Rate Risk

| Investment Types | Effective Duration | Unaccrued Market Value System Total |
|--|--------------------|-------------------------------------|
| U.S. Treasury Securities | 4.219 | \$ 1,906,301.19 |
| U.S. Treasury TIPS | 23.593 | 73,528.13 |
| U.S. Government Agency Obligations | 0.546 | 2,506,447.22 |
| Corporate Obligations | 6.340 | 3,553,285.42 |
| Corporate Asset and Mortgage Backed Securities | 1.940 | 1,026,006.45 |
| International Obligations | 5.250 | 2,138,564.54 |
| Other Commingled Funds - Fixed Income | 1.835 | 725,557.09 |
| Miscellaneous (political subdivision and CDs) | 10.676 | 71,138.32 |
| Total Fair Value | | \$12,000,828.36 |

Derivative Investing

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

These investments involve market and/or credit risk in excess of the amount recognized in the consolidated Statement of Net Position. Risks arise from the possibility that counterparties will be unable to meet the terms of their contracts and from movement in currency, securities values and interest rates. The table below summarizes MSU's share of the pending foreign exchange contracts as of August 31, 2019:

Foreign Exchange Contracts as of August 31, 2019

| Currency | Sell | Buy | Unrealized Gain on Foreign Exchange Contract | Unrealized Loss on Foreign Exchange Contract |
|------------------------|--------------------|-------------------|--|--|
| Australian Dollar | \$13,304.11 | | \$ 6.30 | \$13.39 |
| Brazilian Real | 24,566.20 | | 2,227.03 | |
| British Pound Sterling | 0.57 | | | |
| Euro | 1,256.52 | | 2.06 | 2.13 |
| Indonesian Rupiah | 17,476.38 | | 113.41 | 11.16 |
| Japanese Yen | | \$3,660.06 | | 4.18 |
| Singapore Dollar | 14.33 | | | |
| Swiss Franc | 0.16 | | | |
| | \$56,618.27 | \$3,660.06 | \$2,348.80 | \$30.86 |

ANNUAL FINANCIAL REPORT

Year Ended
8-31-2019
(UNAUDITED)

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 3: Continued

The university's share of the unrealized gains of the open foreign currency exchange contracts as of August 31, 2019 are shown as an investment derivative of \$2,348.80 and the unrealized losses are shown as a liability of \$30.86 on the Statement of Net Position. The foreign currency exchange contracts are traded over-the-counter and categorized as Level 2 in the fair value hierarchy.

The gross counterparty exposure related to MSU's share of these contracts as of August 31, 2019 is presented in the table below. The A&M System's policy does not address master netting arrangements, and the A&M System is not party to such an arrangement. The A&M System policy does not require collateral or other security for currency forward contracts.

Foreign Exchange Contract Exposure to Counterparty Risk as of August 31, 2019

| Notional Assets | Notional Liabilities | Assets Fair Value as of August 31, 2019 | Liabilities Fair Value as of August 31, 2019 | S&P Counterparty Rating |
|--------------------|----------------------|---|--|-------------------------|
| \$ 4,316.62 | \$ 4,322.93 | | \$ 6.31 | A |
| 55,957.53 | 53,633.29 | \$2,348.80 | 24.55 | A+ |
| \$60,274.15 | \$57,956.22 | \$2,348.80 | \$30.86 | |

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

| Open Futures Contracts as of August 31, 2019 | Notional Amount Long | Notional Amount Short | Assets Other Receivables | Liabilities Other Payables |
|--|-----------------------|-----------------------|--------------------------|----------------------------|
| Treasury Futures | \$1,229,233.81 | \$1,125,411.69 | \$5,310.61 | \$4,598.45 |

Note 4: Short-Term Debt

Not Applicable

Note 5: Long-Term Liabilities

During the year ended August 31, 2019, the following changes occurred in liabilities:

| Business-Type Activities | Balance 09-01-18 | Restatement | Additions | Reductions | Balance 08-31-19 | Amounts Due Within One |
|--------------------------------------|-------------------------|---------------|---------------------|-----------------------|-------------------------|------------------------|
| Revenue Bonds Payable | \$142,470,000.00 | | \$ 0.00 | \$6,345,000.00 | \$136,125,000.00 | \$6,010,000.00 |
| Unamortized Premium on Revenue Bonds | 13,019,909.86 | | | 681,038.64 | 12,338,871.22 | 681,038.64 |
| Subtotal | 155,489,909.86 | | 0.00 | 7,026,038.64 | 148,463,871.22 | 6,691,038.64 |
| Compensable Leave | 1,810,719.98 | | 459,809.16 | 214,305.57 | 2,056,223.57 | 222,598.93 |
| Total | <u>\$157,300,629.84</u> | <u>\$0.00</u> | <u>\$459,809.16</u> | <u>\$7,240,344.21</u> | <u>\$150,520,094.79</u> | <u>\$6,913,637.57</u> |

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 or her accrued leave forward from one fiscal year to another fiscal year with a maximum of hours up to 532 for those employees with thirty-five or more years of state service. A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, separation from state employment, or transfer to a position that no longer accrues vacation, provided the employee has had continuous employment with the state for six months. For proprietary fund types an expense and liability are recorded as the benefits accrue to the employee. The liability is determined through the summarization of each employee's annual leave balance multiplied by their respective salary rate. The estimated cumulative amount of this liability is \$2,056,223.57. The university made lump sum payments totaling \$214,305.57 for accrued vacation to employees who separated from state service during the fiscal year ended August 31, 2019, and payments of \$188,133.50 for August 31, 2018.

The university has an undetermined and unrecorded liability for employee's 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—\$1,285,000; Outstanding at Year End—\$0.

Revenue Financing System Revenue Bonds, Series 2010

- Issued by the Texas Public Finance Authority (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—\$205,000; Outstanding at Year End—\$440,000.

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 6: Continued

Revenue and Refunding Bonds, Series 2012A

- Issued by the Texas Public Finance Authority (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—\$660,000; Outstanding at Year End—\$1,275,000.

