



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS



ANNUAL FINANCIAL REPORT

For the year ended August 31, 2020



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

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STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Organizational Data August 31, 2020

Board of Regents

Officers

Alton L. Frailey, Chair
Karen Gantt, Vice Chair
M. Thomas Mason, Secretary

Members

Name	Town	Term Expires
David R. Alders	Nacogdoches, Texas	January 31, 2025
Robert Flores	Nacogdoches, Texas	January 31, 2021
Scott H. Coleman	Houston, Texas	January 31, 2021
Alton L. Frailey	Katy, Texas	January 31, 2021
Karen G. Gantt	McKinney, Texas	January 31, 2023
Brigettee C. Henderson	Lufkin, Texas	January 31, 2023
M. Thomas Mason	Dallas, Texas	January 31, 2023
Judy L. Olson	The Woodlands, Texas	January 31, 2025
Jennifer W. Winston	Lufkin, Texas	January 31, 2025
Ireland Bramhall (student)	Ennis, Texas	May 31, 2021

President

Dr. Scott Gordon, Ph.D.

Finance and Administration

Vice President - Danny Gallant, Ph.D.
Controller - Dannette Sales, CPA
Assistant Controller - Eric Ashworth, CPA



INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Regents of
Stephen F. Austin State University:

We have reviewed the accompanying Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows of Stephen F. Austin State University (the "University"), an Agency of the State of Texas, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

While the results of our review are not modified with respect to this matter, the financial statements of the University are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of Texas that are attributable to the transactions of the University, as discussed in Note 1. The financial statements do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2020, or the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information and Additional Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Proportionate Share of the Net Pension Liability, Schedule of Contributions to Teacher Retirement System of Texas, Schedule of Proportionate Share of the Net Other Postemployment Benefits Liability, and Schedule of Contributions to Employees Retirement System of Texas be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management.

The Organizational Data and the Matrix of Operating Expenses Reported by Function are additional supplementary information presented for purposes of additional analysis and are not required parts of the basic financial statements.

We have not audited, reviewed, or compiled the Required Supplementary Information or additional supplementary information and we do not express an opinion, a conclusion, nor provide any assurance on it.

The logo for Belt Harris Pechacek, LLP features the names of the partners in a stylized, cursive script. The 'B' is large and ornate, followed by 'ELT', then 'HARRIS' in a smaller, more formal script, and finally 'PECHACEK, LLLP' in a bold, sans-serif font.

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
December 11, 2020



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Management's Discussion and Analysis For the Year Ended August 31, 2020

INTRODUCTION

Stephen F. Austin State University (the "University") is a comprehensive regional public institution of higher education and an agency of the State of Texas ("State"). Founded in 1923, the University is named for the "Father of Texas," Stephen Fuller Austin. It is located in the city of Nacogdoches, a part of the East Texas forested region. The main campus has more than 400 acres, including part of the original homestead of Thomas J. Rusk, early Texas patriot and United States Senator. In fall 2019, the University enrolled 12,969 students in 34 academic units and 6 colleges. The University offers baccalaureate, masters, and doctoral degrees.

The University is accredited by the Southern Association of Colleges and Schools Commission on Colleges. Specific academic programs hold numerous other accreditations.

The University does not include any blended components in the Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The objective of Management's Discussion and Analysis is to help readers of the University's Financial Statements better understand the financial position and operating activities for the fiscal year ended August 31, 2020, with selected comparative information for the year ended August 31, 2019. This discussion should be read in conjunction with the Financial Statements and Notes to the Financial Statements. Management has prepared the Financial Statements and Notes to the Financial Statements along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the University administration.

Three primary statements are presented: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. The Financial Statements are prepared in accordance with requirements established by the Texas Comptroller of Public Accounts.

FINANCIAL HIGHLIGHTS

- Enrollment for the fall 2019 semester was 12,969. This figure represents a decrease of 1.3 percent from the enrollment of 13,144 recorded in fall 2018. Retention rates and persistence to graduation are two metrics by which the Texas Legislature evaluates State universities. The University reported an undergraduate retention rate of 76.9 percent for the fall 2019.
- During Spring Break of the 2020 fiscal year, the University suspended in-classroom teaching consistent with other universities in Texas and throughout the United States in an effort to slow the spread of a virus, COVID-19. Auxiliary services sustained losses of over \$9 million with the University's decision to refund to the students any unused service fees, including room and board.
- The University's financial position at August 31, 2020 reflected total assets and deferred outflows of \$671 million and total liabilities and deferred inflows of \$610 million. Overall, the net position of the University decreased \$18.1 million due largely to the end of year recording of non-cash entries related to the pension and other post-retirement benefits reporting requirements of governmental agencies. The Teacher Retirement System ("TRS") recorded a non-cash increase in pension cost of \$9.2 million and the Employees Retirement System ("ERS") recorded a non-cash increase in post-employment benefit expense of \$16.5 million to the University's benefits costs.
- In 2018, the University began a five-year capital fundraising campaign to coincide with the University's 100-year anniversary in 2023. As of the end of the 2020 fiscal year, almost 70 percent of the goal has been pledged.



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STATE UNIVERSITY
NACOGDOCHES, TEXAS

Management's Discussion and Analysis
For the Year Ended August 31, 2020

CONDENSED FINANCIAL INFORMATION AND FINANCIAL HIGHLIGHTS

Statement of Net Position

The Statement of Net Position provides a snapshot view of assets available for use in the University's continuing operations and enables readers to determine the amounts owed to others. Over time, increases or decreases in net position are indicators of the improvement or decline of the financial health of the University. The Statement of Net Position presents the assets, liabilities, deferred outflows and inflows of resources, and net position of the University at a specific point in time, in this case August 31, 2020. Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources.

"Net Position" displays three major categories: Invested in Capital Assets, Net of Related Debt; Restricted Net Position; and Unrestricted Net Position. The Invested in Capital Assets, Net of Related Debt category identifies the equity in property, plant, and equipment owned by the University. Restricted Net Position is either expendable or non-expendable. Restricted Net Position Expendable may be expended only for the purposes designated by the external donor or provider of the assets. Restricted Net Position Non-expendable is comprised entirely of funds held as permanent endowments. Unrestricted Net Position is available for any lawful purpose of the University. Although Unrestricted Net Position assets are not subject to externally imposed stipulations, these assets may have other commitments for various future uses in support of the University's mission. These include commitments for encumbrances outstanding at year-end. Also recognized in Unrestricted Net Position are unspent Higher Education Funds and other appropriations, which have restrictions imposed by the State. Assets and liabilities are generally measured using current values, except capital assets, which are stated at historical cost less an allowance for depreciation.

A summarized comparison of the University's Statement of Net Position at August 31, 2020 and 2019 follows:

Statement of Net Position

	August 31, 2020	August 31, 2019
Assets		
Current Assets	\$ 216,101,641.53	\$ 164,594,394.78
Noncurrent Assets		
Other Noncurrent Assets	116,991,026.20	182,752,587.33
Capital Assets, Net of Depreciation	214,104,974.90	218,101,917.24
Total Assets	<u>547,197,642.63</u>	<u>565,448,899.35</u>
Deferred Outflows of Resources	<u>123,585,061.00</u>	<u>141,824,001.00</u>
Liabilities		
Current Liabilities	124,586,748.13	131,332,101.37
Noncurrent Liabilities	426,782,984.26	437,804,779.28
Total Liabilities	<u>551,369,732.39</u>	<u>569,136,880.65</u>
Deferred Inflows of Resources	<u>58,405,904.00</u>	<u>58,851,752.00</u>



STEPHEN F. AUSTIN
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Management's Discussion and Analysis
For the Year Ended August 31, 2020

	August 31, 2020	August 31, 2019
Net Position		
Invested in Capital Assets, Net of Related Debt	\$ 71,755,447.36	\$ 73,356,302.24
Restricted Net Position		
Capital Projects	4,304,325.12	844,774.45
Non-Expendable	6,083,565.66	6,038,067.76
Expendable	27,251,459.27	25,741,196.68
Unrestricted Net Position	(48,387,730.17)	(26,696,073.43)
Total Net Position	\$ <u>61,007,067.24</u>	\$ <u>79,284,267.70</u>

During fiscal year 2020, certain accounting changes and adjustments were made that required the restatement of net position. A restatement of \$206.29 was necessary because the software system did not calculate depreciation on an asset that was adjusted in value for fiscal year 2019. The restatement reflects the amount needed to correct the accumulated depreciation. An additional restatement of \$171,427.86 was required to reclassify two projects reported in Construction in Progress that did not meet the capitalization requirements.



Management's Discussion and Analysis
For the Year Ended August 31, 2020

Statement of Revenues, Expenses, and Changes in Net Position

The change in total net position was calculated from the activity shown on the Statement of Revenues, Expenses, and Changes in Net Position. This statement presents operating revenues and expenses; non-operating revenues and expenses; and other revenues, expenses, gains (losses), and transfers.

Operating revenues are receipts for providing goods and services to the various constituencies of the University. Operating expenses include salaries, wages, and goods and services needed to carry out the mission of the University. Non-operating revenues and expenses include non-exchange transactions for which no goods or services were provided. This category includes State appropriations, Pell grants, gifts, investment income, and interest payments on long-term debt.

A summarized comparison of the University's Statement of Revenues, Expenses, and Changes in Net Position for the years ended August 31, 2020 and 2019 follows:

Statement of Revenues, Expenses, and Changes in Net Position

	2020	2019
Operating Revenues:		
Net Student Tuition and Fees	\$ 88,079,354.23	\$ 87,942,672.92
Net Auxiliary Enterprise Revenues	25,472,022.64	30,759,967.12
Grants and Contracts	26,088,288.66	16,776,952.86
Other Operating Revenues	4,413,599.25	6,837,126.06
Total Operating Revenues	144,053,264.78	142,316,718.96
Total Operating Expenses	254,383,098.08	255,807,839.05
Operating Income (Loss)	(110,329,833.30)	(113,491,120.09)
Non-Operating Revenues (Expenses)		
Legislative Revenue (State)	39,106,062.00	40,201,343.00
Additional Appropriations	10,650,410.46	11,426,276.19
Federal Revenues - Non-Operating	22,022,864.00	23,011,780.00
Gifts	5,463,160.68	4,577,611.73
Net Investment Income (Loss)	5,794,476.11	7,195,450.11
Net Increase (Decrease) in Fair Value of Investments	5,460,823.17	(811,992.50)
Interest Expenses and Fiscal Charges	(7,664,054.70)	(7,229,175.49)
Net Other Non-Operating Revenues (Expenses)	490,890.20	1,137,620.24
Total Non-Operating Revenues (Expenses)	81,324,631.92	79,508,913.28
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(29,005,201.38)	(33,982,206.81)
Other Revenues, Expenses, Gains (Losses) and Transfers	10,899,638.07	12,221,695.26
Change in Net Position	(18,105,566.31)	(21,760,511.55)

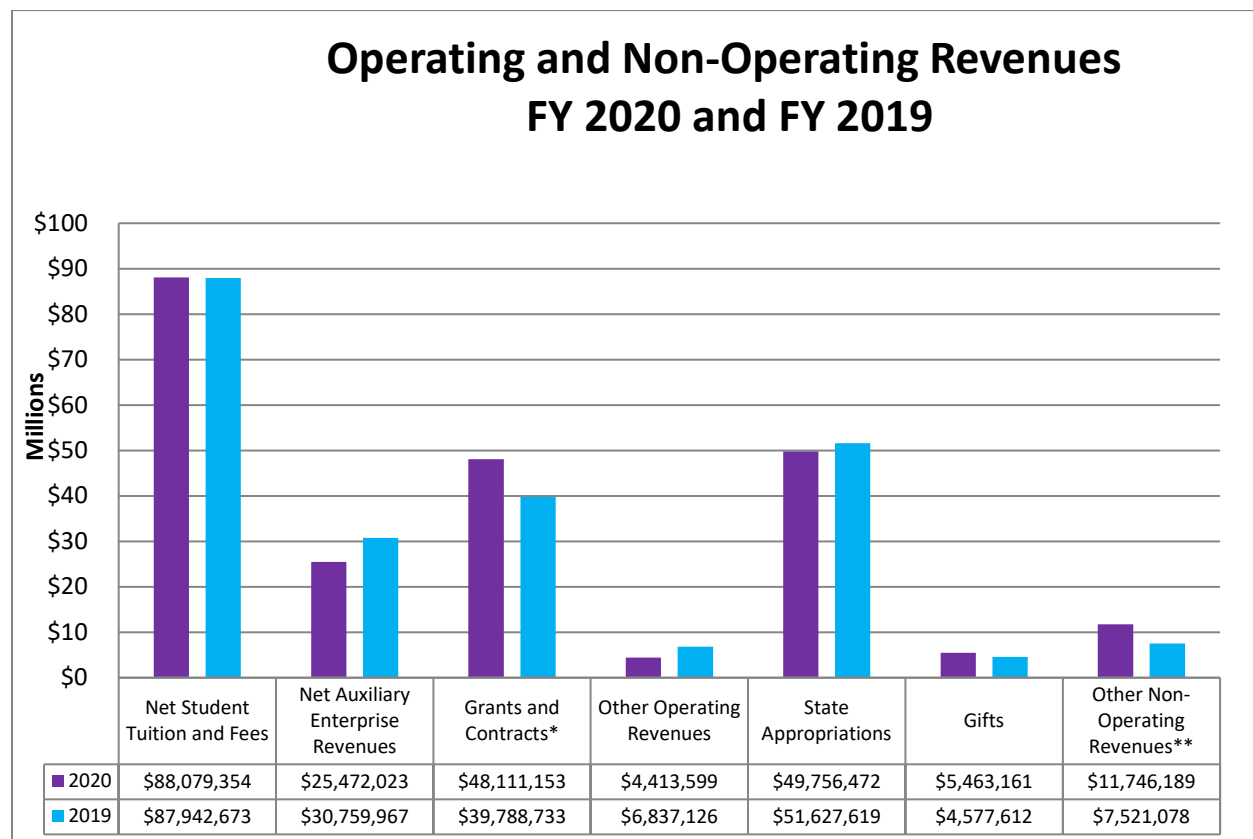


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Management's Discussion and Analysis
For the Year Ended August 31, 2020

	2020	2019
Net Position, Beginning of Year	79,284,267.70	113,603,266.37
Restatements	(171,634.15)	(12,558,487.12)
Restated Net Position, Beginning of Year	79,112,633.55	101,044,779.25
Net Position, End of Year	<u>\$ 61,007,067.24</u>	<u>\$ 79,284,267.70</u>

The following graph exhibits operating and non-operating revenues by major source:



* Grants and Contracts includes both Operating and Non-Operating Grants and Contracts.

**Other Non-Operating Revenues includes Net Investment Income, Net Increase (Decrease) in Fair Value of Investments, and Net Other Non-Operating Revenues.

Some of the fiscal year 2020 highlights presented in the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- The COVID-19 pandemic caused a shutdown of in-person classes nationwide. As a result, various types of service fees were refunded back to students. More than \$9 million in refunds of housing and meal plans, recreation center dues, parking permits, and student center fees were issued.
- Occupancy of the residence halls for the spring term dropped to almost zero due to the pandemic.



Management's Discussion and Analysis
For the Year Ended August 31, 2020

- The increase in grant revenues was attributed predominantly to the federal aid issued to assist colleges and universities with the tremendous loss in revenue and the financial needs of its students. This financial aid passed on to the students accounted for the increase in tuition discounting which caused a drop in net tuition and fees.
- In response to the drop in revenues caused by the pandemic, the Governor's office declared that each institution of higher education give up five percent of their general revenue allocation for the biennium. As a result of splitting that decrease over fiscal years 2020 and 2021, the decrease in state appropriations includes a lapse of \$1.63 million. Fiscal year 2021 will have the same amount of lapsed appropriation.

