



John Keel, CPA
State Auditor

Accreditation Review

Fiscal Year 2010

March 2011
Report No. 11-319

Introduction

The State Auditor's Office completed an accreditation review of Stephen F. Austin State University's fiscal year 2010 financial statements.

This review was performed to comply with the accreditation reaffirmation requirements of the Southern Association of Colleges and Schools. The report included in this document was prepared by Stephen F. Austin State University, but it includes the following documents issued by the State Auditor's Office:

- *Auditor's Review Report.*
- A management letter.

A review consists principally of inquiries of personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, the State Auditor's Office did not express such opinions.

Stephen F. Austin State University



Financial Report
For the Year Ended
August 31, 2010

Prepared for the Southern Association of Colleges and Schools
Commission on Colleges

NACOGDOCHES, TEXAS

**Stephen F. Austin
State University**

**Financial Report
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Stephen F. Austin State University
Financial Report
For the Year Ended August 31, 2010

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Auditor's Review Report

February 10, 2011

Dr. Baker Pattillo, President
Stephen F. Austin State University
Box 6078
SFA Station
Nacogdoches, TX 75962

Dear Dr. Pattillo:

We have reviewed the accompanying Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements of Stephen F. Austin State University (University) as of and for the fiscal year ended August 31, 2010, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The review was performed in accordance with the Southern Association of Colleges and Schools' (Southern Association) *Criteria for Accreditation*. All information included in these financial statements is the representation of management of the University.

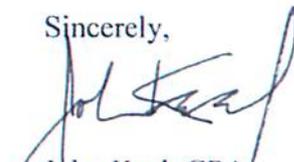
A review consists principally of inquiries of University personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying statements were prepared to present the financial position, the changes in financial position and the cash flows of the University. These statements are prepared pursuant to criteria of the Southern Association for supplementary special reports by institutions in states that conduct statewide audits.

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 conformity with generally accepted accounting principles.

This report is intended for use by the Board of Regents of Stephen F. Austin State University, management of the University, and the Southern Association. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,



John Keel, CPA
State Auditor

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SAO Report No. 11-314

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STEPHEN F. AUSTIN STATE UNIVERSITY

Management's Discussion and Analysis

For the Year Ended August 31, 2010

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. Named for the "Father of Texas", the University was founded in 1921. It is located in Nacogdoches in the Pineywoods area of East Texas. The main campus includes more than 400 acres, part of the original homestead of Thomas J. Rusk, early Texas patriot and United States Senator. In fall 2009, the University enrolled nearly 13,000 students in 32 academic units and 6 colleges. Degrees are awarded at the bachelor's, master's and doctoral levels.

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Stephen F. Austin State University presents in this discussion and analysis the Financial Statements for fiscal year 2010 with comparative information for 2009. This discussion, prepared by management, will focus on the University's current year data, trends in data, and overview of the financial activities for the year. It should be read in conjunction with the accompanying Financial Statements and Notes, which offer various financial definitions and accounting information. The University does not include any blended components in the Financial Statements.

Three primary statements are presented: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The Statement of Net Assets presents 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 assets are indicators of the improvement or decline of the financial health of the University. Changes in total net assets are based on the activity shown on the Statement of Revenues, Expenses, and Changes in Net Assets. The Statement of Cash Flows presents detailed information about the cash activity and gives an indication of the University's liquidity and ability to meet cash obligations.

FINANCIAL HIGHLIGHTS

- Enrollment for the 2009 fall semester of 12,845 was the highest in the University's history.
- The University issued general revenue bonds on April 1, 2010, for \$35 million to build a new freshmen residence hall and adjacent parking garage.
- The University issued tuition revenue bonds on April 1, 2010, for \$3.4 million to refund the remaining amount of the 1998 tuition revenue bond.
- The University phased in the student and financial aid components as part of its comprehensive software conversion. The registration and accounts receivable modules, both a part of the student component, were converted in April 2010 and August 2010, respectively. The financial aid component was converted in July 2010. The finance component was converted in the previous fiscal year (August 2009).
- Capitalized expenditures totaled approximately \$31.5 million.
- Non-operating federal pass-through revenue increased by \$2 million. This represents payments by the federal government to the State from the American Recovery and Reinvestment Act (ARRA) and used to replace State appropriations for formula and incentive funding.
- The University received a commitment of nearly \$18 million from the State Energy Conservation Office and federal stimulus funds to finance a comprehensive energy management program. Work on the project began in August 2010.

CONDENSED FINANCIAL INFORMATION AND FINANCIAL HIGHLIGHTS

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University at a specific point in time, in this case August 31, 2010. Net assets are the difference between total assets and total liabilities and represent the residual interest in the University's assets after liabilities are deducted. "Net Assets" are presented in three major categories: Invested in Capital Assets, Net of Related Debt; Restricted Net Assets; and Unrestricted Net Assets. The Invested in Capital Assets, Net of Related Debt category identifies the equity in property, plant and equipment owned by the University. Restricted Net Assets are either expendable or non-expendable. Expendable restricted net assets may be expended only for the purposes designated by the external donor or provider of the assets. Non-expendable net assets are comprised entirely of funds held as permanent endowments. Unrestricted net assets are available for any lawful purpose of the University. Although unrestricted net 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. See the Statement of Changes in Unrestricted Net Assets for details of these commitments. 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 Assets at August 31, 2010 and 2009 follows:

Statement of Net Assets		
	August 31, 2010	August 31, 2009 As restated
Assets		
Current Assets	\$155,540,919	\$133,276,983
Noncurrent Assets		
Other Noncurrent Assets	42,900,726	41,585,293
Capital Assets, Net of Depreciation	<u>219,542,961</u>	<u>201,403,077</u>
Total Assets	<u>417,984,606</u>	<u>376,265,353</u>
Liabilities		
Current Liabilities	104,857,303	95,684,539
Noncurrent Liabilities	<u>181,206,012</u>	<u>155,442,096</u>
Total Liabilities	<u>286,063,315</u>	<u>251,126,635</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	57,609,636	60,177,418
Restricted Net Assets		
Expendable	17,302,571	15,765,712
Non-expendable	6,660,524	6,558,197
Unrestricted Net Assets	<u>50,348,560</u>	<u>42,637,391</u>
Total Net Assets	<u>\$131,921,291</u>	<u>\$125,138,718</u>

In fiscal year 2010, total assets of the University increased approximately \$41.7 million from the previous fiscal year.

Current assets increased approximately \$22.3 million. Increases in cash and cash equivalents and short-term investments accounted for approximately \$19 million of this increase. This change is primarily attributed to unspent bond proceeds held in short term investments and interest bearing bank accounts, but it also reflects the administration's decision to move money from long-term low income producing investment accounts into bank accounts with higher yields. Legislative appropriations decreased by \$2.2 million. This is money held at the State on the University's behalf and is drawn down to reimburse expenditures. Unspent balances are attributed primarily to the timing of expenditures from the Higher Education Fund. The University has authority to carry these balances forward to a subsequent year. Variances in both cash in State treasury and legislative appropriations between years 2009 and 2010 reflect a timing difference of when reimbursements for expenses are submitted and subsequently received. These fluctuations do not represent changes in revenue from legislative appropriations for the fiscal year.

Other changes in current assets are attributed to an increase of intergovernmental receivables of \$3.5 million and prepaid items of \$1.7 million. The intergovernmental receivables include amounts due from other State agencies of \$2.6 million related to payments due the University for costs associated with the Columbia Regional Geospatial Service Center. Prepaid items (primarily scholarships awarded for the subsequent fiscal year) increased \$1.7 million. This increase is based on both increased awards and increased enrollment.

Changes in noncurrent assets other than capital assets were approximately \$1.3 million. There was an increase in noncurrent investments of approximately \$1 million. An increase in noncurrent student accounts receivable of \$.8 million was offset by a decline in student loans recognized in the noncurrent loans and contracts of approximately \$.5 million.

Capital assets, net of depreciation, increased approximately \$18.1 million. This is attributed to capital outlay of \$31.5 million offset by depreciation expenditures of \$12.5 million and deletions of capital assets of \$.8 million.

Total liabilities increased by approximately \$34.9 million. Of this amount, current liabilities increased by approximately \$9.2 million. This is attributed to a number of factors. \$2.8 million of this total is due to the increase in fall 2010 deferred revenues related to tuition and fees and room and board rate increases and from increased enrollment. The deferred revenues relate to the billed student payments for tuition and fees and room and board for the subsequent fall semester. \$1.9 million is due to increases in the current portion of long-term debt. Payables from restricted assets increased \$3.8 million. This is primarily due to payables for construction activity related to the bond funded projects.

Funds held for others are fiduciary funds held by the University. They are used to account for assets the University holds on behalf of others in a purely custodial capacity. At year end, undisbursed student refunds of nearly \$13.8 million are accounted for in this category. These refunds are held on the students' behalf until disbursed after the 12th class day of each semester.

Of the \$25.8 million increase in noncurrent liabilities, \$25.5 million is attributed to the net change in bonds payable. This is comprised of the \$38.5 million bond proceeds, less current year principal payments of \$7.7 million, less bonds refunded of \$3.4 million, less the amounts recognized as the increases in current liabilities of \$1.9 million.

Expendable restricted net assets increased by \$1.5 million. This is primarily attributed to an increase in unspent bond proceeds restricted for capital projects of \$1 million.

Unrestricted net assets increased by \$7.7 million. This is attributed primarily to increases in tuition and fee and room and board revenues from increased enrollment and increased fees. These changes are included in the discussion that follows.