Revenue and Refunding Bonds, Series 2012B

- Issued by the Texas Public Finance Authority (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—\$535,000; Outstanding at Year End—\$3,515,000.

Revenue and Refunding Bonds, Series 2015A

- Issued by the Texas Public Finance Authority (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 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 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—\$875,000; Outstanding at Year End—\$51,285,000.

Midwestern State University

Notes To The Financial Statements - Unaudited

Revenue and Refunding Bonds, Series 2015B

- Issued by the Texas Public Finance Authority (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—\$1,055,000; Outstanding at Year End—\$1,100,000.

Revenue and Refunding Bonds, Series 2016A

- Issued by the Texas Public Finance Authority (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, along with substantial renovations to Moffett Library, minor renovations and code improvements to Bridwell Hall, Bolin Hall, the Fain Fine Arts Center, and the Hardin Administration Building, the relocation of Information Technology to a more secure building on campus, and other essential electrical, infrastructural, HVAC and ADA upgrades and improvements.
- Issued September 15, 2016
- \$70,135,000; Of the \$58,400,000 authorized, \$50,975,000 have been issued.
- Revenue and Refunding Bond
- Business-Type Activities
- 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—\$1,730,000; Outstanding at Year End—\$66,720,000.

Revenue and Refunding Bonds, Series 2016B

- Issued by the Texas Public Finance Authority (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.

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(UNAUDITED)

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 7: Derivative Instruments

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

The table below summarizes MSU's share of the A&M System's derivative activity as reported in the financial statements as of August 31, 2019.

| Investment Derivatives | Changes in Fair Value | | Fair Value as of 8/31/2019 | | Notional Amount |
|------------------------|-----------------------|------------|----------------------------|------------|-----------------|
| | Classification | Amount | Classification | Amount | |
| FX Contracts | Investment Revenue | \$2,348.80 | Investment | \$2,348.80 | \$ 60,274.15 |
| FX Contracts | Investment Revenue | (30.86) | Other Payable | (30.86) | 57,956.22 |
| Treasury Futures | Investment Revenue | 5,310.61 | Other Receivable | 5,310.61 | 1,229,233.81 |
| Treasury Futures | Investment Revenue | (4,598.45) | Other Payable | (4,598.45) | 1,125,411.69 |

Investment Derivatives

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

Hedging Derivatives

The A&M System did not enter into hedging derivatives in fiscal year 2019.

Note 8: Leases

Capital Leases

Midwestern State University has no capital leases as of August 31, 2019.

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 |
|--|-----------------------|
| 2020 | \$1,076,901.96 |
| 2021 | 1,060,694.98 |
| 2022 | 1,048,690.81 |
| 2023 | 955,450.44 |
| 2024 | 770,720.20 |
| 2025 | 783,124.92 |
| 2026 | 793,566.60 |
| 2027 | 814,449.96 |
| 2028 | 542,966.64 |
| Total Future Minimum Lease Payments | \$7,846,566.51 |

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 9: Pension Plans

Teacher Retirement System Pension Plan

Teacher Retirement System 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 plan does not provide automatic cost of living adjustments (COLAs).

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

During the measurement period of 2018 for fiscal 2019 reporting, the amount of Midwestern State University's contributions recognized by the plan was \$1,043,385.00. 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, 2018 measurement date:

| Actuarial Methods and Assumptions* | TRS Plan |
|--|---|
| Actuarial Valuation Date | August 31, 2017 rolled forward to August 31, 2018 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Floating |
| Asset Valuation Method | Market Value |
| <u>Actuarial Assumptions:</u> | |
| Discount Rate | 6.907% |
| Investment Rate of Return | 8.0% |
| Long-term Expected Rate of Return | 7.25% |
| Municipal Bond Rate as of August 2018 | 3.69%** |
| Inflation | 2.30% |
| Salary Increase | 3.05% to 9.05%, including inflation |
| <u>Mortality:</u> | |
| Active | 90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality using Scale BB. |
| Post-Retirement | 2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale BB. |
| Ad Hoc Post-Employment Benefit Changes | None |

*The assumptions used to determine the ADC are those in effect for the Aug. 31, 2017 actuarial assumption. Due to the lag between valuation data and the measurement date, they may not be the same assumptions used to measure the Net Pension Liability.

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

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 9: Continued

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

Furthermore, assumptions, methods, and plan changes were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following assumptions:

- The total pension liability as of Aug. 31, 2018 was developed using a roll forward method from the Aug. 31, 2017 valuation;
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending Aug. 31, 2017;
- Economic assumptions, including rates of salary increase for individual participants were updated based on the same experience study;
- The discount rate changed from 8.000% as of Aug. 31, 2017 to 6.907% as of Aug. 31, 2018;
- The long term assumed rate of return changed from 8.00% to 7.25%; and,
- The change in the long term assumed rate of return combined with the change in the discount rate was the primary reason for the increase in the net pension liability.

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

The discount rate of 6.907% was applied to measure the total pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projected cash flows into and out of the pension plan assumed that members, employers, and non-employer contributing entities make their contributions at the statutorily required rates. It is assumed that future employer and state contributions will be 7.76% of payroll. This includes a factor for the rehired retirees and the Non-OASDI surcharge. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefits payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date.