Discounts and allowances reported as offsets for both tuition and fees and auxiliary enterprise revenues include exemptions, tuition discounts, and the allowance for doubtful accounts, which is a calculated estimate of the uncollectible student receivables. The chart below reflects these amounts and the related variances from fiscal years 2020 and 2019.

Gross Student Revenues, Exemptions, Discounts and Allowances			
	2020	2019	Net Change
Tuition and Fees - Pledged	\$ 124,916,315.21	\$ 119,980,291.78	\$ 4,936,023.43
Tuition and Fees - Non-Pledged	4,382,523.90	4,431,434.02	(48,910.12)
Exemptions	(13,119,747.17)	(11,239,010.44)	(1,880,736.73)
Tuition Discounts	(28,336,313.52)	(24,781,528.61)	(3,554,784.91)
Allowances for Doubtful Accounts	236,575.81	(448,513.83)	685,089.64
Net Student Tuition and Fees	<u>\$ 88,079,354.23</u>	<u>\$ 87,942,672.92</u>	<u>\$ 136,681.31</u>
Auxiliary Enterprises - Pledged	\$ 34,539,445.51	\$ 41,689,191.71	\$ (7,149,746.20)
Auxiliary Enterprises - Non-Pledged	1,827,388.78	2,034,214.21	(206,825.43)
Discounts	(11,074,108.31)	(12,557,432.43)	1,483,324.12
Allowances for Doubtful Accounts	179,296.66	(406,006.37)	585,303.03
Net Auxiliary Enterprise Revenues	<u>\$ 25,472,022.64</u>	<u>\$ 30,759,967.12</u>	<u>\$ (5,287,944.48)</u>



Management's Discussion and Analysis
For the Year Ended August 31, 2020

While state and federal loans to students decreased for the second year in a row, reported net scholarships increased by approximately \$3.7 million. The largest contributor to the decrease in state and federal student loans was the federal direct loan program. The gross amount of scholarships actually awarded to students from grants and outside organizations increased significantly by approximately \$5.8 million. Pell grants increased \$1.0 million; however, the infusion of \$5.3 million from the federal government to distribute to students hit hardest by the pandemic had the largest impact. This indicates that students received a greater amount of funding from sources that will not increase their student debt. A portion of scholarships is reclassified as either tuition discounts or auxiliary discounts using the National Association of College and University Business Officers discount formula. The discount calculation takes into account various types of aid to the student as shown below:

<i>Gross Scholarships and Related Discounts Applied to Revenues</i>			
	2020	2019	Net Change
State and federal student loans	\$ 69,760,742.27	\$ 71,995,892.30	\$ 2,235,150.03
Gross Scholarships	62,092,436.76	56,303,450.42	5,788,986.34
Scholarships - Reclassified to Tuition/Fee Discounts	(32,462,982.10)	(24,781,528.60)	(7,681,453.50)
Scholarships - Reclassified to Auxiliary Enterprises	(6,947,439.73)	(12,557,432.43)	5,609,992.70
Scholarships (as reported)	\$ 22,682,014.93	\$ 18,964,489.39	\$ 3,717,525.54

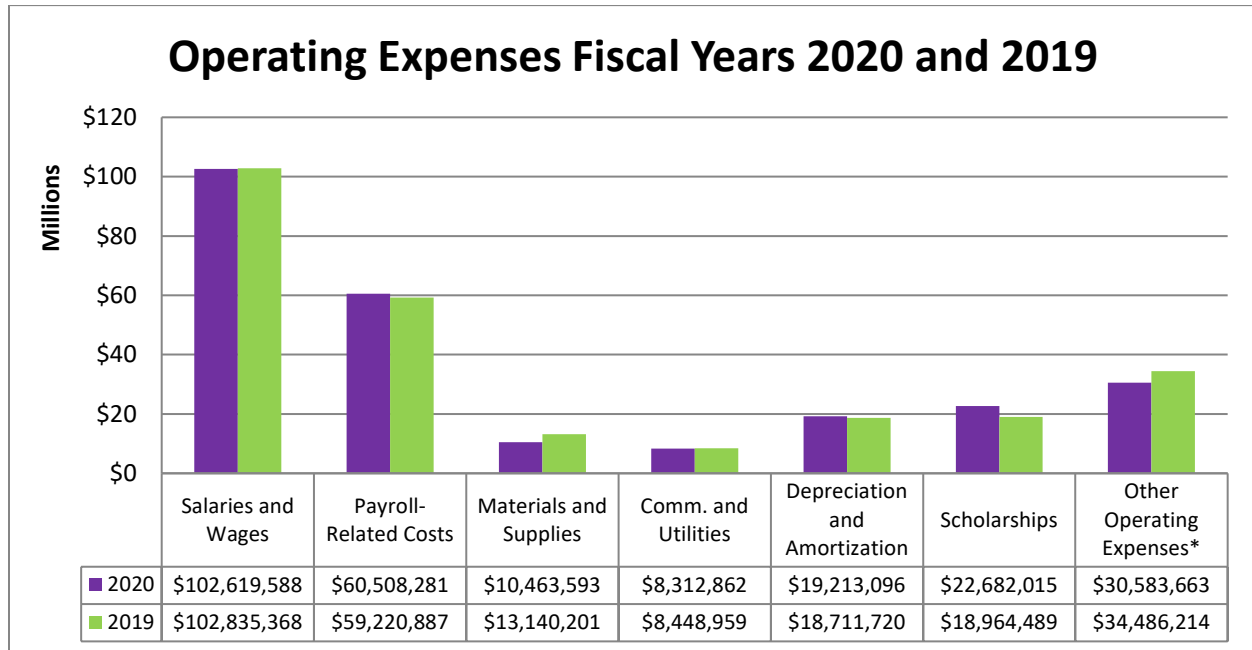
The following data summarizes the operating expenses in the natural classification expense categories for the fiscal years ended August 31, 2020 and 2019:

	2020	2019
Cost of Goods Sold	\$ 9,194,858.70	\$ 11,425,698.86
Salaries and Wages	102,619,587.74	102,835,368.46
Payroll-Related Costs	60,508,281.13	59,220,886.81
Professional Fees and Services	2,585,959.90	2,196,634.31
Travel	1,822,362.93	3,091,684.53
Materials and Supplies	10,463,593.38	13,140,201.00
Communication and Utilities	8,312,862.24	8,448,959.04
Repairs and Maintenance	4,542,671.49	5,167,291.33
Rentals and Leases	2,582,531.27	3,194,378.69
Printing and Reproduction	307,753.50	448,937.88
Federal and State Pass-Through Expenditures	19,731.93	21,846.66
Depreciation	19,213,096.02	18,711,720.31
Scholarships	22,682,014.93	18,964,489.38
Other Operating Expenses	9,527,792.92	8,939,741.79
	<u>\$ 254,383,098.08</u>	<u>\$ 255,807,839.05</u>



**Management's Discussion and Analysis
For the Year Ended August 31, 2020**

The following is a graphic presentation of the major operating expense categories for the fiscal years ended August 31, 2020 and 2019:



**Other Operating Expenses includes Cost of Goods Sold, Professional Fees and Services, Travel, Repairs and Maintenance, Rentals and Leases, Printing and Reproduction, Federal Pass-Through Expenditures, and Other Operating Expenses.*

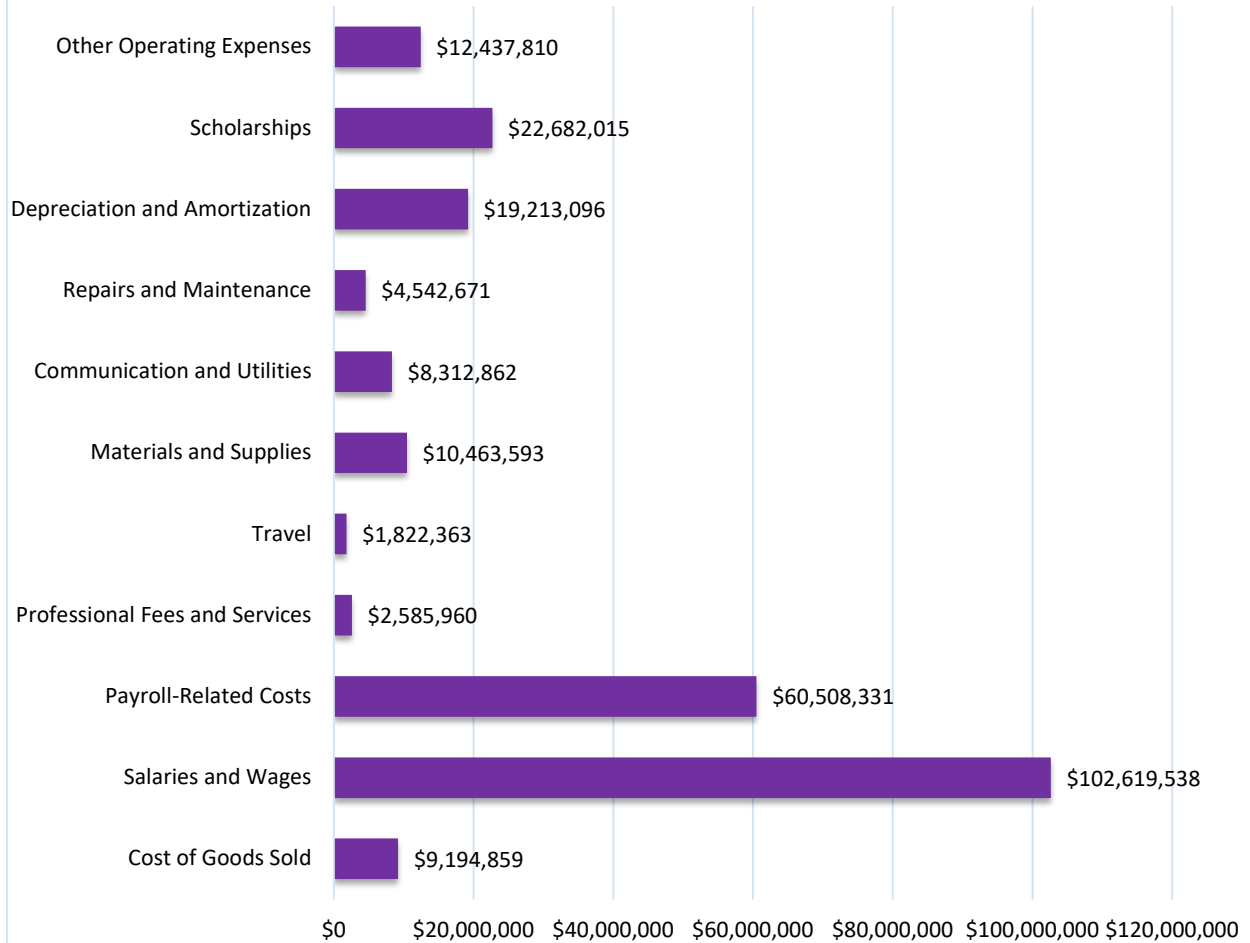
Some of the fiscal year 2020 significant changes from the prior year for all other operating expenses are:

- Due to the financial crisis created by the pandemic, several areas exhibited sharp declines resulting from cost-cutting measures implemented by the administration. These areas include other operating expenses, travel, and materials and supplies.
- Scholarship expense increased \$3.7 million as explained previously in this report.
- Payroll-related costs increased \$1.3 million from the changes required by the State relevant to the actuarial adjustments of the net Other Post-Employment Benefits (“OPEB”) liability.



**Management's Discussion and Analysis
For the Year Ended August 31, 2020**

Fiscal Year 2020 Operating Expenses by Category



****Other Operating Expenses includes Rentals and Leases, Federal Pass-Through Expenditures, and Printing and Reproduction costs.***



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Management's Discussion and Analysis For the Year Ended August 31, 2020

Statement of Cash Flows

The purpose of a Statement of Cash Flows is to provide relevant information about the University's cash receipts and payments during the fiscal year. The Statement of Cash Flows, when used with related disclosures and information in the other financial statements, provides relevant information about the University, such as:

- Its ability to generate future net cash flows.
- Its ability to meet obligations when due.
- Its needs for external financing.
- The reason for differences between operating income and associated cash receipts and payments.
- The effects on the University's financial position of its cash and its non-cash investing, capital, and financing transactions.

The Statement of Cash Flows provides details about the University's major sources and uses of cash during the year. It presents detailed information about the cash activity and an indication of the University's liquidity and ability to meet cash obligations. There are four categories of cash flow activity:

1. Cash Flows from Operating Activities – cash flows from operating activities result from providing services and producing and delivering goods. They include all other transactions not defined as non-capital financing, capital and related financing, or investing activities.
2. Cash Flows from Non-Capital Financing Activities – cash flows from non-capital financing activities include borrowing money and repaying the principal and interest on amounts borrowed for purposes other than to acquire, construct, or improve capital assets.
3. Cash Flows from Capital and Related Financing Activities – cash flows from capital and related financing activities include acquiring and disposing of capital assets; borrowing money to acquire, construct, or improve capital assets; and repaying the principal and interest amounts.
4. Cash Flows from Investing Activities – cash flows from investing activities include making and collecting loans (except program loans) and the acquisition and disposition of debt or equity instruments.

The Statement of Cash Flows reports net cash provided or used in each of the four categories of classifying cash transactions. It also reports the net effect of these flows on cash and cash equivalents during the fiscal year in a manner that reconciles beginning and ending cash and cash equivalents for the year.

The final section of the Statement of Cash Flows reconciles the Net Cash Provided (Used) by Operating Activities to the Operating Income (Loss) reflected on the Statement of Revenues, Expenses, and Changes in Net Position. When transactions are part cash and part non-cash, only the cash portion is reported within the Statement of Cash Flows. Non-cash items include information about investing, capital, and financing activities that affect assets and liabilities but do not result in cash receipts or cash payments in the fiscal period. The non-cash portion is reported in the non-cash transaction section supplemental to the Statement of Cash Flows.



STEPHEN F. AUSTIN
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NACOGDOCHES, TEXAS

**Management's Discussion and Analysis
For the Year Ended August 31, 2020**

A summarized comparison of the Statement of Cash Flows at August 31, 2020 and 2019 follows:

	2020	2019
Net Cash Provided (Used) by:		
Operating Activities	\$ (38,566,875.63)	\$ (36,953,380.67)
Non-Capital Financing Activities	47,066,220.03	49,322,334.09
Capital and Related Financing Activities	(28,602,902.05)	92,308,038.92
Investing Activities	3,599,660.85	(62,361,242.26)
Increase (Decrease) in Cash and Cash Equivalents	\$ (16,503,896.80)	\$ 42,315,750.08
Cash and Cash Equivalents, Beginning of Year	\$ 110,313,646.59	\$ 67,997,896.51
Restatements	(36,830,884.93)	-
Cash and Cash Equivalents, as Restated at Sept. 1, 2019	73,482,761.66	67,997,896.51
Increase (Decrease) in Cash and Cash Equivalents	(16,503,896.80)	42,315,750.08
Cash and Cash Equivalents, End of Year	<u>\$ 56,978,864.86</u>	<u>\$ 110,313,646.59</u>

Net cash provided (used) by operating activities should be viewed together with net cash provided (used) by non-capital financing activities because State appropriations are significant sources of recurring revenue in support of operating expenses but, under GASB Statement No. 35, they must be classified as non-capital financing activities instead of operating activities. Additionally, federal financial aid revenues, including Pell grants, are classified as a non-operating activity since these are considered non-exchange activities, but the offsetting expenditures are recognized as operating expenses. Overall, the University experienced a decrease of \$16.5 million in cash and cash equivalents due almost entirely to the use of bond proceeds for various building projects.