Statement of Revenues, Expenses, and Changes in Net Assets

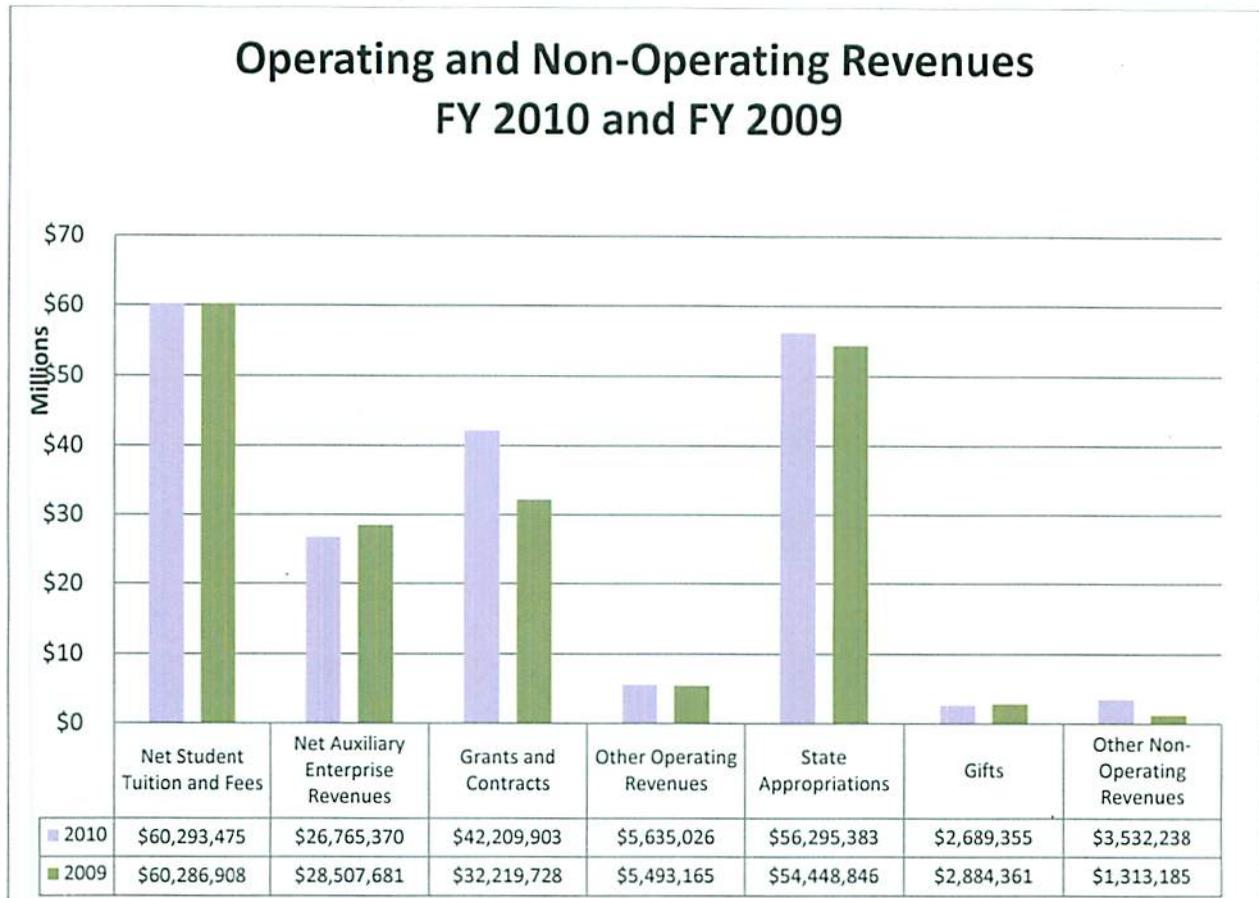
The Statement of Revenues, Expenses, and Changes in Net Assets presents operating revenues and expenses, non-operating revenues and expenses, and other gains and losses.

Operating revenues are revenues received for providing goods and services to the various constituencies of the University. Operating expenses are expenses paid to acquire goods and services provided in return for operating revenues to carry out the mission of the University. Non-operating revenues are those for which no goods or services have been provided. This category includes State legislative revenue and other appropriations.

A summarized comparison of the University's Statement of Revenues, Expenses, and Changes in Net Assets for the years ended August 31, 2010 and 2009 follows:

Statement of Revenues, Expenses, and Changes in Net Assets		
	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Net Student Tuition and Fees	\$60,293,475	\$60,286,909
Net Auxiliary Enterprise Revenues	26,765,370	28,507,681
Grants and Contracts	42,209,903	32,219,728
Other Operating Revenues	5,635,026	5,493,165
Total Operating Revenues	<u>134,903,774</u>	<u>126,507,483</u>
Total Operating Expenses	<u>191,463,988</u>	<u>179,870,530</u>
Operating Income (Loss)	<u>(56,560,214)</u>	<u>(53,363,047)</u>
Non-Operating Revenues (Expenses):		
Legislative Revenue (State)	44,114,346	43,685,586
Additional Appropriations	12,181,037	10,763,260
Federal Pass-Through Revenue	2,059,053	0
Gifts	2,689,355	2,884,361
Net Investment Income (Loss)	1,469,968	2,020,044
Net Increase (Decrease) in Fair Value of Investments	503,595	(856,676)
Interest Expenses and Fiscal Charges	(5,935,249)	(5,397,152)
Net Other Non-Operating Revenues (Expenses)	<u>(500,378)</u>	<u>149,817</u>
Total Non-Operating Revenues (Expenses)	<u>56,581,727</u>	<u>53,249,240</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	21,513	(113,807)
Other Revenues, Expenses, Gains (Losses)	7,671,503	8,453,643
Transfers Out	<u>(910,444)</u>	<u>(828,843)</u>
Change in Net Assets	<u>6,782,572</u>	<u>7,510,993</u>
Net Assets, Beginning of Year	125,138,719	117,670,218
Restatements		(42,492)
Restated Net Assets, Beginning of Year	<u>125,138,719</u>	<u>117,627,726</u>
Net Assets, End of Year	<u>\$131,921,291</u>	<u>\$125,138,719</u>

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



* Other Non-Operating Revenues include Federal Pass-Through Revenue, Net Investment Income, Net Increase (Decrease) in Fair Value of Investments, and Other Non-Operating Revenues.

Some of the fiscal year 2010 highlights presented in the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- There was no significant change in net tuition and fees. The increases in revenues were offset by increases in tuition exemptions, discounts and allowances. The University uses a formula provided by the National Association of College and University Business Officers (NACUBO) to calculate tuition discounts, which takes into account student charges, payments both to and from students, loan proceeds, and grants and scholarships. Using this formula, \$21.3 million was reclassified from scholarships to tuition discounts in 2010 compared to \$13.9 million in 2009. Gross tuition increased by approximately \$7.5 million and fees increased by \$.2 million, but these were offset by increases in tuition exemptions, discounts and allowances of \$7.7 million. (See chart below.)
- Net auxiliary enterprise revenues decreased approximately \$1.7 million. This is again attributed to the calculated discounts of \$9.4 million in 2010 compared to \$6.3 million in 2009. While auxiliary revenues increased approximately \$1.6 million, the tuition discounts and allowances increased \$3.3 million. (See chart below.)

Gross Student Revenues, Exemptions, Discounts and Allowances			
	2010	2009	Net Change
Tuition and Fees - Pledged	\$ 79,582,472	\$ 72,088,646	\$ 7,493,826
Tuition and Fees - Non-Pledged	3,771,120	3,562,408	208,712
Exemptions	(1,420,402)	(1,280,326)	(140,076)
Discounts	(21,370,673)	(13,883,519)	(7,487,153)
Allowances for Doubtful Accounts	(269,042)	(200,300)	(68,742)
Net Student Tuition and Fees	\$ 60,293,475	\$ 60,286,908	\$ 6,567
Auxiliary Enterprises - Pledged	\$ 35,171,879	\$ 33,593,431	\$ 1,578,448
Discounts	(9,441,774)	(6,337,819)	(3,103,955)
Allowances for Doubtful Accounts	(388,668)	(208,228)	(180,439)
Auxiliary Enterprises - Non-Pledged	1,423,933	1,460,298	(36,365)
Net Auxiliary Enterprise Revenues	\$ 26,765,370	\$ 28,507,681	\$ (1,742,311)

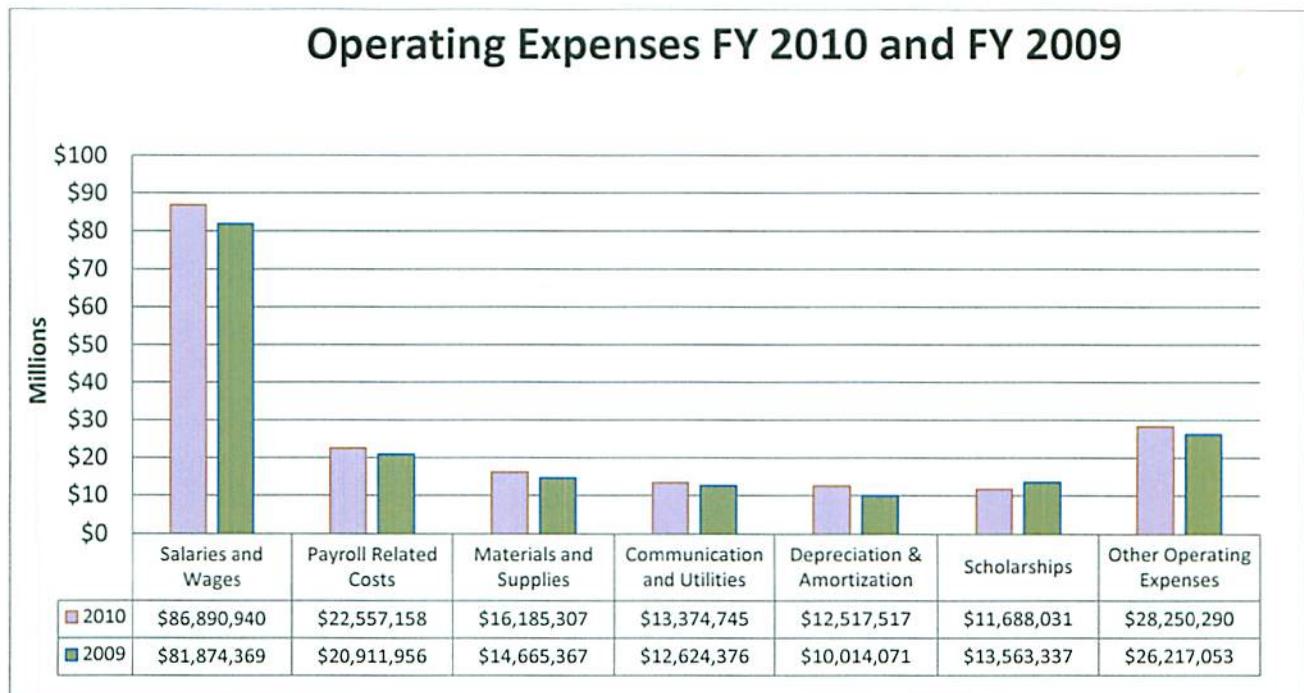
- Grants and contracts income increased by \$10.4 million. This is primarily attributed to an increase in Pell grants revenue of \$6.5 million and increased financial aid grants from the State of \$1.6 million.
- There was a \$1.8 million increase in legislative revenue. An increase in amounts paid by the State for insurance and retirement benefits for State employees caused this change.
- Non-operating federal pass-through revenue increased by \$2 million. This represents payments by the federal government to the State from the American Recovery and Reinvestment Act (ARRA) and used to replace State appropriations for formula and incentive funding.