The long-term expected rate of return on plan investments was developed using a building-block method in which best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

| Asset Class | Target Allocation | Long-Term Expected Arithmetic Real Rate of Return |
|-------------------------------|-------------------|--|
| Global Equity | | |
| U.S. | 18% | 5.70% |
| Non-U.S. Developed | 13% | 6.90% |
| Emerging Markets | 9% | 8.95% |
| Directional Hedge Funds | 4% | 3.53% |
| Private Equity | 13% | 10.18% |
| Stable Value | | |
| U.S. Treasury | 11% | 1.11% |
| Absolute Return | 0% | 0.00% |
| Stable Value Hedge Funds | 4% | 3.09% |
| Cash | 1% | -0.30% |
| Real Return | | |
| Global Inflation Linked Bonds | 3% | 0.70% |
| Real Assets | 14% | 5.21% |
| Energy and Natural Resources | 5% | 7.48% |
| Commodities | 0% | 0.00% |
| Risk Parity | | |
| Risk Parity | 5% | 3.70% |
| Total | 100% | |

Midwestern State University

Notes To The Financial Statements - Unaudited

Sensitivity Analysis

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

| 1% Decrease in Discount Rate (5.907%) | Current Discount Rate (6.907%) | 1% Increase in Discount Rate (7.907%) |
|---|--------------------------------------|---|
| \$25,729,544 | \$17,048,013 | \$10,019,804 |

The pension 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 Teacher Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the plan's investment policy, assets, and fiduciary net position may be obtained from TRS' fiscal 2018 Comprehensive Annual Financial Report.

At August 31, 2019, Midwestern State University reported a liability of \$17,048,013 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2018, 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, 2019 was 0.0309725 percent which was an increase from the 0.0291518 percent on the prior measurement date. MSU's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all of the employers and non-employer contributing entities to the plan for the period September 1, 2017 through August 31, 2018.

For the year ending August 31, 2019, Midwestern State University recognized pension expense of \$2,083,152.00. At August 31, 2019, 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 | \$ 106,263.00 | \$ 418,291.00 |
| Changes of assumptions | 6,146,630.00 | 192,082.00 |
| Net difference between projected & actual investment return | | 323,474.00 |
| Change in proportion and contribution difference | 1,192,093.00 | 348,066.00 |
| Contributions subsequent to the measurement date | <u>1,080,485.00</u> | |
| Total | <u>\$8,525,471.00</u> | <u>\$1,281,913.00</u> |

The \$1,080,485.00 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, 2020. 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 |
|-------------------------|--|
| 2020 | \$1,487,722.00 |
| 2021 | 807,000.00 |
| 2022 | 662,865.00 |
| 2023 | 1,251,286.00 |
| 2024 | 1,217,853.00 |
| Thereafter | 736,347.00 |
| Total | \$6,163,073.00 |

ANNUAL FINANCIAL REPORT

Year
Ended
8-31-2019
(UNAUDITED)

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 ORP is in lieu of participation in the Teacher Retirement System 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 program. 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 plan 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 plan members and employer for the fiscal year ended August 31, 2019, compared to the previous year, are shown below:

| | Year Ended August 31, 2019 | Year Ended August 31, 2018 |
|------------------------|-------------------------------|-------------------------------|
| Member Contributions | \$1,035,072.67 | \$1,021,229.01 |
| Employer Contributions | 1,095,872.47 | 1,091,491.25 |
| Total Remittance | \$2,130,945.14 | \$2,112,720.26 |

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. This 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 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 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 plan do not belong to the university, and thus it does not have a liability related to this plan.

Note 11: Postemployment Health Care and Life Insurance Benefits

ERS Plan

Employees Retirement System is the administrator of the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer defined Other Post Employment 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.

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

Audited Comprehensive Annual Financial Report (CAFR) for Employees Retirement System may be obtained from: Employees Retirement System of Texas, 200 E. 18th Street, Austin, Texas 78701.

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Midwestern State University

Notes To The Financial Statements - Unaudited

During the measurement period of 2018 for fiscal 2019 reporting, the amount of Midwestern State University contributions recognized by the plan were \$4,627,762.52. 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 | \$ 621.90 |
| Retiree & Spouse | 1,334.54 |
| Retiree & Children | 1,099.06 |
| Retiree & Family | 1,811.70 |

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, 2018 measurement date:

| Actuarial Methods and Assumptions | SRHP |
|--|--|
| Actuarial Valuation Date | August 31, 2018 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percent of Payroll, Open |
| Remaining Amortization Period | 30 Years |
| <u>Actuarial Assumptions:</u> | |
| Discount Rate | 3.96%* |
| Inflation | 2.50% |
| Salary Increase | 2.50% to 9.50%, including inflation |
| Healthcare Cost and Trend Rate | 7.30% for FY 2020, 7.40% for FY 2021, 7.00% for FY 2022, decrease 0.50% per year to an ultimate rate of 4.5% 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 | 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 |
| Service Retirees, Survivors and Other Inactive Members | RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014 |
| Disabled Retirees | RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014 |
| Active Members | RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014 |

**The source of the municipal bond rate is the Bond Buyer Index of general obligations bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.*

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Year
Ended
8-31-2019
(UNAUDITED)

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 11—Continued

Mortality:

Higher Education Members

Service Retirees, Survivors and Other Inactive Members

Tables based on TRS experience with Ultimate MP Projection Scale from the year 2014

Disabled Retirees

Tables based on TRS experience with Ultimate MP Projection Scale from year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members

Active Members

Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014

Ad Hoc Post-Employment 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 retirement plan actuaries for the period Sept. 1, 2011 to Aug. 31, 2016 for state agency members and for the period Sept. 1, 2010 to Aug. 31, 2017 for higher education members. The mortality rates were based on the tables identified in the table on the previous page and above titled *Actuarial Methods and Assumptions*.

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

- A. Demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the Trustees of TRS;
- B. Assumed expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and expense trends have been updated to reflect recent experience and its effects on our short-term expectations
- C. Percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- D. Percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends; and,
- E. Discount rate assumption was increased from 3.51% to 3.96% to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The only benefit revisions that have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect plans.

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 3.96% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 3.51%. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay as you go basis and is not intended to accumulate 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 this plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments be at least 2.4%. The investment rate of return used to calculate the projected earnings on OPEB plan investments was 3.51%.