Cash used by operating activities decreased by approximately \$1.61 million due to the fluctuations of the OPEB and pension deferred outflows, deferred inflows, and the net pension liability of each. These variances are non-cash adjustments that affect the related expenses of payroll benefits.

Net cash flows provided by non-capital financing activities in fiscal year 2020 decreased \$2.26 million from the prior year. Because of the requirements of GASB Statements No. 68 and 75, required adjustments caused by external factors, reflected a significant change to benefit appropriations. Also, the state agencies were required to decrease their respective General Revenue funding by five percent over the biennium. For the University, that amounted to \$1.63 million for fiscal year 2020 and 2021 each.

Net cash provided for capital and related financing activities increased \$63.7 million due mainly to the investment of the 2019 Series bonds for the construction of a basketball training facility, a new residence hall with a dining facility and an addition to and renovation of the fine arts buildings in the previous fiscal year. The payment of this debt accounted for \$10.6 million of the change.

Net cash used from investing activities increased \$65.9 million due to the investment of the bond proceeds from the Series 2019 bond issue.



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Management's Discussion and Analysis

For the Year Ended August 31, 2020

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2020, SFA had \$214.1 million invested in capital assets. This figure is net of accumulated depreciation and amortization of \$343.5 million. Depreciation and amortization charges totaled \$19.2 million for the current fiscal year.

Additions to assets of \$15 million during fiscal year 2020 included: additional construction of the basketball training facility and renovation of the Fine Arts building, improvements to Griffith Blvd., and additional build out of the STEM building.

Further financial information about SFA's capital assets is presented in Note 2 of the notes to the financial statements.

Debt

At year end, SFA had \$242.9 million in outstanding debt. Outstanding debt for the year ended August 31, 2019, was \$258.4 million. Debt repayments made during the year included principal in the amount of \$13.6 million and interest in the amount of \$7.7 million.

Moody's Investor Services has assigned an A1 bond rating to SFA's bonds, and Fitch has assigned an AA- rating.

ECONOMIC OUTLOOK

Total enrollment for fall 2020 decreased by three percent when compared to the previous fall. However, when one considers the overall effect, both financially and psychologically, of the global pandemic on parents of recent high school graduates, the University fared better than anticipated. Despite the three percent decrease in enrollment, semester credit hours decreased only one percent.

In October 2018, the Board of Regents authorized the issuance of financing revenue system bonds for no more than \$125 million for the planned construction or renovation of four buildings on campus. The pandemic has caused students to seek residence off campus to more easily curtail the spread of the virus. Therefore, the University administration has suspended, for now, the construction of a new cafeteria and residence hall. Construction has begun on the basketball training facility and renovation of the fine arts building.

The Board of Regents approved a 6.5 percent increase in residential rates for fiscal year 2020 and 2021 to raise funds for the debt service associated with the construction of a new residence hall and dining facility. However, in lieu of the global pandemic, the University allowed all students to live off campus, foregoing the requirement to have 60 semester credit hours before moving off campus.

The Board of Regents approved a capital plan of \$8,041,689 and an operating budget of \$265,466,806 for the 2020-21 fiscal year.

In July 2020, the Board of Regents approved a voluntary separation incentive program in an effort to reduce costs without instituting a reduction in force plan. The plan is designed to incentivize eligible employees to retire early by the end of August 2021, by offering fifty percent of their annual pay lump sum. The University would save money by not replacing a significant portion of these employees.

FINANCIAL STATEMENTS



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Statement of Net Position
At August 31, 2020

	2020	2019
ASSETS		
Current Assets		
Cash and Cash Equivalents:		
Cash on Hand	\$ 29,236.00	\$ 30,636.00
Cash in Bank	39,592,273.50	56,938,758.92
Cash in Transit/Reimburse from Treasury	539,485.85	768,324.03
Cash in State Treasury	2,068,036.06	2,230,375.47
Restricted:		
Cash and Cash Equivalents		
Cash in Bank	14,749,833.45	13,514,667.24
Short-Term Investments		
Endowment	874,863.75	190,094.96
Proceeds from Bond Sales	107,390,950.04	36,830,884.93
Legislative Appropriations	14,716,722.67	14,075,211.49
Receivables:		
Intergovernmental Receivables		
Federal	1,795,641.73	3,015,955.61
Other Intergovernmental	109,643.02	160,001.29
Student Accounts Receivable	14,154,151.74	14,658,092.56
Accounts Receivable	3,222,890.91	2,772,327.63
Due From Other Agencies:		
Federal	308,669.34	253,775.79
Consumable Inventories	587,784.41	507,830.10
Merchandise Inventories	451,962.85	431,530.29
Prepaid Items	13,541,115.07	15,494,858.91
Student Loans Receivables	1,968,381.14	2,721,069.56
Total Current Assets	216,101,641.53	164,594,394.78



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Statement of Net Position
At August 31, 2020

	2020	2019
Noncurrent Assets		
Restricted:		
Investments		
Endowments	\$ 14,335,342.39	\$ 14,157,232.98
Proceeds from Bonds	0.00	82,112,326.04
Student Loans Receivables	4,519,878.36	3,887,723.50
Allowance for Doubtful Accounts	(1,471,758.09)	(1,513,121.13)
Unrestricted:		
Investments		
Operating	90,079,096.99	75,664,406.88
Quasi-Endowments	7,476,837.16	6,627,506.33
Student Accounts Receivables	12,304,651.61	12,485,407.42
Allowance for Doubtful Accounts	(10,253,022.22)	(10,668,894.69)
Capital Assets		
Non-Depreciable or Non-Amortizable	23,510,154.38	17,782,028.13
Capital Assets, Depreciable:		
Depreciable or Amortizable, Net	190,594,820.52	200,319,889.11
Total Noncurrent Assets	331,096,001.10	400,854,504.57
Total Assets	547,197,642.63	565,448,899.35
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources (Note 28)	123,585,061.00	141,824,001.00



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Statement of Net Position
At August 31, 2020

	2020	2019
LIABILITIES		
Current Liabilities:		
Payables:		
Accounts Payable	\$ 3,800,136.35	\$ 4,850,182.15
Payroll Payable	7,741,202.95	7,792,528.53
Deposits	2,880,416.79	2,945,191.97
Benefits Payable	3,677,501.17	2,676,562.79
Interagency Payable	1,506,436.00	1,506,436.00
Due to Other Agencies	342,488.79	520,468.15
Unearned Revenues:		
Tuition and Fees	53,507,331.07	54,930,340.85
Sales and Services	16,521,338.94	21,010,106.90
Grants and Contracts	618,123.57	953,944.67
Employees' Compensable Leave	419,328.73	461,770.99
Capital Lease Obligations	62,085.17	60,090.47
Notes and Loans Payable	722,078.33	1,268,700.88
Revenue Bonds Payable	11,272,441.59	9,027,379.35
Tuition Revenue Bonds Payable	4,091,781.15	5,139,505.46
Accrued Bond Interest Payable	3,520,149.29	4,604,708.99
Funds Held for Others	9,059,554.24	9,762,959.74
Other Current Liabilities	4,844,354.00	3,821,223.48
Total Current Liabilities	124,586,748.13	131,332,101.37
Noncurrent Liabilities:		
Interagency Payable	182,303.73	1,655,465.32
Capital Lease Obligations	26,473.21	88,558.38
Employees' Compensable Leave	4,147,478.85	4,503,475.03
Notes and Loans Payable	8,001,294.36	8,723,372.70
Revenue Bonds Payable	164,570,340.26	175,842,781.85
Tuition Revenue Bonds Payable	54,206,310.85	58,298,092.00
ERS OPEB Liability	148,001,443.00	124,127,601.00
TRS Net Pension Liability	47,647,340.00	64,565,433.00
Total Noncurrent Liabilities	426,782,984.26	437,804,779.28
Total Liabilities	551,369,732.39	569,136,880.65
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources (Note 28)	58,405,904.00	58,851,752.00
NET POSITION		
Invested in Capital Assets, Net of Related Debt	71,755,447.36	73,356,302.24
Restricted for:		
Capital Projects	4,304,325.12	844,774.45
Endowment Funds		
Nonexpendable	6,083,565.66	6,038,067.76
Expendable	3,837,457.28	3,593,103.61
Other	23,414,001.99	22,148,093.07
Unrestricted	(48,387,730.17)	(26,696,073.43)
Total Net Position	\$ 61,007,067.24	\$ 79,284,267.70

See Independent Accountants' Review Report and Notes to the Financial Statements



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

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

	2020	2019
Operating Revenues:		
Sales of Goods and Services		
Tuition and Fees - Pledged	\$ 124,916,315.21	\$ 119,980,291.78
Tuition and Fees - Non-Pledged	4,382,523.90	4,431,434.02
Discounts and Allowances	(41,219,484.88)	(36,469,052.88)
Auxiliary Enterprise - Pledged	34,539,445.51	41,689,191.71
Auxiliary Enterprise - Non-Pledged	1,827,388.78	2,034,214.21
Discounts and Allowances	(10,894,811.65)	(12,963,438.80)
Other Sales of Goods and Services - Pledged	3,141,964.71	5,695,499.62
Other Sales of Goods and Services - Non-Pledged	523,308.70	838,552.45
Federal Revenue	11,314,995.34	2,253,302.57
Federal Pass-Through Revenue from Non-State Entities	77,179.26	99,569.74
Federal Pass-Through Revenue	830,482.56	767,393.75
State Pass-Through Revenue	12,440,399.71	12,351,955.56
Local Contracts and Grants	667,716.12	585,725.78
Other Contracts and Grants	757,515.67	719,005.46
Other Operating Revenues - Pledged	700,982.56	145,923.77
Other Operating Revenues - Non-Pledged	47,343.28	157,150.22
Total Operating Revenues	144,053,264.78	142,316,718.96
Operating Expenses:		
Cost of Goods Sold	9,194,858.70	11,425,698.86
Salaries and Wages	102,619,587.74	102,835,368.46
Payroll Related Costs	60,508,281.13	59,220,886.81
Professional Fees and Services	2,585,959.90	2,196,634.31
Travel	1,822,362.93	3,091,684.53
Materials and Supplies	10,463,593.38	13,140,201.00
Communication and Utilities	8,312,862.24	8,448,959.04
Repairs and Maintenance	4,542,671.49	5,167,291.33
Rentals and Leases	2,582,531.27	3,194,378.69
Printing and Reproduction	307,753.50	448,937.88
Federal Pass-Through Expenditures to Non-State Entities	19,731.93	21,846.66
Depreciation	19,213,096.02	18,711,720.31
Bad Debt Expense	0.00	56,056.04
Interest Expense	133.84	198.97
Scholarships	22,682,014.93	18,964,489.38
Claims and Judgments	37,800.00	250,000.00
Other Operating Expenses	9,489,859.08	8,633,486.78
Total Operating Expenses	254,383,098.08	255,807,839.05
Operating Income (Loss)	(110,329,833.30)	(113,491,120.09)



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

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

	2020	2019
Non-Operating Revenues (Expenses):		
Legislative Revenue	39,106,062.00	40,201,343.00
Additional Appropriations	10,650,410.46	11,426,276.19
Federal Revenue	22,022,864.00	23,011,780.00
Gifts - Non-Pledged	5,463,160.68	4,577,611.73
Other Rental Income	138,668.16	219,259.11
Investment Income - Pledged	3,339,599.17	4,178,385.00
Investment Income - Non-Pledged	1,026,962.09	1,269,561.70
Net Increase (Decrease) Fair Value - Pledged	5,283,026.40	(696,501.47)
Net Increase (Decrease) Fair Value - Non-Pledged	177,796.77	(115,491.03)
Investing Activities Expense	(376,003.44)	(364,288.00)
Income on Loans Receivable	30,515.28	336,594.06
Interest Income on Capital Investments-Pledged	1,773,403.01	1,775,197.35
Interest Expense and Fiscal Charges	(7,664,054.70)	(7,229,175.49)
Gain (Loss) on Sale of Capital Assets	(1,131.35)	(103,129.60)
Settlement of Claims	159,889.23	615,734.25
Other Non-Operating Revenues (Expenses)	193,464.16	405,756.48
Total Non-Operating Revenues (Expenses)	81,324,631.92	79,508,913.28
Income (Loss) Before Other Revenues, Expenses, Gains(Losses) and Transfers	(29,005,201.38)	(33,982,206.81)
Other Revenues, Expenses, Gains/Losses and Transfers		
Capital Contributions	253,600.00	11,154.98
Capital Appropriations (Higher Education Fund)	11,636,163.00	11,636,163.00
Additions to Permanent and Term Endowments	45,497.90	18,576.13
Lapsed Appropriations	(1,632,927.72)	(0.10)
Legislative Transfers In	376,564.00	355,690.00
Transfers In	221,308.00	207,198.25
Transfers Out	(570.11)	(7,087.00)
Total Other Revenue, Expenses, Gains(Losses), and Transfers	10,899,635.07	12,221,695.26
Change in Net Position	(18,105,566.31)	(21,760,511.55)
Net Position, Beginning of Year	79,284,267.70	113,603,266.37
Restatements	(171,634.15)	(12,558,487.12)
Net Position, Beginning of Year, as Restated	79,112,633.55	101,044,779.25
Net Position, August 31, 2020	\$ 61,007,067.24	\$ 79,284,267.70



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Matrix of Operating Expenses by Function
For the Fiscal Year Ended August 31, 2020

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support
Cost of Goods Sold	\$ 3,878.93	\$ 207.78	\$ 13,637.66	\$ 173,468.53	\$ 32,956.86	\$ 2,180.64
Salaries and Wages	51,196,760.37	1,809,235.92	544,279.04	10,899,077.00	11,386,022.24	12,284,428.41
Payroll Related Costs	23,874,904.93	611,287.99	268,662.16	5,520,021.27	6,182,190.42	12,716,126.80
Professional Fees and Services	122,717.37	70,194.47	44,088.37	145,726.53	257,176.38	383,584.26
Travel	203,387.75	84,730.86	6,891.01	252,846.64	1,171,998.94	77,579.45
Materials and Supplies	1,176,835.39	308,985.64	83,430.64	932,517.14	2,635,237.82	2,148,725.14
Communication and Utilities	346,681.68	13,361.42	6,078.02	1,816,417.11	258,780.01	188,142.56
Repairs and Maintenance	235,003.47	4,838.24	23,025.39	191,340.47	465,764.81	1,455,282.97
Rentals and Leases	285,474.47	71,361.80	22,645.19	437,646.54	800,167.43	652,139.75
Printing and Reproduction	75,358.81	2,733.52	8,154.28	84,042.18	129,012.27	83,770.95
Federal Pass-Through Expenditures	0.00	19,731.93	0.00	0.00	0.00	0.00
Depreciation and Amortization	0.00	0.00	0.00	0.00	0.00	0.00
Interest Expense	0.52	0.00	0.00	2.98	0.00	0.12
Scholarships	0.00	0.00	0.00	0.00	0.00	0.00
Claims and Judgments	0.00	0.00	0.00	0.00	0.00	30,000.00
Other Operating Expenses	268,362.80	46,324.83	18,013.73	426,140.59	2,113,864.96	5,001,073.83
Total Operating Expenses	\$ 77,789,366.49	\$ 3,042,994.40	\$ 1,038,905.49	\$ 20,879,246.98	\$ 25,433,172.14	\$ 35,023,034.88