The following data summarizes the operating expenses in the natural classification expense categories for the fiscal years ended August 31, 2010 and 2009:

	2010	2009
Cost of Goods Sold	\$ 8,697,462	\$ 8,865,592
Salaries and Wages	86,890,940	81,874,369
Payroll Related Costs	22,557,158	20,911,956
Professional Fees and Services	2,362,479	1,694,081
Travel	2,436,138	2,412,501
Materials and Supplies	16,185,307	14,665,367
Communication and Utilities	13,374,745	12,624,376
Repairs and Maintenance	3,685,737	3,193,879
Rentals and Leases	1,810,095	1,910,739
Printing and Reproduction	681,224	560,397
Federal Pass-Through Expenditure	2,393,437	1,104,068
State Pass-Through Expenditure	0	27,164
Amortization*	401,632	0
Depreciation	12,115,885	10,014,071
Bad Debt Expense	380,795	251,695
Scholarships	11,688,031	13,563,337
Other Operating Expenses	5,802,923	6,196,938
Total Operating Expenses	\$ 191,463,988	\$ 179,870,528

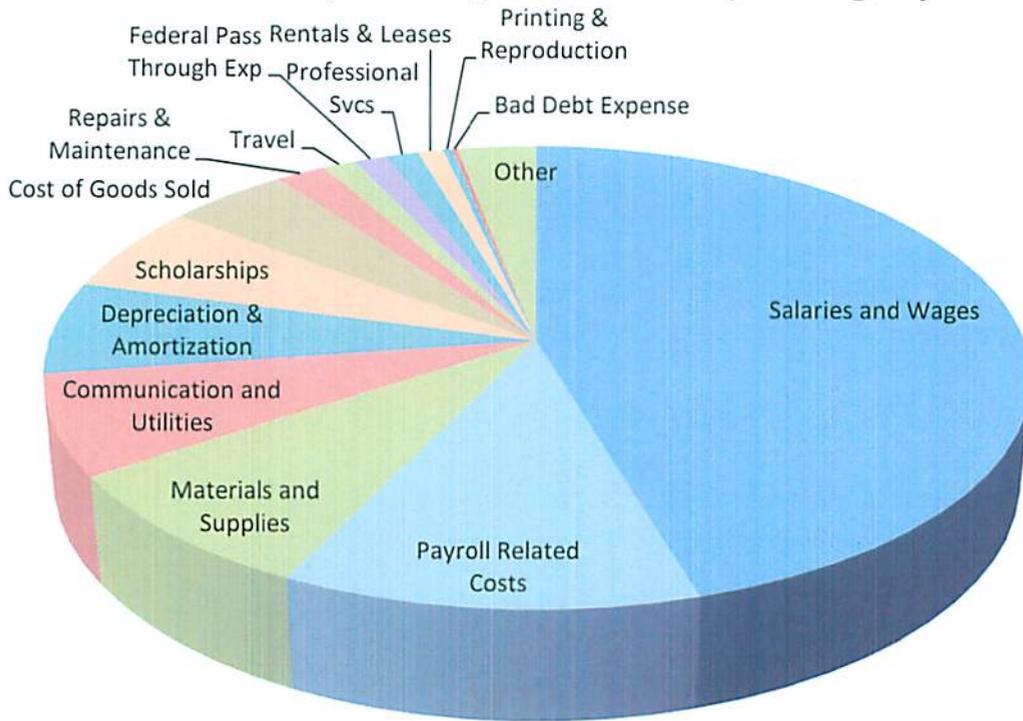
**Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Financial Reporting for Intangible Assets, requires intangible assets to be valued and amortized effective 2010. Amortization expense for the software conversion is included in this category.*

Following is a graphic presentation of the major operating expenses categories for the fiscal years ended August 31, 2010 and 2009:



**Other Operating Expenses include Cost of Goods Sold, Professional Fees and Services, Travel, Repairs and Maintenance, Rentals and Leases, Printing and Reproduction, Federal and State Pass-Through Expenses, Bad Debt Expense, Operating Interest Expense, Claims and Judgments, and Other Operating Expenses.*

FY2010 Operating Expenses by Category



Some of the FY 2010 significant changes from the prior year Operating Expenses are:

- Salaries and wages and payroll related costs increased by approximately \$6.7 million. This increase is due to a 3% merit pool raise and equity adjustments for employees, and the related increase in employee benefits.
- Materials and supplies increased by \$1.5 million. This is primarily attributed to purchases associated with bond projects that do not meet capitalization thresholds.
- Depreciation and amortization increased by \$2.5 million. This is attributed to the completion of several projects. Costs previously captured as construction in progress were moved into depreciable categories. \$47.9 million was moved from construction in progress – \$45.4 million to buildings, \$1.6 million to computer software, \$.7 million to infrastructure, and \$.2 million to facilities and other improvements.
- Federal pass-through expenditures increased by \$1.3 million. This is attributed primarily to the expenditures related to other universities that have partnered with the University as part of the Columbia Regional Geospatial Service Center contract.
- Reported scholarships decreased by \$1.9 million. However, scholarships awarded actually increased \$8.7 million. As discussed previously, some scholarships are reclassified as either tuition discounts or auxiliary discounts using the NACUBO discount formula. \$30.8 million was reclassified in 2010 compared to \$20.2 million in 2009. The gross amounts and related reclassifications are shown below:

Gross Scholarships and Related Discounts Applied to Revenues			
	2010	2009	Net Change
Scholarships	\$42,500,478	\$33,784,675	\$8,715,803
Scholarships- Reclassed to Tuition Discounts	(21,370,673)	(13,883,519)	(7,487,153)
Scholarships- Reclassed to Auxiliary Enterprises	(9,441,774)	(6,337,819)	(3,103,955)
Scholarships (as reported)	<u>\$11,688,031</u>	<u>\$13,563,337</u>	<u>\$(1,875,305)</u>

Statement of Cash Flows

The Statement of Cash Flows provides details about the University’s major sources and uses of cash during the year. There are four categories of cash flow activity:

1. Cash Flows from Operating Activities – the net cash used by operating activities
2. Cash Flows from Non-Capital Financing Activities – the net cash received and spent for non-operating, non-capital financing and non-investing purposes
3. Cash Flows from Capital and Related Financing Activities – the net cash from capital and related financing activities that is used to acquire, construct or improve capital assets
4. Cash Flows from Investing Activities – the net cash from the acquisition and disposition of debt or equity instruments

The sum of the Net Cash Provided (Used) by these four activity types is the Increase (Decrease) in Cash and Cash Equivalents.

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 Assets. A summarized comparison of the Statement of Cash Flows at August 31, 2010 and 2009 follows:

Statement of Cash Flows		
	<u>2010</u>	<u>2009</u>
Net Cash Provided (Used) by:		
Operating Activities	\$(42,648,609)	\$(35,721,108)
Non-Capital Financing Activities	62,477,857	54,319,685
Capital and Related Financing Activities	(1,742,702)	(5,284,309)
Investing Activities	<u>181,818</u>	<u>(9,278,989)</u>
 Increase (Decrease) in Cash and Cash Equivalents	 18,268,364	 4,035,279
 Cash and Cash Equivalents, Beginning of Year	 <u>74,250,758</u>	 <u>70,215,479</u>
 Cash and Cash Equivalents, End of Year	 <u>\$ 92,519,122</u>	 <u>\$ 74,250,758</u>

Net Cash Provided (Used) by Operating Activities should be viewed together with Net Cash Provided (Used) by Non-Capital Financing Activities. 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.

The increase in cash used for Operating Activities of \$6.9 million is attributed to several factors. The University had increased cash flows of approximately \$8.5 million from grants and contracts, but these were offset by decreased cash receipts for tuition and fees of \$1.8 million and auxiliary services of \$1.4 million, and increased payments to vendors of \$5.1 million, employees of \$6.4 million and students (scholarship expenses) of \$.6 million.

The increase in cash flows from Non-Capital Financing Activities of \$8.2 million is primarily attributed to changes in legislative revenue and additional State appropriations and federal pass-through revenue. These are amounts for State appropriations and ARRA funds used to replace State appropriation. Although the actual State appropriations increased by only \$1.8 million, the rest of the change is attributed to timing differences of reimbursements from the State. These account for \$8.9 million of the change.