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

| Sensitivity of Midwestern State University's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate (\$ thousands) | | |
|---|----------------------------------|------------------------|
| 1% Decrease (2.96%) | Current Discount Rate (3.96%) | 1% Increase (4.96%) |
| \$56,055 | \$47,215 | \$40,524 |

Midwestern State University

Notes To The Financial Statements - Unaudited

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

| Sensitivity of Midwestern State University's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (\$ thousands) | | |
|--|--|--|
| 1% Decrease (6.30% decreasing to 3.50%) | Current Healthcare Cost Trend Rates (7.30% decreasing to 4.50%) | 1% Increase (8.30% decreasing to 5.50%) |
| \$39,985 | \$47,215 | \$56,541 |

The OPEB plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the Other Employee Benefit Trust Fund are reported at fair value in accordance with GASB Statement No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2018 CAFR.

At August 31, 2019, Midwestern State University reported a liability of \$47,214,582.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of August 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actual valuation as of that date. Midwestern State University's proportion of the collective net OPEB liability was based on its contributions to the OPEB plan relative to the contributions of all the employers and non-employer contributions to the plan for the period September 1, 2017 through August 31, 2018.

For the year ending August 31, 2019, Midwestern State University recognized OPEB expense of \$8,933,978.00. At August 31, 2019, Midwestern State University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| Deferred Inflows and Outflows Related to Other ment Benefits (OPEB): | Postemploy- | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-------------|-----------------------------------|----------------------------------|
| Difference between expected and actual experience | | | \$ 1,729,790.00 |
| Changes of assumptions | | | 16,545,280.00 |
| Net difference between projected & actual investment return | | \$ 22,359.00 | |
| Effect of change in proportion and contribution difference | | 42,387,395.00 | |
| Contributions subsequent to the measurement date | | 168,309.00 | |
| Total | | \$42,578,063.00 | \$18,275,070.00 |

The \$168,309.00 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, 2020.

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

| Year Ended August 31st | Amount of OPEB Expense to Be Recognized |
|---------------------------|---|
| 2020 | \$4,566,761.00 |
| 2021 | 4,566,761.00 |
| 2022 | 4,566,761.00 |
| 2023 | 6,076,461.00 |
| 2024 | 4,357,940.00 |
| Thereafter | 0.00 |

ANNUAL FINANCIAL REPORT

Year
Ended
8-31-2019
(UNAUDITED)

Midwestern State University

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 |
|-------------------------------------|----------------------|-------------------|---------|
|-------------------------------------|----------------------|-------------------|---------|

Interfund Receivables and Payables—Current:

| | | | |
|---------------------------------------|--|---------------------|-----------------------------|
| State Energy Conservation Office, 907 | | <u>\$288,986.69</u> | |
| D23 Fund 7999 | | <u>\$288,986.69</u> | SECO Federal Revolving Loan |

Interfund Receivables and Payables—Non Current:

| | | | |
|---------------------------------------|--|---------------------|-----------------------------|
| State Energy Conservation Office, 907 | | <u>\$134,834.65</u> | |
| D23 Fund 7999 | | <u>\$134,834.65</u> | SECO Federal Revolving Loan |

| Due to/Due From: | Due From Other Agencies | Due To Other Agencies | Purpose |
|------------------|-------------------------|-----------------------|---------|
|------------------|-------------------------|-----------------------|---------|

| | | | |
|---|-------------------|---------------------|--|
| Office of the Governor, 300 | | | National Incident-Based Reporting System |
| D23 Fund 7999 | \$ 69,236.38 | | |
| Texas Tech University Health Sciences Center, 739 | | | West Texas Area Health Education Center |
| D23 Fund 7999 | 1,116.77 | | |
| Texas Tech University, 733 | | | Small Business Development Center |
| D23 Fund 7999 | <u>113,671.11</u> | | |
| Total Due To/Due From | | <u>\$184,024.26</u> | |

| Operating Transfers: | Transfer In | Transfer Out | |
|----------------------|-------------|--------------|--|
|----------------------|-------------|--------------|--|

| | | | |
|--|---------------------|-----------------------|--|
| Texas Higher Education Coordinating Board, 781 | | | Dental Hygiene Degree or Certificate Program |
| D23 Fund 7999 | | \$ 1,404.00 | |
| Texas Public Finance Authority, 347 | | | Master Lease Purchase Transfers |
| D23 Fund 7999 | \$348,472.65 | 1,318,756.50 | |
| Texas State Comptroller's Office, 902 | | | Hazlewood Exemption Program |
| D23 Fund 0210 | <u>66,646.00</u> | | |
| Total Transfers | <u>\$415,118.65</u> | <u>\$1,320,160.50</u> | |

| Legislative Transfers: | Transfer In | Transfer Out | |
|------------------------|-------------|--------------|--|
|------------------------|-------------|--------------|--|

| | | | |
|---------------------------------------|---------------------|--|-----------------------------|
| Texas State Comptroller's Office, 902 | | | Hazlewood Reimbursement-TVC |
| D23 Fund 0001 | <u>\$114,409.00</u> | | |
| Total Transfers | <u>\$114,409.00</u> | | |

Detailed State Grant Pass-Through information is listed on page 61 in Schedule 1B.

ANNUAL

FINANCIAL

REPORT

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

Not applicable.

Note 15: Contingencies and Commitments

At August 31, 2019, there were no material pending lawsuits or claims involving Midwestern State University. 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

There were no material events that occurred subsequent to August 31, 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, 2019, 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 \$102,072.10 and \$129,028.24 for workers' compensation coverage for fiscal years ending August 31, 2019 and 2018, 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.

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.

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Year
Ended
8-31-2019
(UNAUDITED)

Midwestern State University

Notes To The Financial Statements - Unaudited

Note 18: Management’s Discussion and Analysis

See Introduction.

Note 19: The Financial Reporting Entity

Midwestern State University is an agency of the State of Texas. The ten members of its Board of Regents are appointed by the Governor and include one non-voting student Regent. 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 \$1,158,184 to MSU during the year ended August 31, 2019, and \$922,825 for the prior year. The MSU Charitable Trust remitted restricted gifts of \$1,102,132 to the university during the year ended August 31, 2019 and \$945,441 for the prior year. The assets of the Midwestern State University Foundation and the MSU Charitable Trust as of August 31, 2019 are reported by their trustees in the amount of \$30,845,000 and \$31,594,838.46, 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.