See Independent Accountants' Review Report and Notes to the Financial Statements



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Matrix of Operating Expenses by Function
For the Fiscal Year Ended August 31, 2020

Operating Expenses	Operation and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
Cost of Goods Sold	\$ 0.00	\$ 0.00	\$ 8,968,528.30	\$ 0.00	\$ 9,194,858.70
Salaries and Wages	5,363,530.53	(0.00)	9,136,254.23	0.00	102,619,587.74
Payroll Related Costs	4,039,517.63	0.00	7,295,569.93	0.00	60,508,281.13
Professional Fees and Services	1,294,380.34	0.00	268,092.18	0.00	2,585,959.90
Travel	(131,705.01)	0.00	156,633.29	0.00	1,822,362.93
Materials and Supplies	1,717,172.30	0.00	1,460,689.31	0.00	10,463,593.38
Communication and Utilities	2,610,121.76	0.00	3,073,279.68	0.00	8,312,862.24
Repairs and Maintenance	1,134,231.35	0.00	1,033,184.79	0.00	4,542,671.49
Rentals and Leases	75,022.26	0.00	238,073.83	0.00	2,582,531.27
Printing and Reproduction	2,441.84	0.00	(77,760.35)	0.00	307,753.50
Federal Pass-Through Expenditures	0.00	0.00	0.00	0.00	19,731.93
Depreciation and Amortization	0.00	0.00	0.00	19,213,096.02	19,213,096.02
Interest Expense	130.22	0.00	0.00	0.00	133.84
Scholarships	0.00	22,682,014.93	0.00	0.00	22,682,014.93
Claims and Judgments	7,800.00	0.00	0.00	0.00	37,800.00
Other Operating Expenses	735,381.12	0.00	880,697.22	0.00	9,489,859.08
Total Operating Expenses	\$ 16,848,024.34	\$ 22,682,014.93	\$ 32,433,242.41	\$ 19,213,096.02	\$ 254,383,098.08

See Independent Accountants' Review Report and Notes to the Financial Statements



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Statement of Cash Flows
For the Fiscal Year Ended August 31, 2020

	2020	2019
Cash Flows from Operating Activities		
Proceeds from Tuition and Fees	\$ 86,925,168.61	\$ 88,036,042.03
Proceeds from Auxiliary Services	20,983,254.68	30,822,254.57
Proceeds from Other Sales and Services	3,564,886.54	6,530,024.78
Proceeds from Grants and Contracts	26,790,266.80	16,666,075.01
Proceeds from Other Revenues	748,325.84	303,073.99
Proceeds from Loan Programs	79,170.52	529,931.07
Payments to Suppliers for Goods and Services	(50,822,793.50)	(55,610,117.12)
Payments to Employees for Salaries and Benefits	(105,300,769.51)	(105,374,168.83)
Payments to Students for Scholarships	(21,496,451.77)	(18,606,297.20)
Payments for Other Expenses	(37,933.84)	(250,198.97)
Net Cash Provided (Used) by Operating Activities	<u>(38,566,875.63)</u>	<u>(36,953,380.67)</u>
Cash Flows from Non-capital Financing Activities		
Proceeds from State Appropriations	17,526,307.33	18,672,683.14
Proceeds from Non-Operating Grants and Contracts	22,022,864.00	23,011,780.00
Proceeds from Gifts	5,463,160.68	4,577,611.73
Proceeds from Student Loan Funds	30,515.28	280,538.02
Proceeds of Transfers from Other Agencies	597,872.00	555,801.25
Proceeds from Claims and Settlements	159,889.23	615,734.25
Proceeds from Other Revenue (Expense)	193,464.16	405,756.48
Proceeds from Endowment Investments	1,072,147.35	1,202,429.22
Net Cash Provided (Used) by Non-capital Financing Activities	<u>47,066,220.03</u>	<u>49,322,334.09</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Sale of Capital Assets	16,149.00	57,574.50
Proceeds from Debt Issuance	-	110,215,000.00
Proceeds from State Appropriations-Higher Education Funds (HEF)	10,338,368.23	10,118,993.20
Proceeds from Capital Contributions	253,600.00	11,154.98
Proceeds from Other Rental Income	138,668.16	219,259.11
Proceeds from Interest on Capital Investments	1,773,403.01	1,775,197.35
Payments for Additions to Capital Assets	(15,405,068.18)	(15,021,455.38)
Payments for Interfund Payables	(1,506,436.00)	(1,506,436.00)
Payments of Principal on Capital Debt	(15,435,585.70)	(8,901,008.09)
Payments for Capital Leases	(60,660.58)	(58,159.89)
Payments of Interest on Capital Debt	(8,715,339.99)	(4,602,080.86)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(28,602,902.05)</u>	<u>92,308,038.92</u>
Cash Flows from Investing Activities		
Payments for Investments	(81,225,828.44)	15,661,967.94
Proceeds from Interest Income from Investments	2,713,163.25	4,089,115.84
Proceeds from Bond Investments	82,112,326.04	(82,112,326.04)
Net Cash Provided (Used) by Investing Activities	<u>3,599,660.85</u>	<u>(62,361,242.26)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (16,503,896.80)</u>	<u>\$ 42,315,750.08</u>
Cash and Cash Equivalents, August 31, 2019	\$ 110,313,646.59	\$ 67,997,896.51
Restatements	<u>(36,830,884.93)</u>	<u>-</u>
Cash and Cash Equivalents, as Restated at Sept. 1, 2019	73,482,761.66	67,997,896.51
Increase (Decrease) in Cash and Cash Equivalents	<u>(16,503,896.80)</u>	<u>42,315,750.08</u>
Cash and Cash Equivalents, August 31, 2020	<u>\$ 56,978,864.86</u>	<u>\$ 110,313,646.59</u>

See Independent Accountants' Review Report and Notes to Financial Statements



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

Statement of Cash Flows
For the Fiscal Year Ended August 31, 2020

	2020	2019
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		
Adjustments to Reconcile Operating Income (Loss) to Net Cash used by Operating Activities	\$ (110,329,833.30)	\$ (113,491,120.09)
Amortization and Depreciation	19,213,096.02	18,711,720.31
Bad Debt Expense	-	56,056.04
Pension Expense	31,253,521.00	30,185,097.00
Operating Income (Loss) and Cash Flow Categories		
Changes in Current Assets and Liabilities		
(Increase) Decrease in Receivables	1,324,049.69	(1,174,626.75)
(Increase) Decrease in Inventories	(100,386.87)	(4,027.29)
(Increase) Decrease in Loans to Students	752,688.42	(116,037.77)
(Increase) Decrease in Prepaid Expenses	1,953,743.84	(116,566.01)
(Increase) Decrease in Due from Other Agencies	(54,893.55)	(14,132.92)
(Increase) Decrease in Current Assets	-	-
Increase (Decrease) in Payables	(1,101,371.38)	264,808.22
Increase (Decrease) in Deposits Payable	(64,775.18)	237,892.23
Increase (Decrease) in Due to Other Agencies	(177,979.36)	36,133.11
Increase (Decrease) in Unearned Revenue	(6,247,598.84)	1,292,058.90
Increase (Decrease) in Compensable Leave	(42,442.26)	36,632.07
Increase (Decrease) in Benefits Payable	1,000,938.38	428,747.16
Increase (Decrease) in Funds Held for Others	(703,405.50)	474,758.19
Changes in Non-Current Assets and Liabilities		
Increase (Decrease) in Compensable Leave	(355,996.18)	244,446.66
Increase (Decrease) in Deferred Inflows	(445,848.00)	36,568,157.00
Increase (Decrease) in Deferred Outflows	18,238,940.00	(127,976,402.00)
Increase (Decrease) in Net Pension Liabilities	8,229,312.00	116,986,084.00
(Increase) Decrease in Student Accounts Receivables	(235,116.66)	(198,055.65)
(Increase) Decrease in Loans to Students	(673,517.90)	645,968.84
Cash Reported in Other Categories		
Increase (Decrease) in Investment Activity	-	(30,971.92)
Total Adjustments	71,762,957.67	76,537,739.42
Net Cash Provided (Used) by Operating Activities	\$ (38,566,875.63)	\$ (36,953,380.67)
Displayed as:		
Cash on Hand	\$ 29,236.00	\$ 30,636.00
Cash in Bank	39,592,273.50	56,938,758.92
Cash in Transit/Reimb. Due from Treasury	539,485.85	768,324.03
Cash in State Treasury	2,068,036.06	2,230,375.47
Cash in Bank, Restricted	14,749,833.45	13,514,667.24
Cash Equivalents, Restricted	-	36,830,884.93
	\$ 56,978,864.86	\$ 110,313,646.59
Non-Cash Transactions		
Net Change in Fair Value of Investments	\$ 5,460,823.17	\$ (811,992.50)
	\$ 5,460,823.17	\$ (811,992.50)

See Independent Accountants' Review Report and Notes to Financial Statements



Notes to the Financial Statements
August 31, 2020

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity

Stephen F. Austin State University (the “University”) is an agency of the State of Texas (the “State”) and was founded in 1923. The ten members of its Board of Regents (the “Board”) are appointed by the Governor, and include one non-voting student Regent. The University’s financial records comply with State statutes and regulations including compliance with the Texas Comptroller of Public Account’s *Reporting Requirements for Annual Financial Reports of State Agencies and Universities* (the “Comptroller’s AFR Requirements”). The University serves the State as a public institution of higher education.

The University has determined no related entity is a reportable component unit of the University. The University has four related entities:

- The Stephen F. Austin State University Foundation, Inc. (the “Foundation”) is a separate legal entity registered with the IRS as a 501(c)(3) organization. The Foundation is separately governed and operates autonomously from the Board, and its related activities are not included in the University’s or the State’s financial statements. The Foundation operates exclusively to solicit, receive, hold, invest, and expend private funds for the sole benefit of the University and its students. The University’s Vice President for University Advancement serves as the Executive Director of the Foundation and the University’s President may serve as an ex officio, non-voting member of the Foundation’s Board of Trustees. The University provides personnel, office space, equipment, and supplies as necessary for the Foundation to carry out its responsibilities and activities.
- The Stephen F. Austin State University Alumni Association, Inc. (the “Alumni Association”) is a separate 501(c)(3) organization dedicated to serving the alumni, friends, and current students of the University through programs, scholarships, and activities that create an attitude of continued loyalty and support. The University’s Executive Director for Alumni Relations serves as the Executive Director of the Alumni Association. The Alumni Association compensates the University for a portion of their employee support costs. The University provides certain services, such as office space, utilities, some staff assistance, and custodial services, to the Association.
- The SFA Real Estate Foundation, Inc. is a separate 501(c)(3) organization with the sole purpose of supporting the mission of the University. It receives, holds, manages, and controls real property gifts or acquisitions which benefit the University. The University’s Vice President for University Advancement serves as its Executive Director and the University’s President may serve as an ex officio, non-voting member of its Board of Trustees. The University provides certain services, such as office space, utilities, and some staff assistance.
- The Stephen F. Austin State University Tip-In Club is a non-profit organization which exists for the sole purpose of supporting Lumberjack Basketball.

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* (CAFR); therefore, an audit opinion has not been expressed on the financial statements and related information contained in this report.

The accounting policies followed by the University in maintaining accounts and in the preparation of the financial statements are in accordance with the Comptroller’s AFR Requirements and with generally accepted accounting principles in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. The Comptroller’s AFR Requirements are designed to assist the Texas Comptroller of Public Accounts in compiling and preparing the State’s CAFR and, accordingly, have some untraditional elements, such as the prohibition of rounding, unique ordering and specific numbering of footnotes, and the inclusion of footnote titles when the subject matter does not apply.



Notes to the Financial Statements
August 31, 2020

Fund Structure

The accompanying financial statements are presented on the basis of funds. A fund is considered a separate accounting entity. The fund designation for institutions of higher education is a business-type activity within the Proprietary Fund Type.

Basis of Accounting – Proprietary Fund Accounting

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The financial statements of the University have been prepared on the full accrual basis of accounting. Accrual accounting attempts to record a transaction's financial effects in the period in which the transaction occurred, rather than when the funds were received or paid by the University. Revenues are recorded when they are earned or when the University has a right to receive the revenues. Expenses are recognized when incurred. The date related cash was received or paid is of no consequence.

Four essential elements of accrual accounting are:

- Recognition of expenditures when incurred and the subsequent amortization of the deferred outflows
- Recognition of revenues when they are earned
- Capitalization of certain expenses and the subsequent depreciation of the capitalized costs
- Accruals of revenues earned and expenses 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 presented on the Statement of Net Position.

The 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 a fund. GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, 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, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Transactions for which cash flows are reported as capital and related financing activities, or investing activities normally would not be reported as components of operating income. This includes most revenues considered to be non-exchange transactions.

Since certain grants are actually contracts for services, they are classified as operating activities. State appropriations and certain grants, such as the Pell grants, are reported as non-operating activities even though they are directly related to the principal and usual activity of the University. These are considered non-exchange transactions and are, therefore, considered non-operating revenues.

Budget and Budgetary Accounting

The State's budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor as the General Appropriations Act (GAA). Additionally, the University prepares an annual budget which represents anticipated sources of revenue and authorized uses. This budget is approved by the University's Board. Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated. Budget information is not included in the Annual Financial Report.



Notes to the Financial Statements
August 31, 2020

Assets, Liabilities, and Net Position

The Statement of Net Position reports the following elements of financial statements:

- Assets
- Deferred Outflow of Resources
- Liabilities
- Deferred Inflow of Resources
- Net Position

Assets

Assets are reported separately as either current or non-current in the Statement of Net Position.

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of proprietary fund general obligation and revenue bonds and revenues set aside for statutory or contractual requirements.

Investments

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

Legislative Appropriations

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

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued using the average cost method. The consumption method of accounting is used to account for inventories and prepaid items. The cost of these items is expensed when the items are sold or consumed.

Prepaid Items

Prepaid items include prepaid expenses attributable to a subsequent fiscal year, including scholarships attributed to the 2020 fall semester. The cost of these items is expensed when the items are used or consumed.

Capital Assets

Assets such as furniture, equipment, and vehicles with an aggregate cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. Capitalization thresholds are also utilized for buildings and building improvements (\$100,000), infrastructure (\$500,000), and facilities and other improvements (\$100,000). Capital assets are recorded at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are reported at acquisition value. For fabricated assets financed by debt, construction period interest is capitalized as part of the capital asset cost. The capitalized interest is combined with the other costs associated with constructing the asset and depreciated over the appropriate useful life beginning when the asset is placed into service.



Notes to the Financial Statements
August 31, 2020

Capital assets are depreciated over the estimated useful life of the asset using the straight-line method based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system. Depreciation is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation expense is not allocated to functional categories for this Annual Financial Report.

Intangible capital assets are defined as assets that lack physical substance, are non-financial in nature, and have an initial useful life extending beyond a single reporting period. These assets are required to be reported if they are identifiable. Land use rights are capitalized if the cost meets or exceeds \$100,000. Purchased computer software is capitalized if the aggregate cost of the purchase meets or exceeds \$100,000. Internally generated computer software has a capitalization threshold of \$1,000,000, and other intangible capital assets must be capitalized if the cost meets or exceeds \$100,000. Intangible assets are amortized based on the estimated useful life of the asset using the straight-line method.

