

2016 Annual Financial Report



For Fiscal Year Ended August 31, 2016

**Texas Southern University . 3100 Cleburne Avenue . Houston, TX 77004
713-313-7011 . <http://www.tsu.edu/>**



ANNUAL FINANCIAL REPORT

of

TEXAS SOUTHERN UNIVERSITY

(An Agency of State of Texas)

**For the Year Ended
August 31, 2016**

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TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

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INTRODUCTORY SECTION

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TEXAS SOUTHERN UNIVERSITY

3100 CLEBURNE| HOUSTON, TEXAS 77004| 713.313.7044



Dr. Austin A. Lane
President

November 2, 2016

Texas Southern University's Annual Financial Report for Fiscal Year 2016 provides a detailed overview of the University's financial position and operations as of August 31, 2016. As a public institution, Texas Southern University is mandated by law to account fully for the dollars we receive as investments in the educational future of the students who have made our university home to the pursuit of their academic and professional goals.

To this end, Texas Southern University has maintained a transparent financial process, ensuring that there is an open and full accounting for all funds received from the state, federal government, corporations, organizations and individuals. The 2016 Financial Report is one vehicle for providing the taxpayers and elected officials of the State of Texas with such accountability. In fact, we are excited about the opportunity to share the encouraging news about the financial health of Texas Southern University.

For nearly nine decades Texas Southern University has taken great pride in our continued growth and improvement as a graduate-degree granting institution serving the urban center of Houston, and an increasingly diverse student population. In the process, Texas Southern has positioned itself as a destination academic institution for young scholars throughout the United States and around the world. The holistic approach to post-secondary education that the University created leads to a higher on-time graduation rate and graduates who are career-ready in a variety of disciplines, including education, law, civil and electrical engineering, airway science, maritime transportation, pharmacy and other critical STEM curricula.

Yet, Texas Southern continues to seek new ways to increase its impact upon the educational outcomes of those interested in pursuing higher education degrees. With the advent of our Summer of Success program the University experienced overwhelming success this summer providing high school graduates who were close to our admissions requirements with the supports necessary—including a rigorous course load and supportive counseling—to produce an inaugural class of participants, over 90 percent of whom are currently enrolled in the Fall 2016 semester.

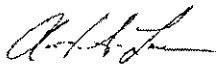
Moreover, the University has created additional pipelines of potential students through timely and common-sense partnerships the University has entered into with Houston Community College, San Jacinto College, and Lone Star College, making for a smoother transition for students from two-year colleges seeking to obtain a four-year degree.

And the University has not merely focused on increasing enrollment opportunities, but retention realities as well through a holistic approach to strengthening our students' freshman experience.

The addition of more academic advisors, the enhanced financial aid offerings thanks in large part to invested donor partners like Pappas Restaurant, Houston Livestock Show and Rodeo, City of Houston, and others, the grand opening of our new \$41.5 million, 800-bed Student Resident Housing complex, allow Texas Southern University to meet our students where they are, and help take them where they seek to go. With construction soon to begin on our Texas Legislature-approved, \$60 million Learning Resource Center and Library, and the additional students who will benefit from efforts to enhance and expand online registration and online class offerings, our future will shine even brighter.

Over the course of the University's existence, Texas Southern has served as a vital educational resource and contributor to the well-being of both local and global communities. We take great pride in our impact as a university, and celebrate our graduates who have left and continue to leave their indelible imprint upon the global stage. And though not all Texas Southern alumni find their way in to the national spotlight like Michael Strahan with his induction into the Pro Football Hall of Fame, or Yolanda Adams and her Grammy Award-winning career, each showcases in their own way and their own fields the Texas Southern brand of excellence. Our graduates are top lawyers, respected pharmacists and doctors, general managers of major enterprises, ambassadors, researchers, corporate executives and stellar music and media personalities. Our current students are being prepared to step into their own greatness with intelligence, strength, verve and grace – contributing their vibrancy to an ever-changing society. The same pride which has guided Texas Southern University to produce such global change agents has been invested in the 2016 Annual Financial Report.

We are certain the Annual Financial Report of Texas Southern University for Fiscal Year 2016 provides an accurate picture of the University's efforts to continue its mission as a top-flight urban-serving university, preparing tomorrow's workforce today. For we are reflecting, representing and producing the future of this nation!