For the fiscal year ended August 31, 2019, the net appreciation on investments of donor restricted endowments available for authorization of expenditure, after distributions, is as follows:

| <u>Donor-Restricted Endowment</u> | <u>Amounts of Net Appreciation</u> | <u>Reported in Net Position</u> |
|-----------------------------------|--|---------------------------------|
| True Endowments | None | Restricted for Nonexpendable |
| Term Endowments | \$815,876.35 | Restricted for Nonexpendable |
| True Endowments | None | Restricted for Expendable |

ANNUAL FINANCIAL REPORT

Midwestern State University

Notes To The Financial Statements - Unaudited

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:

| Accounts Receivable Category | Current Amount |
|--|-----------------------|
| 3rd Party Contracts on Student Receivables | \$1,333,821.86 |
| Follett Bookstore Receivable | 105,548.59 |
| Vending Commission Accruals | 1,782.22 |
| Employee Travel Advances | 20,980.16 |
| Employee Payroll Advances | 10,872.82 |
| Other Grants and Contracts Receivable | 59,170.45 |
| Endowment Distribution Receivable | 215,523.96 |
| DFW Shared Lease Receivable | 41,950.19 |
| Direct Loans Receivable | 327,706.00 |
| Total | \$2,117,356.25 |

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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8-31-2019
(UNAUDITED)

Midwestern State University

Notes To The Financial Statements - Unaudited

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 | \$ 106,263.00 | \$ 418,291.00 |
| Changes of assumptions | 6,146,630.00 | 192,082.00 |
| Net difference between projected and actual investment return | | 323,474.00 |
| Change in proportion and contribution difference | 1,192,093.00 | 348,066.00 |
| Contributions subsequent to the measurement date | 1,080,485.00 | |
| Deferred Inflows and Outflows Related to Other Postemployment Benefits (OPEB): | | |
| Difference between expected and actual experience | | 1,729,790.00 |
| Changes of assumptions | | 16,545,280.00 |
| Net difference between projected and actual investment return | 22,359.00 | |
| Effect of change in proportion and contribution difference | 42,387,395.00 | |
| Contributions subsequent to the measurement date | 168,309.00 | |
| Unamortized Loss on Debt Refunding | 2,924,918.72 | |
| Total | \$54,028,452.72 | \$19,556,983.00 |

The \$1,080,485.00 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, 2020.

The \$168,309.00 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, 2020.

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

| Year Ended August 31st | Amount of Pension Expense to Be Recognized |
|---------------------------|--|
| 2020 | \$1,487,722.00 |
| 2021 | 807,000.00 |
| 2022 | 662,865.00 |
| 2023 | 1,251,286.00 |
| 2024 | 1,217,853.00 |
| Thereafter | 736,347.00 |

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

| Year Ended August 31st | Amount of OPEB Expense to Be Recognized |
|---------------------------|---|
| 2020 | \$4,566,761.00 |
| 2021 | 4,566,761.00 |
| 2022 | 4,566,761.00 |
| 2023 | 6,076,461.00 |
| 2024 | 4,357,940.00 |
| Thereafter | 0.00 |

ANNUAL FINANCIAL REPORT

Midwestern State University

Notes To The Financial Statements - Unaudited

The ending balance of \$2,924,918.72 in deferred outflows of resources was related to unamortized losses on refunding debt. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows, depending on whether the net result is a gain or loss. The deferred amount is then amortized over the life of the new debt or the life of the old debt, whichever is shorter. In this case, the deferred outflow will be amortized using the straight line method over the life of the old debt. The annual amortization expense will be \$194,994.58, and the deferred outflow will be fully amortized in fiscal year 2034.

Note 29: Troubled Debt Restructuring

Not Applicable.

Note 30: Non-Exchange Financial Guarantees

Not Applicable.

Note 31: Tax Abatements

Not Applicable.

Note 32: Fund Balance

Not Applicable.

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Year
Ended
8-31-2019
(UNAUDITED)

Midwestern State University

Unaudited

**Schedule 1A - Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2019, with Comparative Totals for the Year Ended August 31, 2018**

ANNUAL FINANCIAL REPORT

| | CFDA Number | ID # | Univ/Agy # | Pass-Through From | | |
|--|----------------|------|---------------|-------------------|----------------------|---------------------------------|
| | | | | Agency Amount | University Amount | Non-State Entities Amount |
| <u>National Endowment for the Humanities</u> | | | | | | |
| Promotion of the Humanities—Federal/State Partnership | 45.129 | | | | | |
| Totals—National Endowment for the Humanities | | | | | | |
| <u>Institute of Museum and Library Services</u> | | | | | | |
| Pass-Through From: | | | | | | |
| Texas State Library and Archives Commission (TSLAC) | | | | | | |
| Grants to States | 45.310 | | 306 | \$1,272.33 | | |
| <u>Small Business Administration</u> | | | | | | |
| Pass-Through From: | | | | | | |
| TTU-Small Business Development Center | | | | | | |
| | 59.037 | | 733 | | \$128,229.99 | |
| <u>National Science Foundation</u> | | | | | | |
| Education and Human Resources | 47.076 | | | | | |
| <u>U.S. Department of Health and Human Services</u> | | | | | | |
| Advanced Nursing Education Grant Program | 93.247 | | | | | |
| Pass-Through From: | | | | | | |
| Texas Tech University Health Sciences Center | | | | | | |
| | 93.107 | | 739 | 1,116.77 | | |
| Totals—U.S. Department of Health and Human Services | | | | 1,116.77 | | |
| Research & Development Cluster | | | | | | |
| <u>U.S. Department of Health and Human Services</u> | | | | | | |
| Drug Abuse and Addiction Research Programs | 93.279 | | | | | |
| <u>U.S. Department of the Interior</u> | | | | | | |
| National Land Remote Sensing Education Outreach & Research | 15.815 | | | | | |
| Student Financial Assistance Cluster | | | | | | |
| <u>U.S. Department of Education</u> | | | | | | |
| Direct Programs: | | | | | | |
| Federal Supplemental Education Opportunity Grants | 84.007 | | | | | |
| Federal Work-Study Program | 84.033 | | | | | |
| Federal Pell Grant Program | 84.063 | | | | | |
| Federal Direct Student Loans | 84.268 | | | | | |
| Teacher Education Assistance for College & HE Grants (TEACH) | 84.379 | | | | | |
| Total Student Financial Assistance Cluster Programs | | | | | | |
| TRIO Cluster | | | | | | |
| <u>U.S. Department of Education</u> | | | | | | |
| Direct Programs | | | | | | |
| TRIO—Student Support Services | | | | | | |
| | 84.042 | | | | | |
| Total Federal Financial Assistance | | | | \$2,389.10 | \$128,229.99 | |

