Welcome to the 2023 Annual Financial Reporting (AFR) Workshop

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CONTROLLER
TEXAS A&M UNIVERSITY SYSTEM OFFICE
Welcome

• Meeting to discuss prior year AFR, new year requirements, AFR module reminders, upcoming reporting changes
• We are seeing turnover and new employees
• Want to move through topics at a different pace
• Clarify acronyms
Agenda-Day 1

• Current and Future Reporting... **Teresa**
• Panel from the State Comptroller Financial Reporting Team... **Megan Toliver, David Haecker and Lisa Parks**
• Financial Reporting Updates... **Tracy**
• Telling Your Story Through Financial Statements... **Teresa**
• Federal and State Pass-through Confirmations... **Janet Killion**
• Capital Asset Reporting... **Tracy**
• Tuition Discounting Calculation Future Changes... **Cris Sowden and Teresa**
Agenda-Day 2 (half day)

• Welcome Back
• FAMIS Year-End Processes & Update...Melissa Ray
• Local Cash & Investments Overview...Tracy
• System Office Treasury and Panel from Wells Fargo...Julie Perry and Amy Blayney
• USAS 101...Kristina Humphreys and Teresa
• Closing Comments
Poll the Audience

• How many employees is this the first year working on the Annual Financial Report?

• Let’s review the experience in the audience
  o Who has from 1-5 years of experience?
  o Who has over 5 years experience?
  o Over 10 years?
  o Over 20 years?
  o Over 30 years?
Do you have:

Ten years of experience  OR  One year’s experience ten times
### TAMUS Structure

#### TAMUS Board of Regents

<table>
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<tr>
<th>Twelve Institutions</th>
<th>Eight Agencies</th>
<th>Health Institution</th>
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<tr>
<td>TAMU</td>
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<td>HSC</td>
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#### System Office & SSC

- The central management and coordination of TAMUS, issues *Policies and Regulations* for all A&M members
- SSC=shared services center

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Blended Component Unit-Research Foundation
Topics

• Introduce System Office Accounting Team
• 2022 Financial Highlights
• Preparing for 2023 AFR Season
• Preparing for future reporting changes
  o Tuition Discounting
  o GASB 101 Compensated Absences
  o UBIT
  o GASB New Reporting Model
• Questions
2022 AFR

• Excellent AFR Submissions
• Implemented GASB 87-Leases
  o Brought on $208 million in Right-to-Use assets plus Lease Liabilities
  o Brought on $107 million in Accounts Receivable for revenue lease contracts
• Fiduciary Statements improving each year, this is our 4\textsuperscript{th} year
• Appreciate every one’s continued help and goal to issue quality financial statements
Internal Audit Team

- 2024 Audit Plan will be submitted to the Board
- Completed HEERF Audits
- Learning Mgmt. Audits
- Financial Mgmt. Services Audits
  - Data Analytics
  - Problematic Transactions identified
    - Gift card purchases
    - PayPal
    - Venmo
    - Business meals
    - Reconciliations
Audits/Reviews

• SAO Audits
  o Auditing Major Federal Program-TDEM
  o Follow-up on Single Audit at TAMU, TSU & TAMUCC
  o Net Capital Assets...TAMUS numbers will be reviewed

• SACS Review
  o TAMUC in 2023
  o TAMIU and TAMUK coming up in 2024

• Comptroller’s Office Post Payment Audits
  o TAMUSA
  o TAMUG
  o WTAMU
2022 Consolidated AFR-Balance Sheet

- **Recurring Material Impacts**
  - TAMUS Non-General Revenue Other Post Employment Benefit-OPEB liability **increased** $310 million to 2022 reported liability of $2.700 billion from 2021 $2.390 billion
    - Only allowed to use government bond interest rates...less fluctuation with the market
  - Pension liability **decreased** by $367 million from $712 million to $345 million based upon TRS actuary reports with increase in investment returns and change in pension assumptions
    - TRS is using last year’s investment returns which where significantly higher then 2022
  - Bonds payable, notes/loans payable and notes from direct borrowings **decreased** by 1% or $53 million in 2022, totaling $5.12 billion
    - A percentage of the Revenue Finance Debt Service is provided by the state
    - The Permanent University bonds are funded by land grant funding
2022 Consolidated AFR-Net Position

- A&M System’s **net position** totaled $7.71 billion, a $780 million **decrease** from 2021, which was $8.49 billion
  - A **decrease** in Cash and Cash Equivalents of $113 million, plus a **decrease** in Noncurrent Investments of $717 million with an offsetting increase for Deferred Outflows of $114 million.
  - An **increase** in Liabilities and Deferred Inflows of $412 million, OPEB increased by $310 million.
  - An **increase** in Capital Assets, net, of $209 million, $100 million related to GASB 87-Lease implementation.
  - A **decrease** in Interfund Receivables of $56 million, related to PUF debt
2022 Consolidated AFR - Dramatic Decrease Investments
2022 Economic Outlook