The change of \$3.5 million in Capital and Related Financing Activities can be attributed to the increase of debt proceeds of \$5.3 million and the decrease of purchases for capital assets of \$3.8 million, offset by increases for amounts paid for principal and interest on bond issues of \$5.1 million.

The change in Cash Flows from Investing Activities of \$9.5 million is primarily attributed to the proceeds of investments of \$27.9 million offset by increases in short term bond investments of \$19 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

The University continues to improve its campus through development and renewal of its facilities and other capital assets. Capital additions totaled approximately \$31.5 million in fiscal year 2010, \$35.3 million in fiscal year 2009, and \$19 million in fiscal year 2008.

In spring 2010, a 108 room, 14 story residence hall (the tallest building in Nacogdoches) was demolished to make way for a new residence hall and parking garage. This project will allow the University to use a state-of-the-art 208 room residence hall facility to recruit new freshmen students. The project is expected to be completed during fiscal year 2011. The 1,000 space parking garage was opened in August 2010 for student use.

Credit ratings assigned to the revenue bonds issued in fiscal year 2010 were A2, stable outlook, from Moody's Corporation and A+, positive outlook, from Fitch Ratings. Credit ratings assigned by Fitch were revised from a stable outlook to a positive outlook in March 2010.

Four parcels of real estate adjacent to the University campus were purchased during the year. The total cost for these additions was approximately \$400,000.

ECONOMIC OUTLOOK

Management is not aware of any facts, decisions, or conditions that are expected to have a material effect on the financial position or results of operations during the fiscal year 2011. Enrollment trends continue to remain positive. Fall 2010 enrollment was 12,954, surpassing the University's all-time enrollment record set in fall 2009. Housing for the student body for fall 2010 was at 100 percent capacity. Campus improvements and increased marketing efforts are expected to have a continued positive impact on enrollment.

The downturn in the economy may impact State funding levels in 2011. The University is taking measures to offset any potential reductions.

SIGNIFICANT EVENTS

Management is not aware of any significant events that impact the financial statements this year.

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Stephen F. Austin State University

Statement of Net Assets

At August 31, 2010

See Auditor's Review Report on page 1

ASSETS

Current Assets

Cash and Cash Equivalents (Note 3)	\$	66,737,672
Short-Term Investments (Note 3)		5,084,463
Restricted:		
Cash and Cash Equivalents (Note 3)		25,781,450
Short-Term Investments (Note 3)		14,102,907
Legislative Appropriations		4,260,094
Receivables, Net of Allowances:		
Federal		2,516,174
Other Intergovernmental		112,622
Interest and Dividends		155,933
Accounts		10,718,883
Due from Other State Entities (Note 8)		3,559,076
Consumable Inventories		576,626
Prepaid Expenses		19,564,199
Loans and Contracts		<u>2,370,820</u>
Total Current Assets	\$	<u>155,540,919</u>

Noncurrent Assets

Restricted:		
Investments (Note 3)	\$	8,976,523
Loans and Contracts		4,870,400
Investments (Note 3)		26,632,477
Student Accounts Receivable		2,421,326
Capital Assets (Note 2):		
Non-Depreciable		16,683,482
Depreciable and Amortizable		398,913,711
Less: Accumulated Depreciation and Amortization		<u>(196,054,232)</u>
Total Noncurrent Assets	\$	<u>262,443,687</u>

Total Assets	\$	<u>417,984,606</u>
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LIABILITIES**Current Liabilities**

Payables:	
Accounts (Note 18)	\$ 4,435,062
Payroll	6,745,416
Benefits	1,735,705
Due to Other State Entities (Note 8)	834,634
Deferred Revenue	56,140,086
Capital Lease Obligations (Notes 4, 6)	12,947
Employees' Compensable Leave (Note 4)	581,394
Accrued Bond Interest Payable	2,908,227
General Obligation Bonds Payable (Notes 4, 5)	900,000
Revenue Bonds Payable (Notes 4, 5)	8,443,709
Liabilities Payable from Restricted Assets (Note 4)	6,352,234
Funds Held for Others	14,057,353
Other Current Liabilities	1,710,536
Total Current Liabilities	\$ <u>104,857,303</u>

Noncurrent Liabilities

Capital Lease Obligations (Notes 4, 6)	\$ 9,570
Employees' Compensable Leave (Note 4)	3,286,442
General Obligation Bonds Payable (Notes 4, 5)	8,430,000
Revenue Bonds Payable (Notes 4, 5)	169,480,000
Total Noncurrent Liabilities	\$ <u>181,206,012</u>

Total Liabilities **\$ 286,063,315**

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 57,609,636
Restricted for:	
Non-Expendable	
Permanent Funds, True Endowments, Annuities	6,660,524
Expendable	
Capital Projects	1,543,773
Funds Functioning as Endowments	2,019,794
Other	13,739,004
Unrestricted	50,348,560
Total Net Assets	\$ <u>131,921,291</u>

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

Stephen F. Austin State University

Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended August 31, 2010

See Auditor's Review Report on page 1

OPERATING REVENUES

Tuition and Fees - Non-Pledged	\$ 3,771,120
Tuition and Fees - Pledged	79,582,472
Discounts and Allowances	(23,060,117)
Auxiliary Enterprises - Non-Pledged	1,423,933
Auxiliary Enterprises - Pledged	35,171,879
Discounts and Allowances	(9,830,442)
Other Sales of Goods and Services - Non-Pledged	1,858,102
Other Sales of Goods and Services - Pledged	3,752,698
Federal Revenue	33,281,344
State Grant Revenue	8,056,443
Other Operating Grant Revenue	872,116
Other Operating Revenues	24,226
Total Operating Revenues	\$ <u>134,903,774</u>

OPERATING EXPENSES

Cost of Goods Sold	\$ 8,697,462
Salaries and Wages	86,890,940
Payroll Related Costs	22,557,158
Professional Fees and Services	2,362,479
Travel	2,436,138
Materials and Supplies	16,185,307
Communications and Utilities	13,374,745
Repairs and Maintenance	3,685,737
Rentals and Leases	1,810,095
Printing and Reproduction	681,224
Federal Pass-Through Expenditure	2,393,437
Depreciation and Amortization	12,517,517
Bad Debt Expense	380,795
Interest Expense	108
Scholarships	11,688,031
Claims and Judgments	1,167
Other Operating Expenses	5,801,648
Total Operating Expenses	\$ <u>191,463,988</u>
Operating Income (Loss)	\$ <u>(56,560,214)</u>

NONOPERATING REVENUES (EXPENSES)

Legislative Appropriations	\$ 44,114,346
Additional Appropriations	12,181,037
Federal Pass Through Revenue	2,059,053
Gifts	2,689,355
Interest and Investment Income (Loss)	1,558,331
Investing Activities Expense	(88,363)
Net Increase (Decrease) in Fair Value of Investments	503,595
Land Income	2,687
Interest Expense and Fiscal Charges	(5,935,249)
Gain (Loss) on Sale of Capital Assets	(839,908)
Claims and Judgments	282,923
Other Nonoperating Revenues - Non-Pledged	53,920
Total Nonoperating Revenues (Expenses)	\$ <u>56,581,727</u>

Income (Loss) Before Other Revenues, Expenses, Gains (Losses), and Transfers \$ 21,513

OTHER REVENUES, EXPENSES, GAINS (LOSSES), AND TRANSFERS

Capital Contributions	\$ 684,533
Capital Appropriations (HEF)	6,907,643
Additions to Permanent and Term Endowments	79,327
Transfers Out to Other State Entities (Note 8)	(910,444)
Legislative Transfers In (Note 8)	1,499,875
Legislative Transfers Out (Note 8)	(1,499,875)
Total Other Revenues, Expenses, Gains (Losses), and Transfers	\$ <u>6,761,059</u>

CHANGE IN NET ASSETS \$ 6,782,572

Net Assets, September 1, 2009 \$ 125,138,719

NET ASSETS, August 31, 2010 \$ 131,921,291

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

Stephen F. Austin State University

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2010

See Auditor's Review Report on page 1

CASH FLOWS FROM OPERATING ACTIVITIES

Proceeds from Tuition and Fees	\$ 61,042,207
Receipts from Other Sales and Services	5,567,416
Proceeds from Research Grants and Contracts	40,535,862
Proceeds from Auxiliaries	27,472,705
Proceeds from Other Revenues	24,398
Payments to Suppliers for Goods and Services	(55,481,807)
Payments to Employees for Salaries	(85,978,497)
Payments to Employees for Benefits	(22,439,483)
Proceeds from Loans Provided	69,525
Payments to Students for Scholarships	(13,460,827)
Payments for Other Expenses	(108)
Net Cash Provided (Used) by Operating Activities	<u>\$ (42,648,609)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from Legislative Appropriations	\$ 58,492,333
Proceeds from Gifts	2,689,355
Payments for Endowments	(185,706)
Proceeds from Other Sources	2,392,319
Payments for Transfers to Other Entities	(910,444)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>\$ 62,477,857</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from State Appropriations (HEAF)	\$ 6,907,643
Proceeds from Other Capital Activities	129,420
Proceeds from Capital Contributions	944,533
Proceeds from Disposal of Capital Assets	11,253
Proceeds from Issuance of Capital-Related Debt	39,075,351
Payments for Additions to Capital Assets	(31,508,562)
Payments of Principal on Capital-Related Debt	(11,071,289)
Payments of Interest on Capital-Related Debt	(6,231,051)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,742,702)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds (Payments) from Sales of Investments	\$ 662,098
Proceeds from Interest and Investment Income	1,019,808
Proceeds(Payments) from Principal Payments on Loans	10,211,874
Payments to Acquire Investments	(11,711,962)
Net Cash Provided (Used) by Investing Activities	<u>\$ 181,818</u>