Other Receivables – Current and Non-current

Current receivables are specified in the Statement of Net Position. They include amounts that are reasonably expected to be collected in fiscal year 2021. Non-current receivables are those receivables that are not expected to be collected within one year. Included in this category are student accounts receivable and loan receivables. The disaggregation of other receivables as reported in the financial statements is shown in Note 24, “Disaggregation of Receivable and Payable Balances.”

Deferred Outflows of Resources

Deferred outflows of resources represent the University’s net position consumption that is applicable to a future fiscal year

Liabilities

Liabilities are reported separately as either current or non-current in the Statement of Net Position.

Accounts Payable

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

Other Payables – Current and Non-current

The disaggregation of other payables as reported in the financial statements is shown in Note 24, “Disaggregation of Receivable and Payable Balances.”

Unearned Revenues

Unearned revenues include amounts for tuition and fees, certain auxiliary activities, and amounts from grant and contract sponsors received prior to the end of the fiscal year but related to the subsequent accounting period.

Employees’ Compensable Leave

Employees’ compensable leave represents the liability that becomes “due” upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the Statement of Net Position. These obligations are normally paid from the same funding source from which the covered employee’s salary or wage compensation was paid.

Capital Lease Obligations

Capital lease obligations represent the liability for future lease payments under capital lease contracts. Liabilities are reported separately in the Statement of Net Position as either current, for the amounts due within one year, or non-current, for the amounts due thereafter.



Notes to the Financial Statements
August 31, 2020

Bonds Payable – Revenue Bonds

The principal of revenue bonds is reported separately in the Statement of Net Position as either current, for the amounts due within one year, or non-current, for the amounts due thereafter. Bonds payable are recorded at par value, net of unamortized premiums, discounts, issuance costs, and gains/(losses) on bond refunding activities. Interest expense is reported on the accrual basis.

Bonds Payable - Tuition Revenue Bonds

The principal of tuition revenue bonds is reported separately in the Statement of Net Position as either current, for the amounts due within one year, or non-current, for the amounts due thereafter. Bonds payable are recorded at par value, net of unamortized premiums, discounts, issuance costs, and gains/(losses) on bond refunding activities. Interest expense is reported on the accrual basis.

Bonds Payable – General Obligation Bonds

The principal of general obligation bonds is reported separately in the Statement of Net Position as either current, for the amounts due within one year, or non-current, for the amounts due thereafter. Bonds payable are recorded at par, net of unamortized premiums, discounts, issuance costs, and gains/(losses) on bond refunding activities. Interest expense is reported on the accrual basis.

Deferred Inflows of Resources

Deferred inflows of resources represent the University's net position acquisition that is applicable to a future fiscal year.

Net Position

The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is "Net Position" on the Statement of Net Position.

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

Unrestricted net position consists of net resources that do not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified. When both restricted and unrestricted assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Expendable net position use is subject to externally imposed stipulations that can be fulfilled by actions pursuant to those stipulations, or that expire by the passage of time.

Non-expendable net position is subject to externally imposed stipulations that it be maintained permanently. Such assets include the principal of permanent endowment funds.

The amortized balance of accretion on capital appreciation bonds is included as part of unrestricted net position unless a sinking fund was established, in which case the balance is reported as part of the restricted net position balance.



Notes to the Financial Statements
August 31, 2020

Interagency Activities and Transactions

The University has the following types of transactions among State appropriated funds and other State agencies:

- **Transfers** – Legally required transfers that are reported when incurred as “Transfers In” by the recipient fund or State agency and as “Transfers Out” by the disbursing fund or State agency.
- **Reimbursements** – Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one State agency for another are recorded as expenditures by the reimbursing State agency and as a reduction of expenditures by the reimbursed State agency. Reimbursements are not displayed in the financial statements.
- **Interagency Receivables and Payables** – Most receivables and payables from or to other State agencies are recorded as “Due from Other Agencies” or “Due to Other Agencies” on the Statement of Net Position. The amounts associated with the State Energy Conservation Office revolving loan program are recorded as “Interagency Payable” on the Statement of Net Position. Repayments associated with the loan program due during the current year are classified as “Current”; repayments due thereafter are classified as “Non-current.”

The composition of the University’s interagency activities and balances are presented in Note 12.

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Notes to the Financial Statements
August 31, 2020

NOTE 2: Capital Assets

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

	Balance 9/1/2019	Adjustments	Reclassifications Completed CIP	Additions	Deletions	Balance 8/31/2020
BUSINESS-TYPE ACTIVITIES						
Non-depreciable or Non-amortizable Assets						
Land and Land Improvements	\$ 8,491,261.32	\$ -	\$ -	\$ 997.97	\$ -	\$ 8,492,259.29
Construction in Progress	8,471,097.54	(171,427.86)	(6,373,990.61)	12,272,546.75	-	14,198,225.82
Other Tangible Capital Assets	819,669.27	-	-	-	-	819,669.27
Total Non-depreciable or Non-amortizable Assets	17,782,028.13	(171,427.86)	(6,373,990.61)	12,273,544.72	-	23,510,154.38
Depreciable Assets						
Buildings and Building Improvements	432,318,550.46	-	5,302,896.74	660,406.74	-	438,281,853.94
Infrastructure	16,248,970.91	-	646,726.36	640,349.75	(66,742.56)	17,469,304.46
Facilities and Other Improvements	34,273,970.14	-	424,367.51	558,197.88	(14,495.28)	35,242,040.25
Furniture and Equipment	22,508,894.66	-	-	1,166,924.50	(914,989.06)	22,760,830.10
Vehicle, Boats, and Aircraft	7,067,244.42	-	-	88,666.36	(597,002.31)	6,558,908.47
Other Capital Assets	13,833,324.58	-	-	16,978.23	(25,204.08)	13,825,098.73
Total Depreciable Assets	526,250,955.17	-	6,373,990.61	3,131,523.46	(1,618,433.29)	534,138,035.95
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(259,888,673.83)	-	-	(14,645,252.57)	-	(274,533,926.40)
Infrastructure	(11,452,883.92)	-	-	(753,373.37)	66,742.56	(12,139,514.73)
Facilities and Other Improvements	(19,590,585.39)	-	-	(1,820,271.30)	14,495.28	(21,396,361.41)
Furniture and Equipment	(16,980,656.06)	(206.29)	-	(1,385,669.89)	905,220.14	(17,461,312.10)
Vehicle, Boats, and Aircraft	(4,880,726.07)	-	-	(470,723.27)	589,490.88	(4,761,958.46)
Other Capital Assets	(13,137,540.79)	-	-	(137,805.62)	25,204.08	(13,250,142.33)
Total Accumulated Depreciation	(325,931,066.06)	(206.29)	-	(19,213,096.02)	1,601,152.94	(343,543,215.43)
Depreciable Assets, Net	200,319,889.11	(206.29)	6,373,990.61	(16,081,572.56)	(17,280.35)	190,594,820.52
Amortizable Assets - Intangible						
Computer Software	4,502,623.77	-	-	-	-	4,502,623.77
Total Amortizable Assets - Intangible	4,502,623.77	-	-	-	-	4,502,623.77
Less Accumulated Amortization for:						
Computer Software	(4,502,623.77)	-	-	-	-	(4,502,623.77)
Total Accumulated Amortization	(4,502,623.77)	-	-	-	-	(4,502,623.77)
Amortizable Assets - Intangible, Net	-	-	-	-	-	-
Capital Assets, Net	\$ 218,101,917.24	\$ (171,634.15)	\$ -	\$ (3,808,027.84)	\$ (17,280.35)	\$ 214,104,974.90



Notes to the Financial Statements
August 31, 2020

NOTE 3: Deposits, Investments, and Repurchase Agreements

The University is authorized by statute to make investments following the “prudent person rule.” There were no significant violations of legal provisions during the period.

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

Direct Possession	\$139,115,829.30	62.48%
Held by State	2,068,036.06	0.93%
Total Unrestricted and Restricted Investments held by A&M System	<u>81,485,679.45</u>	<u>36.59%</u>
Total Holdings	\$222,669,544.81	100.00%

As noted above, \$81,485,679.45, which is 36.59% of the University’s entire investment holdings, is held by the A&M System under a contractual agreement. This represents 1.3% of the A&M System’s total investments of \$6,262,176,356.62. The A & M System’s annual financial statements provide required disclosures about the specific types of risk to which the deposits and investments are exposed.

Deposits of Cash in Bank

As of August 31, 2020, the carrying amount of deposits was \$54,342,106.95 as presented below:

CASH IN BANK – CARRYING AMOUNT	\$ 54,342,106.95
Total Cash in Bank per AFR	\$ 54,342,106.95
Current Assets Cash in Bank	\$ 39,592,273.50
Current Assets Restricted Cash in Bank	14,749,833.45
Cash in Bank per AFR	\$ 54,342,106.95

These amounts consist of all cash in local banks. These amounts are included on the Statement of Net Position as part of the “Cash and Cash Equivalents” accounts, except for the certificates of deposit, which are recorded as Cash Equivalents, Short, or Long-Term Investments, based on their maturity date and management’s intent. Certificates of deposit with maturity dates of three months or less are recorded as cash equivalents.

As of August 31, 2020, the total bank balance was \$56,174,905.28

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 that are in the possession of an outside party. Board Policy 3.21, *Investments*, states that all deposits shall be secured by a pledge of collateral with a market value equal to no less than 100 percent of the deposits plus accrued interest less any amount insured by the FDIC. Pledged collateral must conform to Chapter 2257 of the Texas Government Code, Collateral for Public Funds.

At August 31, 2020, amounts insured by the FDIC were \$1,500,000.00. The bank balances at August 31, 2020, that were exposed to custodial credit risks were as follows:

Fund Type	Uninsured and uncollateralized	Uninsured and collateralized with securities held by the pledging financial institution	Uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent but not in the the University’s name
05	-	\$54,674,905.28	-



**STEPHEN F. AUSTIN
STATE UNIVERSITY**

NACOGDOCHES, TEXAS

**Notes to the Financial Statements
August 31, 2020**

Investments

As of August 31, 2020, the fair value of investments was:

	Fair Value Hierarchy					Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Amortized Cost	Net Asset Value	
U.S. Treasury Securities	\$3,831,600.19	\$ -	\$ -	\$ -	\$ -	\$ 3,831,600.19
U.S. Treasury TIPS	270,816.96	-	-	-	-	270,816.96
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.)	-	4,021,275.32	-	-	-	4,021,275.32
Corporate Obligations	-	6,729,267.32	313,883.02	-	-	7,043,150.34
Corporate Asset and Mortgage Backed Securities	-	2,217,752.20	-	-	-	2,217,752.20
Equity (Domestic)	16,371,192.17	-	-	-	-	16,371,192.17
International Obligations (Govt and Corp)	-	4,208,058.71	77,405.12	-	-	4,285,463.83
International Equity	6,058,163.41	-	-	-	-	6,058,163.41
Fixed Income Money Market and Bond Mutual Funds	1,713,128.59	-	-	-	-	1,713,128.59
Other Commingled Funds - Fixed Income	811,141.65	-	395,545.29	132,620,343.45	-	133,827,030.39
International Other Commingled Funds - Equity	5,916,374.03	-	3,413,043.75	-	3,971,789.28	13,301,207.06
Derivatives - Currency Forwards	-	1,181.32	-	-	-	1,181.32
Alternative Investments	-	-	-	-	20,986,318.10	20,986,318.10
Miscellaneous	\$ -	\$ 177,743.02	\$ -	6,051,067.43	\$ -	6,228,810.45
TOTAL INVESTMENTS						\$220,157,090.33

Reconciliation of Investments per Exhibit – Business-Type Activities

Proprietary Funds Current Assets Short-Term Investments	\$ -
Proprietary Funds Noncurrent Assets Investments	97,555,934.15
Proprietary Funds Current Assets Restricted Short-Term Investments	108,265,813.79
Proprietary Funds Noncurrent Assets Restricted Investments	14,335,342.39
Investments per Exhibit	\$ 220,157,090.33

Displayed on Statement of Net Position as:

Current Assets:	
Restricted:	
Investments: Endowment	\$ 874,863.75
Short-Term Investments – Bond Proceeds	107,390,950.04
Noncurrent Assets:	
Restricted:	
Investments: Endowments	14,335,342.39
Unrestricted:	
Investments: Operating	90,079,096.99
Investments: Quasi-Endowments	7,476,837.16
Subtotal	\$ 220,157,090.33
Less: Certificates of Deposit	-
Total	\$ 220,157,090.33



Notes to the Financial Statements
August 31, 2020

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. In order to mitigate this risk, Board Policy 3.20, *Investments-Endowment Funds*, limits foreign equity investments to a maximum of 30 percent of the equity portfolio. The exposure to foreign currency risk as of August 31, 2020, was:

Foreign Currency	International Obligation (Govt and Corp and MF)	International Equity	Equity Mutual Funds - International	Equity Commingled Funds - International	Alternative Investments			
					International Hedge Funds	International Other Private Equity	International Energy, Natural Resources	International Other Real Estate Funds
U.S. DOLLAR DENOMINATED FOREIGN SECURITIES	\$ 3,960,521.55	\$2,771,700.91	\$ -	\$ 13,301,207.06	\$8,068,385.25	\$939,062.90	\$132,943.28	\$120,712.99
ARGENTINA PESO	1,556.02	-	-	-	-	-	-	-
AUSTRALIAN DOLLAR	-	-	-	-	-	-	-	-
BRAZIL REAL	115,437.51	-	-	-	-	-	-	-
BRITISH POUND STERLING	-	531,324.32	-	-	-	-	-	-
CANADIAN DOLLAR	55,761.34	62,715.49	-	-	-	-	-	-
CHINESE YUAN	13,403.69	-	-	-	-	-	-	-
DANISH KRONE	-	-	-	-	-	-	-	-
EURO CURRENCY UNIT	-	1,217,401.43	-	-	-	117,922.10	-	-
HONG KONG DOLLAR	-	22,363.04	-	-	-	-	-	-
INDONESIAN RUPIAH	31,212.32	-	-	-	-	-	-	-
JAPANESE YEN	-	716,350.35	-	-	-	-	-	-
MEXICAN PESO	107,571.40	40,443.85	-	-	-	-	-	-
NEW TAIWAN DOLLAR	-	-	-	-	-	-	-	-
NEW ZEALAND	-	-	-	-	-	-	-	-
NORWEGIAN KRONE	-	-	-	-	-	-	-	-
SINGAPORE DOLLAR	-	-	-	-	-	-	-	-
S AFRICAN COMM RAND	-	-	-	-	-	-	-	-
SOUTH KOREAN WON	-	93,976.40	-	-	-	-	-	-
SWEDISH KRONA	-	53,200.63	-	-	-	-	-	-
SWISS FRANK	-	526,318.86	-	-	-	-	-	-
THAILAND BAHT	-	22,368.13	-	-	-	-	-	-
NEW TURKISH LIRA	-	-	-	-	-	-	-	-
TOTAL	\$ 4,285,463.83	\$6,058,163.41	\$ -	\$13,301,207.06	\$8,068,385.25	\$1,056,985.00	\$132,943.28	\$120,712.99



Notes to the Financial Statements
August 31, 2020

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. To limit credit risk, Board Policy 3.21, *Investments*, limits investments in corporate bonds, debentures, or similar debt obligations to the two highest long-term rating categories.