• Dramatic Decrease in 2022, $1.8 billion decrease from 2021
  o Investment income was $830 million loss
  o Equity and fixed income markets declined over the past twelve months as investors grew concerned about the slowing global economy and higher inflation
  o The Federal Reserve shifted and significantly increased the federal funds rate
  o In response, market interest rates escalated and borrowing rates have increased

• Commodity prices rose, driven by continued supply issues as well as Russia’s invasion of Ukraine

• COVID-19 fears have diminished due to wide availability of vaccines and anti-viral treatments
2022 Consolidated AFR-Operating Statement

• Pandemic subsides..has impact
  o Federal and State Revenue decreased by $4.6 billion
  o Operating Expenses decreased by $4.2 billion
  o Increase in Auxiliary revenue of $109 million as students returned to campuses

• TDEM...continuing to receive and disburse aid funding
  o Received $3.8 billion Federal/State Revenue
  o Paid $3.7 million in public service expenses
2022 Consolidated AFR-Fiduciary Statements

- Investments were $417 million, which was a decrease of $122 million.
- Ending *Restricted for Other Individuals, Organizations and Other Entities* net position of $498 million which was a decrease of $105 million.
- Contributions from various entities accounted for $38 million.
- Midwestern University became a member of the Texas Tech System and removed their investments, totaling $49.4 million.
NACUBO Function
2022 Operating Expenses (excluding TDEM)
$5.8 Billion

- Instruction: 23%
- Research: 19%
- Public Service: 7%
- Academic Support: 9%
- Student Service: 4%
- Institutional Support: 6%
- Operation & Maintenance: 7%
- Scholarships & Fellowships: 8%
- Auxiliary: 8%
- Depreciation & Amortization: 9%
Onto the 2023 AFR Season

- GASB 94 Public Private and Public-Public Partnerships and Availability Payment Arrangements
- GASB 96-Subscription-Based Information Technology Arrangements
- OneStream AFR Reporting Tool
- NEW: Unrelated Business Income Taxes-IRS rules have changed
FY 2023 GASB 96 Implementation

• Reducing our Professional Fee/Service, Repair and Maintenance and Rental/Lease Expenses
  o Many object codes are used for software subscriptions

• Increasing Amortization expense for the SBITA asset

• Reducing our Net Position in Current Funds for the increase in the liability

• Increasing our Net Position in Plant funds for the increase in RTU Assets

• NonOperating Interest Expense Increases

• LeaseQuery Implemented last year...adding SBITA leases

• Tracy will walk us through these details
Texas A&M System GASB 96 SBITA Lease Implementation - New $500k Threshold

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<th>Mbr.</th>
<th>Mbr. Short</th>
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GASB 94-P3s and APAs

• Analyzed 68 contracts
  o 7 qualifying arrangements with TAMU and PVAMU in the scope of GASB 94 and
  o 9 grounds leases with HSC, PVAMU, SO, and TAMU in the scope of GASB 87
2025 and Beyond
Tuition Discounting Calculation

• The A&M institutions have met on this topic during the Spring semester 2023

• Eliminating the NACUBO alternative method which we all use, there was no weighting of the discounts to place in the correct column
  ○ Tuition and Fee discounts are understated
  ○ Auxiliary discounts are overstated

• Loans and loan refunds are being included, we must remove

• Cris will help us understand this change and share her journey
GASB 101-Compensated Absences Implementation-FY 2025

• Vacation payout liability is around $119 million

• Considerations for calculating liability
  o Sick hours multiplied by salary rate per employee...twice as much as vacation
    ▪ Will add benefit costs
  o Consider how many hours employee can keep annually?
    ▪ Not to calculate how many possible, but what is reasonable to be paid out
  o Three-year average Earned is around $400 million but the usage is around 40% equals $160 million
Unrelated Business Income Tax

• Today...$385,000 estimated payment will be made...the tax team is calculating the 2023 tax liability

• We are a state of Texas higher education agency, we are tax-exempt; and we are NOT taxed on revenue coming from an activity which is substantially related to our purpose (educational, religious, scientific, public service or other)

• But, some activities we undertake are **subject to tax**
  o If a nonprofit conducts an *unrelated trade or business* to generate income, the nonprofit may be subject to the unrelated business income tax (UBIT)
  o It does not matter if the income is used to support the entities’ charitable efforts
GASB New Reporting Model

• The “Big Three” inter-related concepts and standards
  1. Conceptual Framework: Disclosure Framework and Recognition...Done
  2. Financial Reporting Model...In progress
  3. Revenue and Expense Recognition...Redesigning?
Questions
Closing Comments

- AFR season is now
- Questions are welcome

- Introduce the Financial Reporting team at the Comptroller’s Office