Net Increase (Decrease) in Cash and Cash Equivalents \$ 18,268,364

Cash and Cash Equivalents, September 1, 2009 \$ 74,250,758

Cash and Cash Equivalents, August 31, 2010 \$ 92,519,122

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

Operating Income (Loss)	\$ (56,560,214)
Adjustments:	
Depreciation and Amortization	\$ 12,517,517
Bad Debt Expense	380,795
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(2,243,333)
(Increase) Decrease in Due from Other Entities	(2,038,420)
(Increase) Decrease in Inventories	(43,384)
(Increase) Decrease in Prepaid Expenses	(1,666,284)
(Increase) Decrease in Loans and Contracts	69,525
Increase (Decrease) in Payables	3,463,092
Increase (Decrease) in Due to Other Entities	369,399
Increase (Decrease) in Deferred Revenue	2,848,160
Increase (Decrease) in Employees' Compensable Leave	417,500
Increase (Decrease) in Funds Held for Others	130,939
Increase (Decrease) in Other Liabilities	<u>(293,901)</u>
Total Adjustments	\$ <u>13,911,605</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(42,648,609)</u></u>
Non-Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	\$ 503,595
Disposal of Capital Assets	(6,241,938)

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

Stephen F. Austin State University
Statement of Changes in Unrestricted Net Assets
For the Fiscal Year Ended August 31, 2010

	<u>8/31/2010</u>	<u>8/31/2009</u>	<u>Difference</u>
Reserved			
Encumbrances	\$ 1,144,507	\$ 681,024	\$ 463,483
Accounts Receivable	5,046,031	2,708,524	2,337,507
Inventories	576,626	533,242	43,384
Capital Projects	3,248,289	3,754,410	(506,121)
Retirement of Indebtedness	2,924,308	2,590,951	333,357
Higher Education Assistance Funds	1,600,086	1,290,748	309,338
Fees with Use Restricted by Statute:			
International Education Fees (54.5132)	75,357	45,514	29,843
Research Development Fund	95,215	0	95,215
License Plate Fund	5,164	4,468	696
Nursing Shortage	9,041	0	9,041
Petty Cash	770,333	930,083	(159,750)
Designated Tuition Set Asides	434,950	646,371	(211,421)
Texas Public Education Grants	363,722	236,855	126,867
Unreserved			
Allocated			
Service Department Operating Funds	191,590	213,474	(21,884)
Funds Functioning as Endowment - Unrestricted	4,605,364	4,445,521	159,843
Retirement of Indebtedness	2,000,000	2,000,000	0
Student Fees	7,983,786	6,959,741	1,024,045
Unallocated	<u>19,274,191</u>	<u>15,596,465</u>	<u>3,677,726</u>
Total Unrestricted Net Assets	<u>\$ 50,348,560</u>	<u>\$ 42,637,391</u>	<u>\$ 7,711,169</u>

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General Introduction

This report has been prepared for the use of the Southern Association of College and Schools (Southern Association) in connection with the review of Stephen F. Austin State University (University) for accreditation purposes. This report includes a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and the related Notes to the Financial Statements. In accordance with Southern Association criteria or Governmental Accounting Standards Boards requirements, the report also includes a Management's Discussion and Analysis section, a Statement of Changes in Unrestricted Net Assets, and a management letter describing issues noted in the review.

Reporting Entity

The University is a public institution of higher education and an agency of the State of Texas (the State). The University prepares financial statements that are included in the State's *Comprehensive Annual Financial Report*, which is audited by the Texas State Auditor's Office.

The University has six related entities. The University has determined these entities are not considered related parties per GASB 14 and GASB 39, and therefore are not reportable component units. See Note 11.

NOTE 1: Summary of Significant Accounting Policies

Basis of Accounting

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

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the principle of ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Budget and Budgetary Accounting

The State of Texas budget is prepared biennially and represents appropriations authorized by the State Legislature and approved by the Governor through the General Appropriations Act. Additionally, the University prepares an annual budget which represents anticipated sources of revenue and authorized uses. This budget is approved by the Board of Regents. Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities, and Net Assets

Assets

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 general obligation and revenue bonds and revenues set aside for statutory or contractual requirements.

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost. The cost of these items is expensed when the items are sold or consumed.

Deferred Charges

Deferred charges include prepaid expenses attributable to a subsequent fiscal year, including scholarships attributed to the 2010 fall semester.

Capital Assets

Equipment with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year is capitalized. Buildings, infrastructure, facilities and other assets are capitalized when they meet thresholds set by the State. These assets are capitalized at cost or, if not purchased, at appraised fair value on the date of acquisition. Depreciation is reported on all "exhaustible" assets.

"Inexhaustible" assets such as works of art and historical treasures are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight-line method of depreciation.

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system as summarized below:

<u>Capital Asset Category</u>	<u>Useful Life</u>
Buildings and Building Improvements	22-30 years
Infrastructure	20 years
Facilities and Other Improvements	10-23 years
Furniture and Equipment	3-15 years
Vehicles	5-7 years
Software	5 years

Current Receivables

Current receivables are specified in the Statement of Net Assets. They include amounts that are reasonably expected to be received in fiscal year 2011.

Non-current Receivables

Non-current receivables are those receivables that are not expected to be collected within one year.

Included in this category are student accounts receivables and loan receivables that are not expected to be received during fiscal year 2011.

Liabilities

Accounts Payable

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

Other Payables

Other Payables are the accrual at year-end of expenditure transactions not included in any of the other payable descriptions.

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the Statement of Net Assets. These obligations are normally paid from the same funding source from which the 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 contingent upon the continued appropriation funding by the Legislature. Liabilities are reported separately in the Statement of Net Assets as either current, for the amounts due within one year, or non-current, for the amounts due thereafter.

Bonds Payable - General Obligation Bonds

The principal of general obligation bonds is reported separately in the Statement of Net Assets as either current, for the amounts due within one year, or non-current, for the amounts due thereafter. Bonds payable are recorded at par. Interest expense is reported on the accrual basis.

Bonds Payable - Revenue Bonds

The principal of revenue bonds is reported in the Statement of Net Assets as either current, for the amounts due within one year, or non-current, for the amounts due thereafter. Bonds payable are recorded at par. Interest expense is reported on the accrual basis. The disaggregation of tuition revenue bonds reported in the revenue bonds amount is shown in Note 5.

Net Assets

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt, 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 Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but these constraints can be removed or modified.

Revenues and Expenses

Operating revenues include activities such as student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; most federal, state and local grants, and contracts; and interest on student loans. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In addition, all changes to incurred but not reported liabilities related to insurance programs are reflected as operating. Nonoperating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, GASB Statement No. 34, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Nonoperating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as nonoperating expenses by GASB Statement Nos. 9, 34, and 42.

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

Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties, and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarships allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Stephen F. Austin State University-755
Notes to the Financial Statements
August 31, 2010

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2010, is presented below:

	Balance 9/1/2009	Adjustments	Completed Construction in Progress	Additions	Deductions	Balance 8/31/2010
Non-Depreciable Assets:						
Land and Land Improvements	\$ 7,083,322	\$	\$	\$ 179,796	\$	\$ 7,263,118
Construction in Progress	37,333,078		(47,950,030)	19,339,897		8,722,945
Other Capital Assets	697,419					697,419
Total Non-Depreciable Assets	\$ 45,113,819	\$ 0	\$ (47,950,030)	\$ 19,519,693	\$ 0	\$ 16,683,482
Depreciable Assets:						
Buildings and Building Improvements	\$ 288,797,356	\$	\$ 45,429,203	\$ 767,813	\$ (4,382,937)	\$ 330,611,435
Infrastructure	10,183,040		738,679			10,921,719
Facilities and Other Improvements	6,586,044		195,850	8,395,964		15,177,858
Furniture and Equipment	19,694,749	(3,937,220)		2,265,226	(1,357,264)	16,665,491
Vehicles, Boats, and Aircraft	4,681,571			184,305	(91,486)	4,774,390
Other Capital Assets	15,444,921			237,437	(49,768)	15,632,590
Total Depreciable Assets at Historical Cost	\$ 345,387,681	\$ (3,937,220)	\$ 46,363,732	\$ 11,850,745	\$ (5,881,455)	\$ 393,783,483
Less Accumulated Depreciation for:						
Buildings and Building Improvements	\$ (149,177,547)	\$	\$	\$ (9,497,094)	\$ 3,713,154	\$ (154,961,487)
Infrastructure	(5,205,110)			(560,040)		(5,765,150)
Facilities and Other Improvements	(3,820,962)			(258,861)		(4,079,823)
Furniture and Equipment	(14,259,393)	3,569,111		(1,214,071)	1,220,017	(10,684,336)
Vehicles, Boats, and Aircraft	(3,457,923)			(289,707)	91,486	(3,656,144)
Other Capital Assets	(13,177,488)			(296,112)	9,570	(13,464,030)
Total Accumulated Depreciation	\$ (189,098,423)	\$ 3,569,111	\$ 0	\$ (12,115,885)	\$ 5,034,227	\$ (192,610,970)
Depreciable Assets, Net	\$ 156,289,258	\$ (368,109)	\$ 46,363,732	\$ (265,140)	\$ (847,228)	\$ 201,172,513
Amortizable Assets - Intangible:						
Computer Software	\$	\$ 3,937,220	\$ 1,586,298	\$ 138,125	\$ (531,415)	\$ 5,130,228
Total Amortizable Assets - Intangible	\$ 0	\$ 3,937,220	\$ 1,586,298	\$ 138,125	\$ (531,415)	\$ 5,130,228
Less Accumulated Amortization for:						
Computer Software	\$	\$ (3,569,111)	\$	\$ (401,632)	\$ 527,481	\$ (3,443,262)
Total Accumulated Amortization	\$ 0	\$ (3,569,111)	\$ 0	\$ (401,632)	\$ 527,481	\$ (3,443,262)
Amortizable Assets, Net	\$ 0	\$ 368,109	\$ 1,586,298	\$ (263,507)	\$ (3,934)	\$ 1,686,966
Capital Assets, Net	\$ 201,403,077	\$ 0	\$ 0	\$ 18,991,046	\$ (851,162)	\$ 219,542,961

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.