Year
Ended
8-31-2019
(UNAUDITED)

| Direct Program | Total of Pass-Through From & Direct Program | Pass-Through To | | Expenditures | 2019 | 2018 |
|------------------------|---|-----------------------|---------------------------|------------------------|-------------------------------------|-------------------------------------|
| | | 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 |
| | \$ 1,272.33 | | | \$ 1,272.33 | \$ 1,272.33 | 862.56 |
| | 128,229.99 | | | 128,229.99 | 128,229.99 | 112,428.18 |
| \$ 387,152.51 | 387,152.51 | | | 387,152.51 | 387,152.51 | 228,152.58 |
| 802,056.54 | 802,056.54 | | | 802,056.54 | 802,056.54 | 637,631.21 |
| | 1,116.77 | | | 1,116.77 | 1,116.77 | |
| 802,056.54 | 803,173.31 | | | 803,173.31 | 803,173.31 | 637,631.21 |
| 4,889.19 | 4,889.19 | | | 4,889.19 | 4,889.19 | |
| 21,963.47 | 21,963.47 | | | 21,963.47 | 21,963.47 | 14,423.57 |
| 225,147.00 | 225,147.00 | | | 225,147.00 | 225,147.00 | 207,449.00 |
| 136,467.75 | 136,467.75 | | | 136,467.75 | 136,467.75 | 142,730.67 |
| 10,412,717.10 | 10,412,717.10 | | | 10,412,717.10 | 10,412,717.10 | 10,459,109.85 |
| 30,380,055.00 | 30,380,055.00 | | | 30,380,055.00 | 30,380,055.00 | 31,686,253.00 |
| 188,502.00 | 188,502.00 | | | 188,502.00 | 188,502.00 | 121,221.00 |
| 41,342,888.85 | 41,342,888.85 | | | 41,342,888.85 | 41,342,888.85 | 42,616,763.52 |
| 237,419.63 | 237,419.63 | | | 237,419.63 | 237,419.63 | 227,853.22 |
| <u>\$42,796,370.19</u> | <u>\$42,926,989.28</u> | | | <u>\$42,926,989.28</u> | <u>\$42,926,989.28</u> | <u>\$43,842,614.84</u> |

Midwestern State University

Note 1: Nonmonetary Assistance

Not Applicable

Note 2: Reconciliation

08/31/2019

Federal Revenues—Per Exhibit II

| | |
|--|-----------------|
| Federal Grant Revenue—Operating | \$ 2,003,598.09 |
| Federal Grant Revenue—Non-Operating | 10,412,717.10 |
| Federal Pass-through Revenue—Operating | 129,346.76 |
| Federal Pass-through Revenue—Non-Operating | 1,272.33 |

Total Federal Revenues

12,546,934.28

Reconciling Items: New Loans Processed

Federal Direct Student Loans Processed

30,380,055.00

\$42,926,989.28

Note 3a: Student Loans Processed and Administrative Costs Recovered

| Federal Grantor/CFDA Number/Program Name | Beginning Balance of Outstanding Loans as of 8/31/18 | New Loans Processed, does not include Admin Cost | 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 | | \$30,380,055.00 | |
| Total Department of Education | | \$30,380,055.00 | |
| | Total Loans Processed & Admin Cost Recovered (from Schedule) | Repayment/Adjustment Activity (PY + CY) | Outstanding Balance of Loans as of 8/31/19, includes all FYs |
| Federal Grantor/CFDA Number/Program Name | | | |
| U.S. Department of Education | | | |
| 84.038 Federal Perkins Loan Program | | | |
| 84.268 Federal Direct Student Loans Program | \$30,380,055.00 | \$30,380,055.00 | |
| Total Department of Education | \$30,380,055.00 | \$30,380,055.00 | |

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, which extends through August 31, 2022. The university will be submitting a new rate proposal in February of 2022. The 50% rate will become provisional on September 1, 2022 until August 31, 2024 or until a new rate is negotiated.

Midwestern State University

Unaudited

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

| <u>Operating Revenue:</u> | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| Pass-Through From: | | |
| UT System (Agy #720) - Joint Admission Medical Program (JAMP) | \$ 7,820.38 | \$ 9,148.03 |
| Texas Commission on the Arts (TCA—Agy #813) Arts Create | | 5,000.00 |
| Office of the Governor—National Incident Based Reporting System (NIBRS—Agy #300) | 86,136.10 | |
| Texas Military Department (TMD-Agy #401) | 24,943.87 | |
| Texas Higher Education Coordinating Board (Agy #781) | | |
| College Work Study Program | 35,540.47 | 34,182.92 |
| Strategic Planning and Funding | | 5,000.00 |
| Professional Nursing Shortage Reduction Program | 46,141.46 | |
| TEXAS Grant Program | 4,122,372.00 | 4,033,107.00 |
| Top 10% Scholarships | | 14,000.00 |
| Total Operating Pass-Through Revenue (Exhibit II) | <u>\$4,322,954.28</u> | <u>\$4,100,437.95</u> |
| Pass-Through To: | | |
| None | | |
| <u>Non-Operating Revenue:</u> | | |
| Pass-Through From: | | |
| Texas Commission on the Arts (TCA—Agy #813) Arts Create | 5,000.00 | |
| Pass-Through To: | | |
| None | | |