As of August 31, 2020, the Standard & Poor's credit quality ratings of the University's investments by type of securities with credit risk exposure were as follows:

Investment Type	AAA	AA	A	BBB	BB	B	CCC	D	NR
U.S. Government Agency Obligations	\$ 12,821.77	\$ 3,678,274.48	\$ 43,194.19	\$ 15,006.34	\$ 25,985.87	\$ 14,721.23	\$ -	\$ -	\$ 231,271.44
Corporate Obligations	68,510.64	321,348.31	1,302,169.00	3,754,635.33	1,099,777.75	370,960.25	8,275.66	-	117,473.40
Corporate Asset and Mortgage Backed Securities	598,293.40	504,100.60	49,356.39	110,411.76	-	3,930.39	34,151.70	-	917,507.96
International Obligations	94,832.49	250,924.01	570,343.64	1,637,888.22	988,126.28	144,743.53	-	14,763.17	583,842.49
Fixed Income Money Market and Bond Mutual Fund	1,713,128.59	-	-	-	-	-	-	-	-
Other Commingled Funds - Fixed Income	-	-	-	-	-	-	-	-	1,206,686.94
Miscellaneous (municipals)	\$ -	\$ 90,038.94	\$ 51,631.41	\$ 36,072.67	\$ -	\$ -	\$ -	\$ -	\$ -

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Board Policy 3.21, *Investments*, addresses interest rate risk by limiting variances in the average weighted duration of the portfolio, from industry benchmarks, to +/- 20 percent.

Investment Types	Effective Duration (in years)	Unaccrued Market Value System Total
U.S. Treasury Securities	3.809	\$ 3,831,600.19
U.S. Treasury TIPS	22.276	270,816.96
U.S. Government Agency Obligations	1.653	4,021,275.32
Corporate Obligations	7.120	7,043,150.34
Corporate Asset and Mortgage Backed Securities	2.106	2,217,752.20
International Obligations	4.901	4,285,463.83
Other Commingled Funds - Fixed Income	3.248	1,206,686.94
Miscellaneous (political subdivision)	9.722	177,743.02
Total Fair Value		\$ 23,054,488.80



Notes to the Financial Statements
August 31, 2020

The University invests funds in 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 following table summarizes the pending foreign exchange contracts as of August 31, 2020.

Foreign Exchange Contracts				
Currency	Net Sell	Net Buy	Unrealized Gain on:	Unrealized Loss on:
			Foreign Exchange Contract	Foreign Exchange Contract
Brazilian Real	\$ 54,008.73	\$ -	\$ 1,181.32	\$ -
Chinese R Yuan HK	13,813.78	-	-	366.71
Euro	1,070.54	-	-	1.95
Indonesian Rupiah	28,944.79	-	-	386.70
Total	\$ 97,837.84	\$ -	\$ 1,181.32	\$ 755.36

The unrealized gains of the open foreign currency exchange contracts as of August 31, 2020, are shown as an investment derivative of \$1,181.32 and the unrealized losses are shown as a liability of \$755.36 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 for the A&M System, as of August 31, 2020, is presented in the table below. The A&M System's policy does not address master netting arrangements and the A&M System is not party to such an arrangement. The A&M System policy does not require collateral or other security for currency forward contracts.

Foreign Exchange Contract Exposure to Counterparty Risk as of August 31, 2020					
Notional		Fair Value		S&P Counterparty	
Assets	Liabilities	Assets	Liabilities	Rating	
\$ 1,070.54	\$ 1,072.50	\$ -	\$ 1.95	A	
96,767.30	96,339.40	1,181.32	753.41	A+	
\$ 97,837.84	\$ 97,411.90	\$ 1,181.32	\$ 755.36		
Exposure Net of Cash (GBP Collateral)		\$ 112.93			



Notes to the Financial Statements
August 31, 2020

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. As of August 31, 2020, the weighted average effective duration for short futures contracts was 7.06 and for long futures contracts was 4.66. Futures 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. Futures contracts are marked to market daily; meaning they are valued at the close of business each day and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the fair value of the futures contracts. Exchange traded futures contracts are categorized as Level 1 in the fair value hierarchy. The gains are shown as other receivables and the losses are shown as other liabilities in the Statement of Net Position as summarized in the table below.

Open Futures Contracts as of August 31, 2020				
	Notional Amount			
	Long	Short	Assets	Liabilities
			Other Receivable	Other Payable
Treasury Futures	\$ 3,880,491.05	\$ 2,201,767.02	\$ 7,912.96	\$ 3,376.63
	\$ 3,880,491.05	\$ 2,201,767.02	\$ 7,912.96	\$ 3,376.63

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

Reverse Repurchase Agreements

The University, by statute, is authorized to enter into reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a broker-dealer or financial institution transfers cash to the University and the University transfers securities to the broker-dealer and promises to repay the cash plus interest in exchange for the same or similar securities. Credit risk exposure for the University arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement. As of August 31, 2020, the University was not participating in reverse repurchase agreements.

Securities Lending

In securities lending transactions, the University would transfer its securities to broker-dealers and other entities for collateral – which may be cash or securities – and simultaneously agrees to return the collateral for cash or the same securities in the future. The University invests the cash received as collateral and, if the returns on those investments exceed the “rebate” paid to the borrowers of the securities, the securities lending transactions generate income for the University. The University did not participate in securities lending transactions during fiscal year 2020.

NOTE 4: Short-Term Debt

There was no reportable activity for short-term debt during the year ended August 31, 2020.



Notes to the Financial Statements
August 31, 2020

NOTE 5: Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2020, the following changes occurred in long-term liabilities:

Business-Type Activities	Balance 09/01/19	Additions	Reductions	Restatement/ Adjustment	Balance 08/31/20	Amounts Due Within One Year	Amounts Due Thereafter
Revenue Bonds Payable	\$213,862,758.66	\$ -	\$ 7,720,000.00	\$(1,816,884.81)	\$204,325,873.85	\$10,644,222.74	\$193,681,651.11
Revenue Bonds – Direct Placements	34,445,000.00	-	4,630,000.00	-	29,815,000.00	4,720,000.00	25,095,000.00
Capital Lease Obligations	148,648.85	-	60,090.47	-	88,558.38	62,085.17	26,473.21
Employees' Compensable Leave	4,965,246.02	-	398,438.44	-	4,566,807.58	419,328.73	4,147,478.85
Notes & Loans – Direct Placements	9,992,073.58	-	1,268,700.89	-	8,723,372.69	722,078.33	8,001,294.36
Total Business-Type Activities	\$263,413,727.11	\$ -	\$14,077,229.80	\$(1,816,884.81)	\$247,519,612.50	\$16,567,714.97	\$230,951,897.53

Notes and Loans Payable

Notes payable consists of amounts used to finance energy conservation projects and modernization of the University's sports-related scoreboards and video displays. The debt service requirements for notes and loans payable are as follows:

Note Payments for Fiscal Year Ended August 31st	Principal	Interest	Total
2021	\$ 722,078.33	\$ 234,658.72	\$ 956,737.05
2022	762,756.42	215,234.82	977,991.24
2023	805,017.97	194,716.67	999,734.64
2024	848,917.25	173,061.69	1,021,978.94
2025	894,509.32	150,225.81	1,044,735.13
2026-2030	4,690,093.40	363,983.28	5,054,076.68
Total Payments	\$ 8,723,372.69	\$ 1,331,880.99	\$ 10,055,253.68

Claims and Judgments

The University had no unpaid settlements or judgments as of August 31, 2020.



Notes to the Financial Statements
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Employees' Compensable Leave

Annual Leave

Full-time employees earn eight to twenty-one hours per month vacation leave (annual leave) depending on years of State employment. The State's policy is that employees may carry accrued vacation leave forward from one fiscal year to the next up to a maximum number of hours allowed based on their years of service. Employees with at least six months of State service who terminate employment are entitled to payment for all accumulated annual leave. The University accrues the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. The amounts of these liabilities are reported in the Statement of Net Position. The estimated liability, \$4,566,807.58 as of August 31, 2020, is based on outstanding balances reported in the leave reporting system multiplied by the employee's respective salary rate. The University made lump sum payments of \$384,653.06 for accrued leave to employees who separated from State service during the fiscal year ended August 31, 2020.

Sick Leave

Sick leave 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 payment to an employee's estate is the lesser of one-half of the employee's accumulated entitlement or 336 hours. Sick leave accumulation from one fiscal year to the next is not limited. The University recognizes the cost of sick leave when paid. The liability is not shown in the financial statements since historical payouts of sick leave have been minimal.

Overtime and Compensatory Leave for FLSA Non-Exempt and Exempt Employees

Under the federal Fair Labor Standards Act (FLSA) and State laws, overtime can be accumulated in lieu of immediate payment as compensatory leave for non-exempt, non-emergency employees up to a maximum of 240 hours. For emergency personnel (e.g., University police officers), overtime can be accumulated up to a maximum of 480 hours. Overtime is calculated at a rate of 1.5 times an employee's normal rate of pay. Non-exempt employees may earn compensatory leave when they work additional hours but the number of hours worked in the work week does not exceed 40 hours. Compensatory time is calculated on an hour-for-hour basis. Unpaid overtime and compensatory time for non-exempt employees is included in the calculation of current and long-term liabilities because these employees are eligible to be paid for these accruals upon death or termination.

Compensatory leave is allowed for exempt employees who are not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses, up to a maximum of 80 hours in a fiscal year. There is no death or termination benefit for compensatory leave for exempt employees and it is non-transferable. For these reasons, no liability is reported in the financial statements for compensatory leave earned by exempt employees.

Direct Borrowings and Direct Placements

GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, requires the disclosure of direct borrowings and direct placements for reporting periods beginning after June 15, 2018.

Direct borrowings occur when the borrower goes directly to the lending source to avoid the high-interest rates associated with indirect lending, such as a public offering where the borrower has no relationship with the lender/investor. The University had no direct borrowings as of August 31, 2020.

Direct placements occur when the sale of an issue of debt securities is made to a single buyer or a limited number of buyers without a public offering. The University had direct placements at August 31, 2020, totaling \$38,538,372.69. This amount is composed of \$29,815,000.00 of Bonds Payable, related to the Series 2015 Revenue Bonds, and Notes Payable of \$8,723,372.69.



Notes to the Financial Statements
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There were no unused lines of credit associated with the direct placements. No assets were pledged as collateral in association with the direct placements. In the event of default, the Series 2015 Bonds shall bear an interest at a rate of eight percent.

NOTE 6: Bonded Indebtedness

Bonds Payable

General information related to bonds is summarized below:

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds–Series 2010 (Revenue Bonds)

- To provide funds to construct a new freshman residence hall and adjacent parking garage.
- Issued 04-01-10.
- \$35,035,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged unappropriated fund balances available at the beginning of the year. Pledged Revenues consisting of Unrestricted Current Fund Revenues excluding: remissions, governmental appropriations, and gifts, grants, and contracts within the Educational and General Fund Group; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$1,615,000.00; Outstanding at year end \$20,840,000.00.

Board of Regents of Stephen F. Austin State University Revenue Financing System Revenue Refunding Bonds–Series 2013 (Tuition Revenue Bonds and Revenue Bonds)

- To refund outstanding Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds – Series 2002 and Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds – Series 2004.
- Issued 9-11-13.
- \$22,255,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged Student Tuition, Pledged Student Center Fees, and Other Pledged Revenues.
- Changes in Debt: Principal paid during fiscal year \$2,250,000.00; Outstanding at year end \$9,880,000.00.

Board of Regents of Stephen F. Austin State University Revenue Financing System Revenue Refunding Bonds–Series 2015 (Revenue Bonds)

- To refund outstanding Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds – Series 2005 and Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds – Series 2005(A).
- Issued 5-01-15. This was a direct placement.
- \$48,410,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged Revenues consisting of Unrestricted Current Funds Revenues excluding: remissions, governmental appropriations, and gifts, grants, and contracts within the Educational and General Fund Group; Higher Education Funds; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$4,630,000.00; Outstanding at year end \$29,815,000.00.



Notes to the Financial Statements
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Board of Regents of Stephen F. Austin State University Revenue Financing System Revenue Refunding Bonds—Series 2016 (Tuition Revenue Bonds)

- To refund outstanding Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds – Series 2008 and Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds – Series 2009 and provide funds to construct a new science, technology, engineering, and mathematics (STEM) building.
- Issued 9-07-16.
- \$61,205,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged Student Tuition, Pledged Student Center Fees, and Other Pledged Revenues.
- Changes in Debt: Principal paid during fiscal year \$2,930,000.00; Outstanding at year end \$51,205,000.00.

Board of Regents of Stephen F. Austin State University Revenue Financing System Revenue Bonds—Series 2019A (Revenue Bonds)

- To provide funds to construct a new basketball practice facility, to construct a new welcome and student support center, to expand buildings utilized by the College of Fine Arts, to construct a new student residential facility, and to pay the costs related to the issuance of the bonds.
- Issued 02-01-19.
- \$94,290,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged Revenues consisting of Unrestricted Current Funds Revenues excluding: remissions, governmental appropriations, and gifts, grants, and contracts within the Educational and General Fund Group; Higher Education Funds; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$500,000.00; Outstanding at year end \$93,790,000.00.

Board of Regents of Stephen F. Austin State University Revenue Financing System Revenue Bonds—Taxable Series 2019B (Revenue Bonds)

- To provide funds to construct a new dining facility and to pay the costs related to the issuance of the bonds.
- Issued 02-01-19.
- \$15,925,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged Revenues consisting of Unrestricted Current Funds Revenues excluding: remissions, governmental appropriations, and gifts, grants, and contracts within the Educational and General Fund Group; Higher Education Funds; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$425,000.00; Outstanding at year end \$15,500,000.00.



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Notes to the Financial Statements
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The principal and interest expense of these bond issues for the next five years and beyond, excluding the effect of premiums and discounts, is projected below:

Revenue Bonds Payable

Year	Principal	Net Premium/(Discount)	Total
2021	\$ 8,975,000.00	\$ 1,669,222.74	\$ 10,644,222.74
2022	9,370,000.00	1,579,000.53	10,949,000.53
2023	8,820,000.00	1,470,914.24	10,290,914.24
2024	9,265,000.00	1,343,708.14	10,608,708.14
2025	9,720,000.00	1,155,136.83	10,875,136.83
2026-2030	42,030,000.00	3,499,820.15	45,529,820.15
2031-2035	27,820,000.00	1,606,079.94	29,426,079.94
2036-2040	25,530,000.00	688,433.33	26,218,433.33
2041-2045	25,280,000.00	116,269.16	25,396,269.16
2046-2049	24,405,000.00	(17,711.21)	24,387,288.79
Total	\$ 191,215,000.00	\$ 13,110,873.85	\$ 204,325,873.85

Revenue Bonds - Direct Placements

Year	Principal	Net Premium/(Discount)	Total
2021	\$ 4,720,000.00	\$ -	\$ 4,720,000.00
2022	4,820,000.00	-	4,820,000.00
2023	4,920,000.00	-	4,920,000.00
2024	5,015,000.00	-	5,015,000.00
2025	5,120,000.00	-	5,120,000.00
2026	5,220,000.00	-	5,220,000.00
Total	\$ 29,815,000.00	\$ -	\$ 29,815,000.00

NOTE 7: Derivatives

The University invests funds in the A&M System's 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.



Notes to the Financial Statements
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The following disclosure summarizes the A&M System's derivative activity as reported in the financial statements.