Stephen F. Austin State University-755
Notes to the Financial Statements
August 31, 2010

Deposits

As of August 31, 2010, the carrying amount of deposits was \$98,403,260 as presented below:

	Carrying Amount	Bank Balance
	\$ 98,403,260	\$ 97,844,198
Cash on Hand		\$ 770,333
Cash in Bank		84,930,578
Reimbursement Due from Treasury		627,830
Cash in State Treasury		53,130
Cash Equivalents		6,137,251
Total Cash and Cash Equivalents		\$ 92,519,122
Current Assets Cash and Cash Equivalents		\$ 66,737,672
Current Assets Restricted Cash and Cash Equivalents		25,781,450
Noncurrent Assets Restricted Cash and Cash Equivalents		0
Total Cash and Cash Equivalents		\$ 92,519,122

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Stephen F. Austin State University Board Policy C-41, *Investments*, states that all deposits shall be secured by a pledge or collateral with a market value equal to no less than 100% of the deposits less any amount insured by the FDIC or FSLIC and pursuant to Article 2529d, the Public Funds Collateral Act. Although there were no significant violations of legal provisions during the fiscal year, some deposits were uninsured/under-collateralized during three days of June 2010.

Investments

The fair value of the University's investments as of August 31, 2010, is presented below:

U.S. Government	
U.S. Treasury Securities	\$ 12,899,794
U. S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	6,156,445
Corporate Obligations	4,892,442
Corporate Asset and Mortgage Backed Securities	3,290,142
Equity	3,327,184
International Obligations (Govt and Corp)	1,260,994
International Equity	1,069,023
Fixed Income Money Market and Bond Mutual Fund	13,463,743
Other Commingled Funds	12,127
Alternative Investments (including limited partnerships and hedge funds)	1,089,046
Misc (e.g., guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	7,335,430
Total Investments	\$ 54,796,370
	\$
Current Assets – Short-Term Investments	5,084,463
Current Assets – Restricted Short-Term Investments	14,102,907
Noncurrent Assets – Restricted Investments	8,976,523
Noncurrent Assets – Investments	26,632,477
Total Investments	\$ 54,796,370

Stephen F. Austin State University-755
Notes to the Financial Statements
August 31, 2010

Foreign Currency Risk for Investments

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. Stephen F. Austin State University does not have a formal investment policy with regards to foreign currency risk. The exposure to foreign currency risk as of August 31, 2010, was as follows:

<u>Foreign Currency</u>	<u>International Obligation</u>	<u>International Equity</u>
Australian dollar	\$	\$ 26,910
Bermudian dollar		44
Brazilian real		31,610
British pound	354,435	259,243
Canadian dollar		73,985
Cayman Islands dollar		21
Chilean peso		1,050
Chinese yuan		24,870
Colombian peso		272
Czech koruna		397
Danish krone		19,215
Egyptian pound		223
Euro	536,523	261,559
Hong Kong dollar		22,665
Hungarian forint		430
Indian rupee		3,890
Indonesian rupiah		1,420
Japanese yen		151,531
Korean won		6,352
Macanese pataca		72
Malaysian ringgit		1,518
Mexican peso		10,722
New Zealand dollar		1,494
Peruvian nuevo sol		457
Philippine peso		642
Polish zloty		783
Russian ruble		10,159
Singapore dollar		8,513
South African rand		4,357
South Korean won		7,067
Swedish krona		11,452
Swiss franc	370,036	100,699
Taiwan dollar		20,658
Thai baht		952
Turkish lira		3,791
Total	\$ 1,260,994	\$ 1,069,023

Custodial Credit Risk for Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Stephen F. Austin State University Board Policy C-41, *Investments*, limits investments in the following: bankers acceptances must be rated not less than A-1 or P-1 or equivalent by at least one nationally recognized credit rating agency; commercial paper must be rated not less than A-1 or P-1 or equivalent by at least two nationally recognized credit rating agencies or one nationally recognized credit rating agency and fully secured by an irrevocable letter of credit issued by a bank.

As of August 31, 2010, the Standard & Poor's credit quality ratings of the University's investments by type of securities with credit risk exposure was as follows:

Stephen F. Austin State University-755
Notes to the Financial Statements
August 31, 2010

Investment Type	AAA	AA	A	NR
U.S. Government Agency Obligations (Excludes obligations explicitly guaranteed by the U.S. Government)	\$6,156,445			
Corporate Obligations	\$421,376	\$3,473,983	\$997,082	
Corporate Asset and Mortgage Backed Securities	\$619,243	\$2,548,822	\$122,077	
International Obligations		\$724,471	\$536,523	
Alternative Investments				\$1,089,046
	AAAf	AAf	Unrated	
Fixed Income Money Market and Bond Mutual Fund				\$13,463,743

Concentration of Credit Risk for Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2010, the University's concentration of credit risk is immaterial to any single issuer.

Interest Rate Risk for Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Modified duration estimates the sensitivity of the institution's investments to changes in interest rates. Stephen F. Austin State University does not have a formal investment policy with regards to interest rate risk.

Stephen F. Austin State University's investments exposed to interest rate risk as of August 31, 2010, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration</u>
U.S. Treasury	\$12,899,794	1.66
U.S. Agency	6,156,445	0.61
Corporate Bonds	4,892,442	3.11

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. There were no significant violations of legal or contractual provisions during the year.

As of August 31, 2010, 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, securities or letters of credit – and simultaneously agree to return the collateral for cash or the same securities in the future. The University did not participate in securities lending transactions during fiscal year 2010.

Derivative Investing

Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate or index. Derivative securities cover a broad range of financial instruments

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including forward contracts, futures, options, interest rate swaps and collateralized mortgage obligations. The University did not participate in derivative investing transactions during fiscal year 2010.

NOTE 4: Summary of Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2010, the following changes occurred in liabilities:

	Balance 9/1/2009	Additions	Deductions	Balance 8/31/2010	Amounts Due Within One Year
Capital Lease Obligations	\$ 38,805	\$ 0	\$ 16,288	\$ 22,517	\$ 12,947
Employees' Compensable Leave	3,450,337	693,557	276,058	3,867,836	581,394
General Obligation Bonds Payable	10,200,000	0	870,000	9,330,000	900,000
Revenue Bonds Payable	96,575,000	35,035,000	4,165,000	127,445,000	5,640,000
Tuition Revenue Bonds Payable	53,073,444	3,425,265	6,020,000	50,478,709	2,803,709
Liabilities Payable from Restricted Assets*				0	
Total	\$ 163,337,586	\$ 39,153,822	\$ 11,347,346	\$ 191,144,062	\$ 9,938,050

*There are no noncurrent Liabilities Payable from Restricted Assets. The current Liabilities Payable from Restricted Assets is \$6,352,234.

Employees' Compensable Leave

Substantially all full-time University employees earn annual leave in the amount of 8 to 21 hours per month depending upon the respective employee's years of State employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum of 532 hours for those employees with 35 or more years of State service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of State service who terminate their employment are entitled to payment for all accumulated annual leave.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his or her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements because experience indicates that the expense for sick leave will be minimal. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours appointed to work.

NOTE 5: Bonded Indebtedness

General information related to bonds is summarized below:

Board of Regents of Stephen F. Austin State University Revenue Financing System, Texas Public Finance Authority Revenue Bonds - Series 1998

- To provide funds for renovations to Miller Science Building.
- Issued 9-1-98.
- \$6,000,000; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Student Tuition
 - Other Pledged Revenues
- Changes in Debt: Principal paid during fiscal year \$295,000; Outstanding subsequent to Principal Payment \$3,390,000; Refunded by Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds – Series 2010A; Outstanding at year end \$0.

Board of Regents of Stephen F. Austin State University Revenue Financing System, Texas Public Finance Authority Revenue Bonds - Series 2000

- To provide funds for improvements to residence halls and student apartments.
- Issued 3-1-00.
- \$7,000,000; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Student Tuition
 - Other Pledged Revenues
- Changes in Debt: Principal paid during fiscal year \$1,000,000; Outstanding at year end \$0.

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2002

- To provide funds for construction of a facility to replace the Birdwell Building, construction of a new Telecommunications and Networking building, renovations to Power Plant, and renovations to existing structures at the University.
- Issued 7-9-02.
- \$14,070,000; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Student Tuition
 - Other Pledged Revenues
- Changes in Debt: Principal paid during fiscal year \$605,000; Outstanding at year end \$9,910,000.
- Interest Rates: 4.00% to 5.00%
- Maturity Dates: 2002 through 2021
- First Call Date: 10/15/2012

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2002(A)

- To provide funds for renovation of the stadium press box.
- Issued 12-19-02.
- \$1,320,000; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Student Tuition
 - Other Pledged Revenues
- Changes in Debt: Principal paid during fiscal year \$185,000; Outstanding at year end \$190,000.
- Interest Rates: 3.59%
- Maturity Dates: 2003 through 2010

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Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2004

- To provide funds for renovation and expansion, and equipment for, the Student Center.
- Issued 2-18-04.
- \$26,030,000; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Student Tuition
 - Pledged Student Center Fees
 - Other Pledged Revenues
- Changes in Debt: Principal paid during fiscal year \$1,015,000; Outstanding at year end \$21,190,000.
- Interest Rates: 2.00% to 4.375%
- Maturity Dates: 2005 through 2024
- First Call Date: 10/15/2013

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2004(A)

- To provide funds to construct a 400-space parking garage adjacent to the Student Center.
- Issued 8-17-04.
- \$5,460,000; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Student Tuition
 - Pledged Student Center Fees
 - Other Pledged Revenues
- Changes in Debt: Principal paid during fiscal year \$210,000; Outstanding at year end \$4,480,000.
- Interest Rates: 4.00% to 4.625%
- Maturity Dates: 2005 through 2024
- First Call Date: 10/15/2013