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8-31-2019
(UNAUDITED)

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Midwestern State University

Unaudited

Midwestern State University
 Schedule 2A - Miscellaneous Bond Information
 For the Fiscal Year Ended August 31, 2019

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 | <u>11,790,000.00</u> | 1.426%-2.666% | 2019 | 2035 | 12-01-20 |
| Total | <u>\$196,590,346.92</u> | | | | |

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Year Ended
8-31-2019
(UNAUDITED)

Midwestern State University

Unaudited

Midwestern State University
 Schedule 2B - Changes in Bonded Indebtedness
 For the Fiscal Year Ended August 31, 2019

Business Type Activities

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| Description of Issue | Bonds Outstanding 09-01-2018 | Bonds Issued | Bonds Matured or Retired | Bonds Refunded or Extinguished |
|--|---------------------------------|---------------|-----------------------------|-----------------------------------|
| Revenue Bonds: | | | | |
| Revenue Financing System Revenue & Refunding Bonds: Series 2008 | \$ 1,285,000.00 | | \$1,285,000.00 | |
| Revenue Financing System Revenue Bonds: Series 2010 | 645,000.00 | | 205,000.00 | |
| Revenue Financing System Revenue & Refunding Bonds: Series 2012A | 1,935,000.00 | | 660,000.00 | |
| Revenue Financing System Revenue & Refunding Bonds: Series 2012B | 4,050,000.00 | | 535,000.00 | |
| Revenue Financing System Revenue & Refunding Bonds: Series 2015A | 52,160,000.00 | | 875,000.00 | |
| Revenue Financing System Revenue & Refunding Bonds: Series 2015B | 2,155,000.00 | | 1,055,000.00 | |
| Revenue Financing System Revenue & Refunding Bonds: Series 2016A | 68,450,000.00 | | 1,730,000.00 | |
| Revenue Financing System Revenue & Refunding Bonds: Series 2016B | 11,790,000.00 | | 0.00 | |
| Total | <u>\$142,470,000.00</u> | <u>\$0.00</u> | <u>\$6,345,000.00</u> | <u>\$0.00</u> |

| <u>Bonds Outstanding 08-31-2019</u> | <u>Amounts Due Within One Year</u> | <u>Unamortized Premium</u> | <u>Unamortized Discount</u> | <u>Net Bonds Outstanding 08-31-2019</u> | <u>Amounts Due Within One Year</u> |
|---|--|--------------------------------|---------------------------------|---|--|
| \$ 0.00 | \$ 0.00 | | | \$ 0.00 | \$ 0.00 |
| 440,000.00 | 215,000.00 | | | 440,000.00 | 215,000.00 |
| 1,275,000.00 | 675,000.00 | | | 1,275,000.00 | 675,000.00 |
| 3,515,000.00 | 550,000.00 | | | 3,515,000.00 | 550,000.00 |
| 51,285,000.00 | 880,000.00 | \$ 2,378,795.11 | | 53,663,795.11 | 975,151.81 |
| 1,100,000.00 | 460,000.00 | | | 1,100,000.00 | 460,000.00 |
| 66,720,000.00 | 2,570,000.00 | 9,960,076.11 | | 76,680,076.11 | 3,155,886.83 |
| <u>11,790,000.00</u> | <u>660,000.00</u> | | | <u>11,790,000.00</u> | <u>660,000.00</u> |
| <u>\$136,125,000.00</u> | <u>\$6,010,000.00</u> | <u>\$12,338,871.22</u> | <u>\$0.00</u> | <u>\$148,463,871.22</u> | <u>\$6,691,038.64</u> |

Midwestern State University

Unaudited

Midwestern State University
Schedule 2C - Debt Service Requirements
For the Fiscal Year Ended August 31, 2019

Business Type Activities

| Description of Issue | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Revenue Financing System Revenue and Refunding Bonds: | | | | | |
| Series 2010 | | | | | |
| Principal | \$ 215,000.00 | \$ 225,000.00 | | | |
| Interest | 16,625.00 | 5,625.00 | | | |
| Revenue Financing System Revenue and Refunding Bonds: | | | | | |
| Series 2012A | | | | | |
| Principal | 675,000.00 | 600,000.00 | | | |
| Interest | 20,250.00 | 6,750.00 | | | |
| Revenue Financing System Revenue Bonds: | | | | | |
| Series 2012B | | | | | |
| Principal | 550,000.00 | 560,000.00 | \$ 575,000.00 | \$ 590,000.00 | \$ 610,000.00 |
| Interest | 95,594.16 | 81,695.86 | 65,993.18 | 48,854.35 | 30,150.85 |
| Revenue Financing System Revenue and Refunding Bonds: | | | | | |
| Series 2015A | | | | | |
| Principal | 880,000.00 | 1,275,000.00 | 1,030,000.00 | 1,635,000.00 | 1,750,000.00 |
| Interest | 2,253,606.26 | 2,206,106.26 | 2,154,856.26 | 2,088,231.26 | 2,003,606.26 |
| Revenue Financing System Revenue and Refunding Bonds: | | | | | |
| Series 2015B | | | | | |
| Principal | 460,000.00 | 150,000.00 | 490,000.00 | | |
| Interest | 24,204.70 | 16,520.30 | 7,244.65 | | |
| Revenue Financing System Revenue and Refunding Bonds: | | | | | |
| Series 2016A | | | | | |
| Principal | 2,570,000.00 | 2,695,000.00 | 3,065,000.00 | 3,215,000.00 | 3,375,000.00 |
| Interest | 2,894,050.00 | 2,775,275.00 | 2,631,275.00 | 2,474,275.00 | 2,309,525.00 |
| Revenue Financing System Revenue and Refunding Bonds: | | | | | |
| Series 2016B | | | | | |
| Principal | 660,000.00 | 670,000.00 | 680,000.00 | 695,000.00 | 715,000.00 |
| Interest | 320,280.90 | 309,699.20 | 297,349.70 | 283,390.95 | 267,669.00 |
| Total | \$11,634,611.02 | \$11,576,671.62 | \$10,996,718.79 | \$11,029,751.56 | \$11,060,951.11 |
| Less Interest | (5,624,611.02) | (5,401,671.62) | (5,156,718.79) | (4,894,751.56) | (4,610,951.11) |
| Total Principal | \$ 6,010,000.00 | \$ 6,175,000.00 | \$ 5,840,000.00 | \$ 6,135,000.00 | \$ 6,450,000.00 |