Investment Derivatives	Changes in Fair Value		Fair Value as of 8/31/2020		Notional Amount
	Classification	Amount	Classification	Amount	
FX Contracts	Investment Revenue	\$ 1,181.32	Investment	\$ 1,181.32	\$ 97,837.84
FX Contracts	Investment Revenue	\$ (755.36)	Other Payable	\$ (755.36)	\$ (97,411.90)
Treasury Futures - Long	Investment Revenue	\$ 7,912.96	Other Receivable	\$ 7,912.96	\$ 3,880,491.05
Treasury Futures - Long	Investment Revenue	\$ (3,376.63)	Other Payable	\$ (3,376.63)	\$ 186,079.35
Treasury Futures - Short	Investment Revenue	\$ 4,040.01	Other Receivable	\$ 4,040.01	\$ (2,201,767.02)

Investment Derivatives

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

Hedging Derivatives

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

NOTE 8: Leases

Operating Leases

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating lease obligations:

<u>Fund Type</u>	<u>Amount</u>
Proprietary Fund	\$315,045.04

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

Future Minimum Operating Lease Payments Year Ending August 31,	
2021	\$250,194.98
2022	197,439.24
2023	138,057.34
2024	66,962.59
2025	28,995.30
2026	120.00
Total Future Minimum Lease Rental Payments	\$681,769.45

The University has also leased building roof space to a cellular phone service provider. Operating lease income in the amount of \$44,000.00 has been recorded for the year ended August 31, 2020. There are no contingent rentals in this amount.



Notes to the Financial Statements
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Future minimum lease rentals under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2020, are presented below.

Operating Lease Rentals Year Ending August 31,	
2021	\$ 66,000.00
2022	27,500.00
Total Future Minimum Rentals	\$ 93,500.00

Capital Leases

The University has entered into long-term leases for financing the purchase of certain capital assets. Such leases are classified as capital leases for accounting purposes and, therefore, are recorded at the present value of the future minimum lease payments at the inception of the lease. Following is a summary of original capitalized costs of all such property under lease, as well as the accumulated depreciation, as of August 31, 2020:

Assets Under Capital Leases Year Ending August 31, 2020	
Furniture and Equipment	\$ 423,552.44
Less: Accumulated Depreciation	282,368.24
Total	\$ 141,184.20

Future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments at fiscal year-end, are as follows:

Future Minimum Capital Lease Payments Year Ending August 31			
	Principal	Interest	Total
2021	\$ 62,085.17	\$ 1,970.83	\$ 64,056.00
2022	26,473.21	1,216.79	27,690.00
Total Future Minimum Lease Payments	\$ 88,558.38	\$ 3,187.62	\$ 91,746.00
Less: Amount Representing Interest at Various Rates			3,187.62
Present Value of Net Minimum Lease Payments			\$ 88,558.38

NOTE 9: Defined Benefit Pension Plans and Defined Contribution Plan

The State has three retirement systems in its financial reporting entity – Employees Retirement System (ERS), Teacher Retirement System (TRS), and Texas Emergency Services Retirement System (TESRS). These three retirement systems administer the following six defined benefit pension plans:

- ERS – the ERS Plan, the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS1), and Judicial Retirement System of Texas Plan Two (JRS2).
- TRS – the TRS Plan.
- TESRS – the TESRS Plan.

ERS, LECOS, JRS2, TRS, and TESRS plans are administered through several trusts; JRS1 plan is on a pay-as-you-go basis.



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TRS 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, 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 colleges, universities, and medical schools are members of the TRS Plan.

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

The CAFR for Teacher Retirement System may be obtained from:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701

During the measurement period of 2019 for fiscal 2020 reporting, the amount of the University's contributions recognized by the TRS Plan was \$3,208,161.00. 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:

Required Contribution Rates

	TRS Plan
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 the total pension liability as of the August 31, 2019, measurement date.

Actuarial Methods and Assumptions *

	TRS Plan
Actuarial Valuation Date	August 31, 2018, rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value



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Actuarial Assumptions:

Discount Rate	7.25%
Investment Rate of Return	7.25%
Long-term Expected Rate of Return	7.25%
Municipal Bond Rate as of August 2018	2.63% **
Inflation	2.30%
Salary Increase	3.05% to 9.05% including inflation
Mortality	90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality using Scale BB.
Active	2019 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale BB.
Ad Hoc Post-Employment Benefit Changes	None

Notes:

* The assumptions used to determine the Actuarially Determined Contribution (ADC) are those in effect for the August 31, 2018, actuarial valuation. 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."

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 in July 2018. The mortality rates were based on 90% of the RP 2014 employee Mortality Tables for males and females. The post-retirement mortality rates were based on 2018 TRS Healthy Pensioner Mortality Tables.

The actuarial assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. A summary of the changes in assumptions includes the following:

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

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

The discount rate of 7.25% was applied to measure the total pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projected cash flows into and out of the TRS Plan assumed that active members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% over the next several years. This includes a factor for all employer and state contributions for active and rehired retirees. Based on these assumptions, the TRS Plan's fiduciary net position and future contributions were sufficient to finance the benefit payments of current plan members. As a result, the long-term expected rate of return on TRS Plan investments was applied to all projected benefit payments to determine the total pension liability.



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

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

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global Equity		
U.S.	18.00%	6.40%
Non-U.S. Developed	13.00%	6.30%
Emerging Markets	9.00%	7.30%
Private Equity	14.00%	8.40%
Stable Value		
U.S. Treasury	16.00%	3.10%
Stable Value Hedge Funds	5.00%	4.50%
Real Return		
Global Inflation Linked Bonds	0.00%	0.00%
Real Assets	15.00%	8.50%
Energy and Natural Resources and Infrastructure	6.00%	7.30%
	0.00%	0.00%
Risk Parity		
Cash Asset Allocation Leverage	2.00%	2.50%
Asset Allocation Leverage	-6.00%	2.70%
Risk Parity	8.00%	
Total	<u>100.00%</u>	

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

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

1% Decrease	Current Discount Rate	1% Increase
-6.25%	-7.25%	-8.25%
\$ 73,240,883.83	\$ 47,647,340.00	\$ 26,911,630.10

The pension plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the TRS Plan's investment policy, assets, and fiduciary net position may be obtained from TRS' fiscal 2019 CAFR.



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At August 31, 2020, the University reported a liability of \$47,647,340.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion at August 31, 2020, was 0.0916592437 percent, which was a decrease from the 0.11730121 percent measured at the prior measurement date. The University's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employers contributing entity to the TRS Plan for the period September 1, 2018, through August 31, 2019.

For the year ending August 31, 2020, the University recognized pension expense of \$9,234,878.00. At August 31, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 200,161.00	\$ 1,654,391.00
Changes of assumptions	14,782,545.00	6,108,847.00
Net difference between projected and actual investment return	478,435.00	0.00
Change in proportion and contribution difference	13,034,035.00	12,510,242.00
Contributions subsequent to the measurement date	3,632,933.00	-
Total	\$ 32,128,109.00	\$ 20,273,480.00

The \$3,632,933.00 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2021.

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

Year ended August 31:

2020	\$ 2,210,678.00
2021	1,602,075.00
2022	1,976,807.00
2023	2,986,034.00
2024	437,886.00
Thereafter	(991,785.00)
	\$ 8,221,695.00



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ORP Plan

The State has also established an Optional Retirement Program (ORP) for institutions of higher education for certain administrative personnel and faculty. Participation in ORP is in lieu of participation in TRS, and the election to participate in ORP must be made in the first 90 days of eligibility. The ORP allows participants to select from a variety of companies for the purchase of annuity contracts or to invest in mutual funds. The contributory percentages on salaries for participants entering the program prior to September 1, 1995, are 8.5 percent and 6.65 percent by the State and each participant, respectively. The State's contribution is comprised of 6.6 percent from the ORP appropriation and 1.9 percent from other funding sources. The 6.6 percent contribution is mandatory with the other 1.9 percent being at the discretion of the University's Board. The Board has approved the additional contributions for these employees. The contributory percentages on salaries for participants entering the program after August 31, 1995, are 6.6 percent and 6.65 percent by the State and each participant, respectively. Since these are individual annuity contracts or mutual fund investments, the University has no additional or unfunded liability for this program.

GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, paragraph 27(d) requires universities that administer the ORP to disclose the amounts contributed by members and by the employer for that plan. Following are the ORP contributions made for the 2020 fiscal year:

Contributions	Year Ended August 31, 2020
Member Contributions	\$ 1,950,763.29
Employer Contributions	2,057,995.60
Total	\$ 4,008,758.89

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 the Texas Government Code Ann., Chapter 609. Two plans are available for employees: the 403(b) Tax Sheltered Annuity (TSA) plan and the TexaSaver 457(b) plan (the "457 Plan"). The TSA is administered by the University. The 457 plan is administered by the Employees Retirement System of Texas. The assets of these plans do not belong to the University nor to the State, and thus they have no liability related to the plans.

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.

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

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 the Tax-Deferred Account Program do not belong to the University, and thus it does not have a liability related to the Tax-Deferred Account Program.



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NOTE 11: Postemployment Benefits Other Than Pensions

ERS

ERS is the administrator of the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer defined benefit Other Post Employment Benefit (OPEB) plan with a special funding situation.

The 61 employers of SRHP include State agencies and universities, community and junior colleges, and other entities specified by the Legislature. Benefits are provided to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551.

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

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

During the measurement period of 2019 for fiscal 2020 reporting, the amount of the University's contributions recognized by the SRHP was \$13,104,246.45. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. The contribution requirements for the State and the members in the measurement period are presented in the table below:

Employer Contribution Rates
Retiree Health and Basic Life Premium

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

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

Actuarial Methods and Assumptions

	SRHP
Actuarial Valuation Date	August 31, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Discount Rate	2.97% *
Inflation	2.50%
Salary Increase	2.50% to 9.50%, including inflation
Healthcare Cost and Trend Rate	



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HealthSelect	7.30% for FY 2021, 7.40% for FY 2022, 7.00% for FY 2023, decreasing 0.50% per year to an ultimate rate of 4.50% for FY 2028 and later years
HealthSelect Medicare Advantage	10.80% for FY2021, 7.34% for FY2022, 7.00% for FY2023, decreasing 0.50% per year to an ultimate rate of 4.50% for FY 2028 and later years
Aggregate Payroll Growth	3.00%
Retirement Age	Experience-based tables of rates that are specific to the class of employee
Mortality	
State Agency Members	
Service Retirees, Survivors and Other Inactive Members	2017 State Retirees of Texas Mortality table with a 1-year set forward for male CPO/CO member and Ultimate MP Projection Scale projected from the year 2017
Disabled Retirees	RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014
Active Members	RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014
Higher Education Members	
Service Retirees, Survivors, and Other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
Disabled Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014
Ad Hoc Post-Employment Benefit Changes	None

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

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

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

- a. assumed Per Capita Health Benefit Costs, and assumed Health Benefit Cost, Retiree Contribution, and Expense trends have been updated to reflect recent experience and its effects on short-term expectations;



Notes to the Financial Statements
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- b. percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate in the SRHP at the earliest date at which coverage can commence;
- c. percentage of future male retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends;
- d. percentage of future retirees and their spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends; and,
- e. discount rate assumption was increased from 3.96% to 2.97% to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

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

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

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

**Sensitivity of the University's Proportionate Share of the Net OPEB Liability
to Changes in the Discount Rate**

1% Decrease	Current Discount Rate	1% Increase
-1.97%	-2.97%	-3.97%
\$ 182,392,580	\$ 152,845,797	\$ 130,110,623

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

**Sensitivity of the University's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare
Cost Trend Rate**

HealthSelect (HS) or HealthSelect Medicare Advantage (HSMA)

1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
HS/HSMA: 6.30/9.80 % decreasing to 3.50%;	HS/HSMA: 7.30/10.80 % decreasing to 4.50%;	HS/HSMA: 8.30/11.80 % decreasing to 5.50%;
\$ 128,343,263.00	\$ 152,845,797.00	\$ 184,864,997.00



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The OPEB plan's fiduciary position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the SRHP. Investments of the Other Employee Benefit Trust Fund are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Valuation*. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the SRHP's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2019 CAFR.

At August 31, 2020, the University reported a liability of \$152,845,797.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of August 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The University's proportion at August 31, 2019, was 0.4422279 percent. The 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-employers contributing entity to the SRHP for the period September 1, 2018, through August 31, 2019.

For the year ending August 31, 2020, the University recognized OPEB expense of \$21,845,483.00 and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 3,977,184.00
Changes of assumptions	10,877,221.00	34,155,240.00
Net difference between projected and actual investment return	62,839.00	-
Effect of change in proportion and contribution difference	79,206,957.00	-
Contributions subsequent to the measurement date	1,309,935.00	-
Total	<u>\$91,456,952.00</u>	<u>\$38,132,424.00</u>

The \$1,309,935.00 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the OPEB liability for the year ending August 31, 2021.

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

Year ended August 31:

2021	\$ 11,293,430.00
2022	11,293,430.00
2023	15,484,315.00
2024	12,457,723.00
2025	1,485,693.00
Thereafter	-
	<u>\$ 52,014,591.00</u>



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NOTE 12: Interagency Activity and Transactions

The University experienced routine transfers with other State agencies that were consistent with the activities of the fund making the transfer. Repayment of amounts reported as Due To or Due From Other State Agencies will normally occur within one year from the date of the financial statements.

Following are individual balances and activity reported as Due From and Due To Other State Agencies as of August 31, 2020:

	Legislative Financing Sources	Legislative Financing Uses
ENTERPRISE FUND (05)		
	Transfer In	Transfer Out
Appd Fund 0802, D23 Fund 0802		
Agency 608, D23 Fund 0802		\$ 570.11
Appd Fund 0210, D23 Fund 0210		
Agency 902, D23 Fund 0210	\$ 221,308.00	

	Due From Other Agencies	Due To Other Agencies	Source
ENTERPRISE FUND (05)			
Appd Fund 0001, D23 Fund 0001			
Agency 781, D23 Fund 0001		\$ 37,803.32	State Pass-Through
Agency 781, D23 Fund 0001		281,808.81	State Pass-Through
Appd Fund 9999, D23 Fund 7999			
Agency 802, D23 Fund 0919	\$ 26,798.32		State Pass-Through
Agency 802, D23 Fund 4673	4,554.80		State Pass-Through
Agency 802, D23 Fund 4673	20,505.44		State Pass-Through
Agency 720, D23 Fund 7999		22,678.84	State Pass-Through
Agency 701, D23 Fund 0599		197.82	State Pass-Through
Agency 701, D23 Fund 0001	934.55		State Pass-Through
Agency 556, D23 Fund 7999	1,890.44		State Pass-Through
Total Due From/To Other Agencies – State	\$ 54,683.55	\$342,488.79	
Agency 771, D23 Fund 0001	190,285.71		Federal Pass-Through
Agency 802, D23 Fund 0951	63,700.08		Federal Pass-Through
Total Due From/To Other Agencies - Federal	\$253,985.79		
Total Interagency Balances	\$308,669.34	\$342,488.79	

In 2012, the University financed a comprehensive energy management program with a revolving loan fund from the State Energy Conservation Office (SECO) funded with American Recovery and Reinvestment Act (ARRA) funds and institutional Higher Education Funds (HEF). The total amount borrowed from SECO was \$13,327,627.82, with capitalized interest of \$197,015.33. The remaining balances, reported as Interagency Payables, are reflected in the table below:

Current Portion	Interagency Payable	Purpose
Agency 907, D23 Fund 0230	\$ 663,481.00	Interagency Loan
Agency 907, D23 Fund 0230	842,955.00	Interagency Loan
Total Current Interagency Payable	\$ 1,506,436.00	
Non-Current Portion	Interagency Payable	Purpose
Agency 907, D23 Fund 0230	\$ 127,690.10	Interagency Loan
Agency 907, D23 Fund 0230	54,613.63	Interagency Loan
Total Non-Current Interagency Payable	\$ 182,303.73	



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NOTE 13: Continuance Subject to Review – Not Applicable

NOTE 14: Adjustments to Fund Balances and Net Position

During fiscal year 2020, certain accounting changes and adjustments were made that required the restatement of net position. A restatement of \$206.29 was necessary because the software system did not calculate depreciation on an asset that was adjusted in value for fiscal year 2019. The restatement reflects the amount needed to correct the accumulated depreciation. An additional restatement of \$171,427.86 was required to reclassify two projects reported in Construction in Progress that did not meet the capitalization requirements.