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2005

- To provide funds to construct a new student residence hall and associated parking garage; and to pay the costs related to the issuance of the Bonds.
- Issued 6-23-05.
- \$17,215,000; 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 \$655,000; Outstanding at year end \$14,735,000.
- Interest Rates: 4.00% to 5.25%
- Maturity Dates: 2006 through 2025
- First Call Date: 10/15/2015

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2005(A)

- To provide funds to construct a new student residence hall and associated parking garage; to construct a new student recreational center and to pay the costs related to the issuance of the Bonds.
- Issued 11-02-05.
- \$55,365,000; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Recreational Sports Fee
 - Other 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 \$1,100,000; Outstanding at year end \$51,815,000.
- Interest Rates: 3.50% to 5.00%
- Maturity Dates: 2006 through 2025
- First Call Date: 10/15/2015

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2008

- To provide funds to construct a new Early Childhood Research Center which will provide an early childhood laboratory for the College of Education and a charter school campus.
- Issued 03-04-08.
- \$20,175,000; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged revenues consisting of Unrestricted Current Fund 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 \$645,000; Outstanding at year end \$16,340,000.
- Interest Rates: 3.50% to 5.00%
- Maturity Dates: 2008 through 2027
- First Call Date: 10/15/2017

State of Texas Constitutional Appropriation Bonds Stephen F. Austin State University - Series 2008

- To provide a portion of the funds to complete construction and equipment the Early Childhood Research Center and pay certain costs related to the issuance of the Bonds.
- Issued 12-18-08.
- \$10,200,000; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged revenues consisting of Higher Education Funds.
- Changes in Debt: Principal paid during fiscal year \$870,000; Outstanding at year end \$9,330,000.
- Interest Rates: 4.00% to 5.00%
- Maturity Dates: 2009 through 2018

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2009

- To provide funds to construct a new nursing facility expansion and provide campus wide deferred maintenance to multiple buildings.
- Issued 02-04-09.
- \$22,994,575; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged revenues consisting of Unrestricted Current Fund 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: Interest accreted \$10,265; Principal paid during fiscal year \$820,000; Outstanding at year end \$21,078,709.
- Revenue Financing System Bonds issued include a Serial Bond of \$1,715,000, a Capital Appreciation Bond (CAB) of \$209,575, and Current Interest Serial Bonds of \$21,070,000. The CAB matures October 15, 2010, at \$830,000. CAB bond proceeds include \$603,053 of bond premium in addition to the par value of

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\$209,575 for a total issue price of \$812,628. The CAB Bonds have interest accretion of \$17,372, of which \$1,291 has not been accreted as of August 31, 2010.

- Interest Rates: 3.75% to 5.00%
- Maturity Dates: 2009 through 2029
- First Call Date: 10/15/2017

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

- To provide funds to construct a new freshman residence hall and adjacent parking garage.
- Issued 04-01-10.
- \$35,035,000; 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 consist 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 \$0; Outstanding at year end \$35,035,000.
- Interest Rates: 2.00% to 5.00%
- Maturity Dates: 2010 through 2029
- First Call Date: 10/15/2020

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2010A

- To refund outstanding Board of Regents of Stephen F. Austin State University Revenue Financing System, Texas Public Finance Authority Revenue Bonds - Series 1998.
- Issued 04-01-10.
- \$3,415,000; 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 consist 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 \$265,000; Outstanding at year end \$3,150,000.
- Interest Rates: 2.00% to 3.00%
- Maturity Dates: 2010 through 2016

Refunding Bonds

- Current refunding of \$3,390,000 of Board of Regents of Stephen F. Austin State University Revenue Financing System, Texas Public Finance Authority Revenue Bonds - Series 1998 to allow the Board of Regents of Stephen F. Austin State University to restructure its debt service requirements and realize a present value debt service savings.
- Refunded by Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2010A issued 04-01-10.
- After distribution to the escrow agent of \$3,396,444, bond proceeds (par value and premium on sale) of \$53,197 remained to cover issuance costs related to the refunding.
- Current refunding of the bonds reduced Stephen F. Austin State University's debt service payments over ten years by approximately \$528,922.
- Economic gain was \$352,960, the difference between the net present value of the old and new debt service payments.
- Current refunding resulted in the removal of \$3,390,000 of bond liability from the balance sheet and the addition of \$3,415,000 of bond liability, the net of which is an accounting loss of \$25,000.

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The principal and interest expense of these bond issues for the next five years and beyond is projected below:

General Obligation Bonds Payable		
<u>Year</u>	<u>Total Principal</u>	<u>Total Interest</u>
2011	\$ 900,000	405,125
2012	930,000	368,525
2013	960,000	325,925
2014	995,000	277,050
2015	1,030,000	226,425
2016-2020	<u>4,515,000</u>	<u>404,763</u>
Total	\$ <u>9,330,000</u>	\$ <u>2,007,813</u>
 Revenue Bonds Payable		
<u>Year</u>	<u>Total Principal</u>	<u>Total Interest</u>
2011	\$ 5,640,000	5,306,757
2012	5,610,000	5,150,823
2013	5,815,000	4,942,379
2014	6,045,000	4,709,978
2015	6,315,000	4,451,129
2016-2020	35,935,000	17,843,958
2021-2025	44,735,000	9,048,581
2026-2030	<u>17,350,000</u>	<u>1,426,019</u>
Total	\$ <u>127,445,000</u>	\$ <u>52,879,624</u>
 Tuition Revenue Bonds Payable		
<u>Year</u>	<u>Total Principal</u>	<u>Total Interest</u>
2011	\$ *2,805,000	1,939,058
2012	2,580,000	1,865,888
2013	2,670,000	1,780,306
2014	2,745,000	1,691,800
2015	2,840,000	1,599,616
2016-2020	14,380,000	6,364,551
2021-2025	13,060,000	3,440,925
2026-2030	<u>9,400,000</u>	<u>814,331</u>
Total	\$ <u>*50,480,000</u>	\$ <u>19,496,475</u>
 *Includes accreted interest of \$1,291		

The Tuition Revenue Bonds have historically been funded by the Texas Legislature through General Revenue Appropriations. The University expects future legislative appropriations to meet debt service requirements for Tuition Revenue Bonds.

Defeased Bonds

As of August 31, 2010, the par value of defeased bonds outstanding was \$1,846,000. All of these defeased bonds were refunded in 1991.

NOTE 6: 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, have been recorded at the present value of the future minimum lease payments at the inception of the lease. The following is a summary of original capitalized costs of all such property under lease as well as the accumulated depreciation as of August 31, 2010:

	<u>Assets under Capital Lease</u>	<u>Accumulated Depreciation</u>
Furniture and Equipment	\$ 97,365	\$ 49,845
Total	<u>\$ 97,365</u>	<u>\$ 49,845</u>

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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$12,947	\$1,095	\$14,042
2012	4,274	480	4,754
2013	4,555	207	4,762
2014	741	8	749
Total Minimum Lease Payments	\$22,517	\$1,790	\$24,307
Less: Amount Representing Interest at Various Rates			1,790
Present Value of Net Minimum Lease Payments			<u>\$22,517</u>

NOTE 7: Operating Leases

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

<u>Fiscal Year</u>	<u>Total</u>
2011	\$ 280,445
2012	207,779
2013	109,412
2014	66,873
2015	9,415
Total Future Minimum Lease Payments	<u>\$ 673,924</u>

NOTE 8: Interagency Balances/Activity

The University experienced routine transfers with other State agencies, consistent with the activities of the agency making the transfer and as a result of various grants and contract activities. Repayment of interagency balances will normally occur within one year from the date of the financial statements. The grant and contract activities are recognized as pass through revenues or expenses on the financial statements. In accordance with tuition set-aside requirements in the Texas Education Code, Section 56.465, tuition revenues were transferred to the Texas Higher Education Coordinating Board. These are recognized as transfers to other state entities.

Individual balances and activity at August 31, 2010:

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Due From/To Other State Entities			
Entity	Due from Other State Entities	Due to Other State Entities	Purpose
Texas Department of Motor Vehicles	\$ 5,164	\$	State Pass Through
Texas Higher Education Coordinating Board	43,878		Texas B-On-Time
University of Texas at Austin		218	Federal Pass Through
University of Texas at El Paso		120,764	Federal Pass Through
Texas Tech University		377,943	Federal Pass Through
Lamar University		111,738	Federal Pass Through
Midwestern State University		2,218	Federal Pass Through
Texas Higher Education Coordinating Board		165,052	State Pass Through
Texas Higher Education Coordinating Board		53,423	Federal Pass Through
Texas Parks and Wildlife Department		3,278	Federal Pass Through
Adjutant General's Department	2,624,705		Federal Pass Through
Department of Family and Protective Services	57,404		Federal Pass Through
Texas AgriLife Research	61,053		Federal Pass Through
Texas Water Development Board	4,000		State Pass Through
Texas Commission on Environmental Quality	232,628		Federal Pass Through
Texas Commission on Environmental Quality	5,707		Federal Pass Through
Texas Education Agency	68,815		Federal Pass Through
Texas Education Agency	2,327		Federal Pass Through
University of Texas Medical Branch at Galveston	151,517		Federal Pass Through
Texas Tech University Health Sciences Center	27,292		Federal Pass Through
Texas School for the Blind & Visually Impaired	161,501		Federal Pass Through
Texas Higher Education Coordinating Board	88		State Pass Through
Texas Parks and Wildlife Department	13,365		State Pass Through
Texas Parks and Wildlife Department	26,283		Federal Pass Through
Texas Parks and Wildlife Department	48,024		Federal Pass Through
Texas Parks and Wildlife Department	21,114		State Pass Through
Texas Parks and Wildlife Department	4,211		State Pass Through
	<u>\$ 3,559,076</u>	<u>\$ 834,634</u>	

Transfers In From/Out To Other State Entities			
Entity	Transfers In from Other State Entities	Transfers Out to Other State Entities	Purpose
Texas Higher Education Coordinating Board	\$	\$ 1,494	Doctoral Set-Aside
Texas Higher Education Coordinating Board		908,950	Texas B-On-Time
	<u>\$ 0</u>	<u>\$ 910,444</u>	

Legislative Transfers In/Out			
Entity	Legislative Transfers In	Legislative Transfers Out	Purpose
State of Texas	\$ 1,499,875	\$ 1,499,875	Federal ARRA funds used to replace State formula funding
	<u>\$ 1,499,875</u>	<u>\$ 1,499,875</u>	

NOTE 9: Contingent Liabilities

As of August 31, 2010, two lawsuits and some miscellaneous claims were pending. While the ultimate liability with respect to pending claims asserted against the University 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.