ANNUAL FINANCIAL REPORT

| <u>2025-29</u> | <u>2030-34</u> | <u>2035-39</u> | <u>2040-44</u> | <u>2045-49</u> | <u>Total Requirements</u> |
|-------------------------------|-------------------------------|-------------------------------|-------------------------------|------------------------------|--------------------------------|
| | | | | | \$ 440,000.00 |
| | | | | | 22,250.00 |
| | | | | | 1,275,000.00 |
| | | | | | 27,000.00 |
| \$ 630,000.00 | | | | | 3,515,000.00 |
| 10,209.15 | | | | | 332,497.55 |
| 10,090,000.00 | \$ 9,260,000.00 | \$ 9,395,000.00 | \$12,890,000.00 | \$3,080,000.00 | 51,285,000.00 |
| 8,535,531.30 | 6,141,056.30 | 4,253,831.30 | 2,024,171.94 | 63,525.01 | 31,724,522.15 |
| | | | | | 1,100,000.00 |
| | | | | | 47,969.65 |
| 19,630,000.00 | 23,825,000.00 | 8,345,000.00 | | | 66,720,000.00 |
| 8,789,575.00 | 4,127,500.00 | 325,300.00 | | | 26,326,775.00 |
| 3,860,000.00 | 4,180,000.00 | 330,000.00 | | | 11,790,000.00 |
| 1,051,023.25 | 436,488.65 | 6,131.40 | | | 2,972,033.05 |
| \$52,596,338.70 | \$47,970,044.95 | \$22,655,262.70 | \$14,914,171.94 | \$3,143,525.01 | \$197,578,047.40 |
| (18,386,338.70) | (10,705,044.95) | (4,585,262.70) | (2,024,171.94) | (63,525.01) | (61,453,047.40) |
| <u>\$34,210,000.00</u> | <u>\$37,265,000.00</u> | <u>\$18,070,000.00</u> | <u>\$12,890,000.00</u> | <u>\$3,080,000.00</u> | <u>\$136,125,000.00</u> |

Midwestern State University

Unaudited

Midwestern State University
 Schedule 2D - Analysis of Funds Available for Debt Service
 For the Year Ended August 31, 2019

Business Type Activities
 Description of Issue

Pledged and Other Sources and Related Expenditures for FY 2019

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| Description of Issue | Net Available for Debt Service | | Debt Service | |
|---|---------------------------------|---|-----------------------|-----------------------|
| | Total Pledged and Other Sources | Operating Expenses/ Expenditures and Capital Outlay | Principal | Interest |
| Revenue Financing System Revenue Bonds | | | | |
| Revenue and Refunding Bonds: | | | | |
| Series 2008 | | | \$1,285,000.00 | \$ 25,700.00 |
| Revenue Bonds | | | | |
| Series 2010 | | | 205,000.00 | 27,125.00 |
| Revenue and Refunding Bonds: | | | | |
| Series 2012A | | | 660,000.00 | 33,600.00 |
| Revenue and Refunding Bonds: | | | | |
| Series 2012B | | | 535,000.00 | 107,612.61 |
| Revenue and Refunding Bonds: | | | | |
| Series 2015A | | | 875,000.00 | 2,297,481.26 |
| Revenue and Refunding Bonds: | | | | |
| Series 2015B | | | 1,055,000.00 | 39,922.80 |
| Revenue and Refunding Bonds: | | | | |
| Series 2016A | | \$31,710,002.72 | 1,730,000.00 | 2,971,400.00 |
| Revenue and Refunding Bonds: | | | | |
| Series 2016B | | | 0.00 | 324,986.70 |
| Total for all Revenue Financing System Revenue Bonds | \$58,969,220.89 | \$31,710,002.72 | \$6,345,000.00 | \$5,827,828.37 |

Midwestern State University

Unaudited

Midwestern State University
 Schedule 2E - Defeased Bonds Outstanding
 For the Fiscal Year Ended August 31, 2019

Business Type Activities

| Description of Issue | Year Refunded | Par Value Outstanding |
|---|------------------|--------------------------|
| Revenue Financing System Revenue and Refunding Bonds Series 2007 | 2015 | \$14,375,000.00 |
| 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 | | \$47,410,000.00 |

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Year
 Ended
 8-31-2019
 (UNAUDITED)

Midwestern State University

Unaudited

Midwestern State University
Schedule 2F - Early Extinguishment and Refunding
For the Fiscal Year Ended August 31, 2019

Business Type Activities

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| Description of Issue | Category | Amount Extinguished/ Refunded | Refunded Issued Par Value | Cash Flow Increase/ (Decrease) | Economic Gain/(Loss) |
|--|----------|-------------------------------------|------------------------------|--------------------------------------|-------------------------|
| None for the Year Ended August 31, 2019 | | _____ | _____ | _____ | _____ |
| | | ===== | ===== | ===== | ===== |

Midwestern State University

Unaudited

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

| Cash in State Treasury | Unrestricted | Restricted | Current Year 2019 | Prior Year 2018 |
|---|------------------------------|------------|------------------------------|------------------------------|
| General Revenue - Dedicated Fund 0264 | \$2,885,703.36 | | \$2,885,703.36 | \$2,724,644.20 |
| Special Mineral Fund - 0412 | 1,098.45 | | 1,098.45 | |
| Total Cash – State Treasury (Stmt of Net Position) | <u>\$2,886,801.81</u> | | <u>\$2,886,801.81</u> | <u>\$2,724,644.20</u> |

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