The restatements are presented in the following table.

Net Position August 31, 2019	\$ 79,284,267.70
Restatement: Capital Asset adjustment	(171,634.15)
Net Position September 1, 2019, as Restated	\$ 79,112,633.55

NOTE 15: Contingencies and Commitments

Claims and Judgments

At August 31, 2020, various lawsuits and claims involving the University were pending. While the ultimate liability with respect to litigation and claims asserted cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the University's financial statements.

Federal Assistance

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

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. The University monitors its investments to restrict earnings to a yield of less than the bond issue and, therefore, limits any arbitrage liability. The University estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Construction Commitments

The University continues to implement capital improvements to upgrade facilities. The outstanding capital commitments for the construction and renovation of various facilities are \$24,330,150.28. These projects are in various stages of completion.

Investments Funds

A&M System participates in private investment pools in which the University has a proportional interest. Private investment pools are invested in limited partnerships with external investment managers or general partners who invest



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primarily in private equity transactions. These investments, both domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain funds may utilize credit default swaps that have additional risk, including the risk of counterparty non-performance. Collateral in the form of cash or securities may be required to be held in segregated accounts with the fund's custodian.

NOTE 16: Subsequent Events

Bond Refunding

In October 2020, the University refunded the 2010 Series Bond Issue, lowering the interest rates from 2-5.00% to 1.225-1.371% and saving the University \$2,970,365.00 over the remaining term of the bond series.

Pandemic

The World Health Organization declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas. On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

University management continues to monitor local outbreak data as well as information provided by the Governor in an ongoing effort to protect students and staff. The classroom learning resumed in the fall of 2020 with a choice of online or face-to-face delivery of instruction. The impact to enrollment for 2021 was less than anticipated.

NOTE 17: Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; losses resulting from providing health and other medical benefits to employees; and natural disasters. 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. The methods the University uses to handle each of these risks are summarized below.

Injuries to Employees: Employees of the University are covered by a workers' compensation insurance policy provided by the State Office of Risk Management (SORM). An interagency contract with SORM is executed on behalf of the University for workers' compensation insurance every two years. SORM assesses the University an amount for the insurance coverage in accordance with 28 T.A.C. 251.507. The initial estimated assessment for fiscal year 2020 was \$291,700.62, to be paid in two installments. The first payment of \$218,775.47 was made in September. The assessment was adjusted during the year and the remaining payment of \$59,852.29 was made in May, bringing the actual assessment total to \$278,627.76.

Provision for Health and Other Medical Benefits: Employees of the University are eligible for health insurance and optional coverage(s) if they are employed at least 50 percent of the time. The coverage is provided through the State, under the Texas Employees Group Benefits Program (GBP), which was administered by HealthSelect. Eligible employees may select health, dental, vision, life, TexFlex, accidental death and dismemberment, dependent life, and long- and short-term disability coverage. All risks associated with these benefits are passed to the GBP. The costs of health insurance coverage are jointly paid by the State and the University as follows: 100 percent for full-time employees and 50 percent for their dependents; 50 percent for part-time employees and 25 percent for their dependents. Employees hired on or after September 1, 2014, have a 60-day waiting period to participate in health insurance coverage. Contributions made by the State on behalf of the University for health and other medical benefits were \$6,423,580.00 for the year ended August 31, 2020.



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Damage to Property: The University is required by certain bond covenants to carry fire and extended coverage and boiler/heavy equipment insurance on buildings financed through the issuance of bonds. The insurance protects the bondholders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments. In fiscal year 2019, there was a catastrophic fire in the Beef Farm Livestock Barn that resulted in a claim of \$610,907.00, which is the total reimbursement less the deductible of \$250,000.00. The claim has not been received.

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 per injured person, up to a total of \$60,000 for everyone injured in an accident (bodily injury), and \$25,000 for property damage. However, through the SORM Auto Insurance Program, the University has chosen to carry liability insurance on its licensed vehicles in the amount of \$250,000/\$500,000/\$100,000. This year, the motorized utility vehicles were added to the auto coverage for liability only at \$130.00 per vehicle. The University also carries physical damage for vehicles ten years and newer. The annual premium was \$121,392.08 with a deductible paid of \$3,307.20.

Torts and Other Risks: The University is exposed to a variety of civil claims resulting from the performance of its duties. The University has purchased commercial insurance to address this risk.

Claims and Judgments: Changes in the balances of the University's claims liabilities for 2020 are noted in the table below:

		Beginning Balance	Increases	Decreases	Ending Balance
2020	Claims and Judgments	-	\$ 37,800.00	\$ 37,800.00	-

NOTE 18: Management's Discussion and Analysis (MD&A)

See *Management's Discussion and Analysis* at the beginning of this financial report.

NOTE 19: The Financial Reporting Entity

The University is an agency of the State. The ten members of its Board are appointed by the Governor, and include one non-voting student Regent. The University has no component units or joint ventures. See Note 1, *Reporting Entity*, for additional details.

NOTE 20: Stewardship, Compliance, and Accountability

The University had no material violations of finance-related legal or contractual provisions. Per the laws of the State, the University cannot spend amounts in excess of appropriations granted by the Texas Legislature. There is currently a deficit in unrestricted net assets reported in Net Position, but none is attributed to any appropriations.

NOTE 21: Not Applicable

NOTE 22: Donor-Restricted Endowments

The University endowments are invested to maximize returns yet preserve principal. The long-term objective of maintaining the purchasing power of the endowments coupled with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current needs guide the management of these funds. Distributions from the earnings and cumulative net appreciation are made annually to fund scholarships, professorships, and for other uses as stipulated by the donors. The Vice President for Finance and Administration reviews the total return on endowment accounts and recommends an annual distribution. The distribution to spending accounts was 3.51 percent for 2020.



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The following tables presents the amount of net appreciation for donor-restricted true endowments for fiscal year 2020 and the changes from the prior year amounts for expendable and non-expendable balances.

Donor-Restricted Endowments	Amounts of Cumulative Net Appreciation	Reported in Net Position
True Endowments	\$ 3,829,428.30	Restricted for Expendable
Term Endowments	8,028.98	Restricted for Expendable
Total	\$ 3,837,457.28	Restricted for Expendable

Endowment Funds	Increase/(Decrease)	Reason for Change
Expendable Balances		
True Endowments	\$ 243,580.21	Fair value increase in portfolio
Term Endowments	\$ 773.46	Fair value increase in portfolio
Non-Expendable Balances		
True Endowments	\$ 45,497.90	Donor gifts and bequests
Term Endowments	\$ -	

NOTE 23: Extraordinary and Special Items – Not Applicable

NOTE 24: Disaggregation of Receivable and Payable Balances

Accounts Receivables

The components of current accounts receivable, as reported in the Statement of Net Position, are as follows:

Accounts Receivable Category	Current Amount
3 rd Party Contracts for Student Payments	\$2,954,729.89
Travel Advances	5,500.00
Departmental Receivables	163,771.29
Food Services	7,160.31
Endowment Pool Fund	62,402.78
Other Receivables	29,326.64
Total	\$3,222,890.91

Of these amounts, none is considered significant and the University expects to collect all within the next fiscal year.



Notes to the Financial Statements
August 31, 2020

Accounts Payables

The components of current accounts payable, as reported in the Statement of Net Position, are as follows:

Accounts Payable Category	Current Amount
Construction Payables	\$ 1,304,336.72
Procurement Card Payables	302,989.12
Travel and Fuel	987.81
Food Service Payables	50,564.08
Utility Payables	207,058.76
Payables for Supplies	1,526,486.46
Payables for Services	88,806.52
Miscellaneous Payables	318,906.88
Total	\$ 3,800,136.35

NOTE 25: Termination Benefits – Not Applicable

NOTE 26: Segment Information – Not Applicable

NOTE 27: Service Concession Arrangements – Not Applicable

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

Beginning with fiscal year 2015, the University reported deferred outflows of resources and deferred inflows of resources in connection with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 25*, and GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*, requirements related to pension reporting. The requirements include that affected State agencies disclose the proportional share of the net pension liability, pension expense, and deferred outflows and inflows related to pensions if those amounts are not identifiable in the financial statements.

Description of Activities	Deferred Outflows of Resources	Deferred Inflows of Resources
TRS Pension	\$ 32,128,109.00	\$ 20,273,480.00
ERS OPEB	91,456,952.00	38,132,424.00
Total	\$123,585,061.00	\$ 58,405,904.00

Details of the pension plan administered by TRS are disclosed in Note 9 and details of the ERS plan are outlined in Note 11.

NOTE 29: Troubled Debt Restructuring – Not Applicable

NOTE 30: Non-Exchange Financial Guarantees – Not Applicable

NOTE 31: Tax Abatements – Not Applicable

NOTE 32: Governmental Fund Balances – Not Applicable

REQUIRED SUPPLEMENTARY INFORMATION



**Schedule 1A - Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended August 31, 2020**

	Teacher Retirement System of Texas		
	2020	2019	2018
SFA's proportion of the collective net pension liability	0.09165944%	0.11730121%	0.08294512%
SFA's proportionate share of the collective net pension liability	47,647,340.00	\$64,565,433.00	\$26,521,381.00
SFA's covered payroll	63,703,548.27	\$57,824,644.42	\$56,657,325.00
SFA's proportionate share of the net pension liability as a percentage of its covered payroll	74.80%	111.66%	46.81%
Plan fiduciary net position as a percentage of the total pension liability	75.24%	73.74%	82.17%

Notes to Required Supplementary Information:

Changes in Assumptions:

The total pension liability was developed using a roll forward method from the previous year's valuation.
The discount rate changed from 8.00% to 6.907%.
The long-term assumed rate of return changed from 8.00% to 7.25%.
The change in the long-term assumed rate of return combined with the change in the discount rate were the primary reasons for the increase in the net pension liability.

Changes in Benefits:

There were no changes to the benefit provisions of the TRS Plan.

*** While 10 years of data is required only six years of information is currently presented**



**Schedule 1A - Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended August 31, 2020**

	Teacher Retirement System of Texas		
	2017	2016	2015
SFA's proportion of the collective net pension liability	0.07556002%	0.11730121%	0.08294512%
SFA's proportionate share of the collective net pension liability	28,553,006.00	\$39,843,358.00	\$18,417,008.24
SFA's covered payroll	64,156,088.53	\$54,577,616.94	\$51,283,991.76
SFA's proportionate share of the net pension liability as a percentage of its covered payroll	44.51%	73.00%	35.91%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%

Notes to Required Supplementary Information:

Changes in Assumptions:

The total pension liability was developed using a roll forward method from the previous year's valuation.
The discount rate changed from 8.00% to 6.907%.
The long-term assumed rate of return changed from 8.00% to 7.25%.
The change in the long-term assumed rate of return combined with the change in the discount rate were the primary reasons for the increase in the net pension liability.

Changes in Benefits:

There were no changes to the benefit provisions of the TRS Plan.

*** While 10 years of data is required only six years of information is currently presented**



**Schedule 1B - Schedule of Contributions to Teacher Retirement System of Texas
For the Fiscal Year Ended August 31, 2020**

	Teacher Retirement System of Texas			
	2020	2019	2018	2017
Contractually required contributions	\$ 3,208,161.00	\$ 3,856,097.49	\$ 3,951,581.00	\$ 2,718,457.00
Contributions in relation to the statutorially required contributions	3,208,138.00	3,856,097.49	3,951,581.00	2,718,457.00
Contribution deficiency (excess)	\$ 23.00	\$ -	\$ -	\$ -
SFA's covered payroll	\$ 63,703,548.27	\$ 57,824,644.00	\$ 56,657,325.00	\$ 54,577,617.00
Contributions as a percentage of covered payroll	5.04%	6.67%	6.97%	4.98%

* While 10 years of data is required only seven years of information is currently presented



STEPHEN F. AUSTIN
STATE UNIVERSITY
NACOGDOCHES, TEXAS

**Schedule 1B - Schedule of Contributions to Teacher Retirement System of Texas
For the Fiscal Year Ended August 31, 2020**

	Teacher Retirement System of Texas		
	2016	2015	2014
Contractually required contributions	\$ 3,084,394.00	\$ 2,400,733.00	\$ 1,747,670.00
Contributions in relation to the statutorially required contributions	3,084,394.00	2,400,733.00	1,747,670.00
Contribution deficiency (excess)	\$ -	\$ -	\$ -
SFA's covered payroll	\$ 52,020,153.44	\$ 51,283,991.76	\$ 46,890,392.79
Contributions as a percentage of covered payroll	5.93%	4.68%	3.73%

*** While 10 years of data is required only seven years
of information is currently presented**



**Schedule 2A - Schedule of Proportionate Share of the OPEB Liability
For the Fiscal Year Ended August 31, 2020**

Employee Retirement System of Texas

	2020	2019	2018
SFA's proportion of the collective OPEB liability	0.44222792%	0.43086410%	0.14309378%
SFA's proportionate share of the collective net OPEB liability	152,845,797.00	127,698,392.00	48,756,360.00
State's proportionate share of the collective net OPEB liability associated with SFA	34,562,674,615.00	29,637,742,324.00	34,073,011,733.00
SFA's covered payroll	\$ 66,680,607.06	\$ 56,056,246.07	\$ 50,224,079.54
SFA's proportionate share of the OPEB liability as a percentage of its covered payroll	229.22%	227.80%	97.08%
Plan fiduciary position as a percentage of the total OPEB liability	0.17%	1.27%	2.04%

Notes to Required Supplementary Information:

*** This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.**

Changes in Assumptions:

Trends have been updated to reflect recent experience.

Also, the discount rate assumption was decreased from 3.96% to 2.97% as a result of requirements by GASB No. 75 to utilize the yield for 20-year, tax-exempt municipal bonds.

Changes in Benefits:

None



**Schedule 2B - Schedule of Contributions to Employees Retirement System of Texas
For the Fiscal Year Ended August 31, 2020**

	Employees Retirement System of Texas			
	2020	2019	2018	2017
Statutorily required contributions	\$ 13,104,248.45	\$ 12,516,426.08	\$ 19,389,326.59	\$ 1,341,132.56
Contributions in relation to the statutorily required contribution	<u>\$ 13,104,248.45</u>	<u>\$ 12,516,426.08</u>	<u>\$ 19,389,326.59</u>	<u>\$ 1,341,132.56</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SFA's covered payroll	\$ 72,974,124.24	\$ 66,680,607.06	\$ 56,056,246.07	\$ 50,224,079.54
Contributions as a percentage of covered payroll	17.96%	18.77%	34.59%	2.67%

*** This schedule is intended to present 10 years of information. Currently only four years of information is available. Information for future years will be added when it becomes available.**

WE ARE THE LUMBERJACKS



DID YOU KNOW?

80⁺

Majors

12,969

Enrollment

17:1

Student to faculty
ratio