NOTE 10: Risk Financing and Related Insurance

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). SORM assesses the University an amount for the insurance coverage in accordance with 28 T.A.C. 251.507. An Interagency Contract in the amount of \$187,277 was executed on behalf of the University for Worker's Compensation Insurance during the year ended August 31, 2010. A mid-year assessment adjustment in the amount of \$62,426 for 2010 was paid in May 2010 and recorded as an increase in current year expenditures.

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% time. The coverage is provided through the State, under the Texas Employees Group Benefits Program (GBP), which is administered by Blue Cross Blue Shield of Texas. Eligible employees may select health, dental, life, 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% for full-time employees and 50% for their dependents; 50% for part-time employees and 25% for their dependents. Employees hired on or after September 1, 2003, have a 90-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 \$6,287,327 for the year ended August 31, 2010.

Damage to Property: The University is required by certain bond covenants to carry fire and extended coverage and boiler 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 2010, there were no damage claims.

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 \$25,000 per injured person, up to a total of \$50,000 for everyone injured in an accident (bodily injury) and \$25,000 for property damage. However, the University has chosen to carry liability insurance on its licensed vehicles in the amount of \$250,000/\$500,000/\$100,000. The University also carries physical damage for vehicles six years and newer. One vehicle, a 56-passenger bus, carries a \$1,000,000 limit per contractual requirements. The annual premium was \$64,364 with a deductible paid of \$6,088.

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.

NOTE 11: Related Parties

The following affiliated entities, while not component units, are disclosed due to their significant relationship with the University. Affiliated entities are controlled by separate boards of directors and are not included in the basic financial statements of the University.

The Stephen F. Austin State University Foundation, Inc. is a non-profit organization operating exclusively to solicit, receive, hold, invest and expend private funds for the sole benefit of the University. The University's Vice President for Development 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. This Board of Trustees is a separate governing body from the University's Board of Regents, acting autonomously and with no overlapping members. The University provides certain personnel, office space, equipment and supplies to assist the Foundation in carrying out its mission and activities.

The SFA Real Estate Foundation, Inc. is a non-profit 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 Development 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 furnishes certain services, such as office space, utilities, and some staff assistance, to the Foundation.

The Stephen F. Austin State University Alumni Association, Inc. is a non-profit 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 Affairs 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 Stephen F. Austin State University Alumni Foundation, Inc. is a non-profit organization which exists to award scholarships to students at the University. The Alumni Foundation is housed within the Alumni Association. Therefore, the University provides the same office space, utilities, staff assistance and custodial services for the Alumni Foundation as it does for the Alumni Association.

The Stephen F. Austin State University Tip-In Club is a non-profit organization which exists for the sole purpose of supporting the Lumberjack Basketball program. It solicits donations and manages and holds gifts for the sole benefit of the intercollegiate men's basketball program. The University's Athletic Director serves as an ex officio, non-voting member of the Club's Board of Directors and reviews and approves activities to ensure compliance with National Collegiate Athletic Association (NCAA) requirements.

The Stephen F. Austin State University Quarterjack Club is a non-profit organization which exists for the sole purpose of supporting the Lumberjack Football program. This organization has been dormant for several years. The University's Athletic Director serves as an ex officio, non-voting member of the Club's Board of Directors and reviews and approves activities to ensure compliance with National Collegiate Athletic Association (NCAA) requirements.

NOTE 12: Stewardship, Compliance, and Accountability

The University administration is unaware of any non-compliance items.

NOTE 13: The Financial Reporting Entity

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

NOTE 14: Employee Retirement Plans

The State of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the University participates is administered by the Teacher Retirement System of Texas (Retirement System). The contributory percentages currently provided by the State and by each participant are 6.644% and 6.4%, respectively, of annual compensation.

The Retirement System does not separately account for each of its component government agencies because the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial valuation as of August 31, 2010, the present value of the Retirement System's actual and projected liabilities, including projected benefits payable to its retirees and active members and their beneficiaries, was more than the actuarial valuation of Retirement System assets. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in the Retirement System's annual financial report.

The State has also established an Optional Retirement Program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries provided by the State and by each participant enrolled in the plan on or before August 31, 1995, are 8.5% and 6.65%, respectively. The 8.5% is composed of 6.4% contributed by the State and an additional 2.1% contributed by the University. For participants who enrolled after September 1, 1995, State and participant contributions are 6.4% and 6.65%, respectively. Because these are individual annuity contracts, the State has no additional or unfunded liability for this program, and the University bears no responsibility for retirement commitments beyond contributions.

The retirement expense to the University was \$2,316,980 for the year ended August 31, 2010. Of this amount, \$1,181,395 represents the portion of appropriations made by the State Legislature expended on behalf of the University and \$1,135,585 represents the portion paid from the University's funds.

NOTE 15: Deferred Compensation Program

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Sec 609.001. Deferred compensation plans are administered by the Employees Retirement System.

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

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

NOTE 16: Donor-Restricted Endowments

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

The University spending policy provides for a target distribution rate of between 4% and 5%. If returns permit, an amount equal to the rate of inflation will be added back to each endowment principal balance. Additionally, if there are any returns beyond the inflation rate, then this amount may be added to a contingency reserve for distribution during years of poor investment performance. In 2010, account managers were given the option to replenish principal balances in order to offset prior year losses rather than make distributions, subject to the endowment agreements. Accordingly, 2.79% of total earnings was distributed to spending accounts and 1.50% was added back to the balance of each individual endowment account. Also, .39% was added to the contingency reserve account.

Stephen F. Austin State University-755
Notes to the Financial Statements
August 31, 2010

For the fiscal year ended August 31, 2010, the net appreciation on investments of donor restricted endowments available for authorization for expenditure, after distributions, is as follows:

Donor-Restricted Endowment	Amounts of Net Appreciation	Reported in Net Assets
True Endowments	\$157,624	Funds Held as Permanent Endowments, Expendable
Term Endowments	1,194	Funds Held as Permanent Endowments, Expendable
Total	\$158,818	Change in Net Assets, Expendable

NOTE 17: Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees, in accordance with State statutes. Substantially all of the employees may become eligible for the health and life insurance benefits if they reach normal retirement age while working for the State. Currently, there are 552 retirees who are eligible for these benefits. Similar benefits for active employees are provided through a self-funded plan and fully insured plans.

Depending upon the status of the employee at the time of retirement, the State recognizes the cost of providing these benefits. The cost of retiree post-employment benefits is recognized when paid. This contribution paid all of the "employee/retiree only" premiums and a portion of the premiums for those employees/retirees selecting dependent coverage. The employee/retiree was required to pay a portion of the cost of dependent coverage. For the fiscal year ended August 31, 2010, the cost of providing those benefits for the retirees was \$2,437,219 for the State and \$367,282 for the University.

NOTE 18: Disaggregation of Receivable and Payable Balances

Accounts Receivables

The components of Current Accounts Receivables, as reported in the Statement of Net Assets, are as follows:

Accounts Receivables Category	Current Amount
3 rd Party Contracts on Student Receivables	\$1,956,241
Private Grants and Contracts Receivables	82,245
Miscellaneous Receivables	390,709
Student Receivables	8,289,688
Total	\$10,718,883

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

Accounts Payables

The components of Current Accounts Payables, as reported in the Statement of Net Assets, are as follows:

Accounts Payables Category	Current Amount
Payables on Construction Activity	\$157,570
Utility Payables	1,797,217
Procurement Card Payables	910,422
Food Service Vendor	208,157
Freshman Camp	80,880
Miscellaneous Payables*	1,280,816
Total	\$4,435,062

*The Miscellaneous Payables category is comprised of numerous fees, services and consumables payable at year end.



February 10, 2011

Dr. Baker Pattillo, President
Stephen F. Austin State University
Box 6078
SFA Station
Nacogdoches, TX 75962

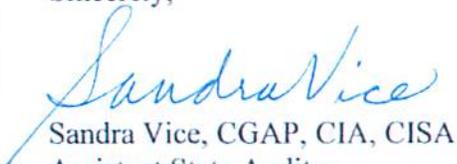
Subject: Management Letter Resulting from a
Review of Stephen F. Austin State
University's Fiscal Year 2010
Financial Statements

Dear Dr. Pattillo:

We offer this management letter in conjunction with our review of the financial statements of Stephen F. Austin State University (University) for the fiscal year ended August 31, 2010. We reviewed the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements. In the course of our review, which was substantially less in scope than an audit, we did not find that material modifications needed to be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

We appreciate the assistance provided during this review by the management of the University and internal audit. If you have any questions, please call me at (512) 936-9500.

Sincerely,


Sandra Vice, CGAP, CIA, CISA
Assistant State Auditor

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The Honorable David Dewhurst, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Steve Ogden, Senate Finance Committee

The Honorable Thomas “Tommy” Williams, Member, Texas Senate

The Honorable Jim Pitts, House Appropriations Committee

The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor



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