Austin A. Lane
President

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

BOARD OF REGENTS

August 31, 2016

Officers

Honorable Derrick M. Mitchell, Chairman
Honorable Wesley G. Terrell, Vice Chair
Honorable Marilyn A. Rose, 2nd Vice Chair
Honorable Samuel L. Bryant, Secretary

Members

Honorable Samuel L. Bryant, Secretary	Austin
Honorable Gary L. Bledsoe	Austin
Honorable Oliver J. Bell	Houston

Terms Expire February 1, 2017

Honorable Glenn O. Lewis, Immediate Past Chair	Fort Worth
Honorable Sarah D. Monty-Aroni	Houston
Honorable Erik D. Salwen	Houston

Terms Expire February 1, 2019

Honorable Derrick M. Mitchell, Chairman	Houston
Honorable Wesley G. Terrell, Vice Chair	Dallas
Honorable Marilyn A. Rose, 2 nd Vice Chair	Houston

Terms Expire February 1, 2021

Honorable Tramauni E. Brock, Student Regent	Mansfield
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Term Expires May 31, 2017

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TEXAS SOUTHERN UNIVERSITY
(An Agency of the State of Texas)
UNIVERSITY ADMINISTRATION
August 31, 2016

University Administration

Austin A. Lane, Ed.D	President
Wendell Williams	Special Assistant to the President
Heidi Smith	Chief of Staff
Bobby Wilson	Interim Provost/Vice President for Academic Affairs & Research
Charles F. McClelland, Ph.D	Vice President of Intercollegiate Athletics
Eva Pickens	Vice President for University Advancement
Andrew C. Hughey, J.D.	General Counsel
Louis Edwards	Associate Vice President for Treasury and Budget
Christina Ordonez-Campos, CPA	Controller

Fiscal Administration

Christina Ordonez-Campos, CPA	Controller
Louis Edwards	Associate Vice President for Treasury and Budget
Gregory L. Williams	Executive Director of Procurement Services
Lavonda Horn	Director of General Accounting

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents
Texas Southern University

Report on the Financial Statements

We have audited the accompanying financial statements of Texas Southern University, an agency of the State of Texas as of and for the year ended August 31, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Texas Southern University, an Agency of the State of Texas, as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of Texas Southern University, an Agency of the State of Texas, are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of Texas Southern University that is attributable to the transactions of the University. They do not purport to, and do not present fairly the financial position of the State of Texas as of August 31, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 28 and the required pension system information on pages 72 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Texas Southern University's basic financial statements. The Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016 on our consideration of Texas Southern University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering Texas Southern University's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
November 16, 2016

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MANAGEMENT'S DISCUSSION
AND ANALYSIS

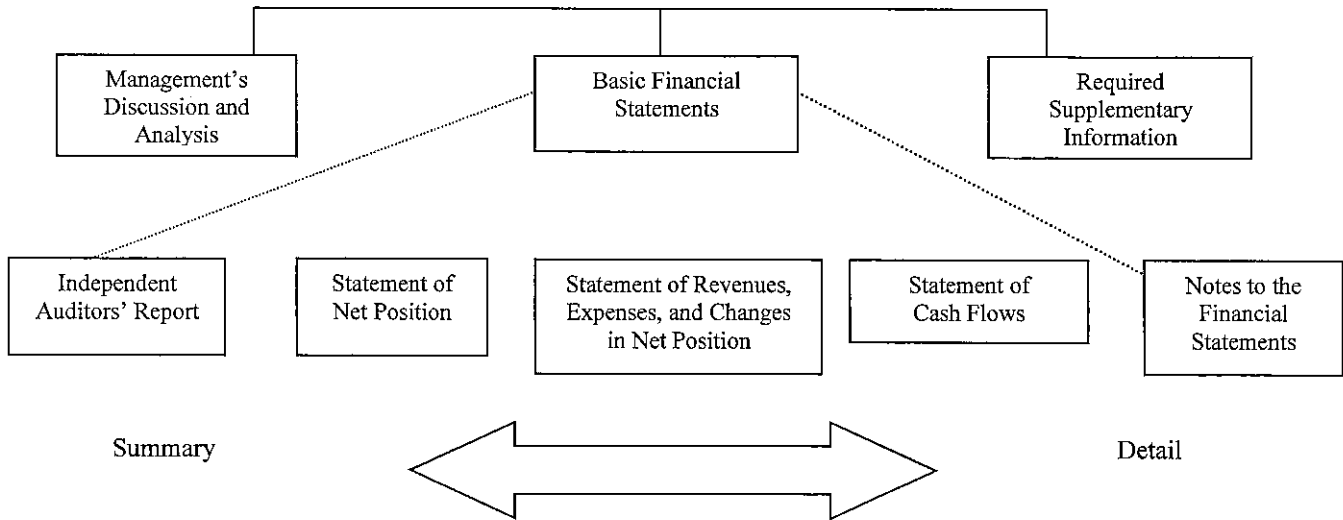
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TEXAS SOUTHERN UNIVERSITY
 (An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
 For the Year Ended August 31, 2016

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the annual financial activities of Texas Southern University (TSU). The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of TSU's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and TSU's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



TSU's basic financial statements include statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statement themselves.

Basic Financial Statements

The basic financial statements report information for TSU as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of TSU as an economic entity. The statement of net position and the statement of revenues, expenses, and changes in net position, which appear first in the financial statements, report information on TSU's activities that enable the reader to understand the financial condition of TSU. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

TEXAS SOUTHERN UNIVERSITY
(An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended August 31, 2016

The statement of net position presents information on all of TSU's assets and deferred outflows of resources that exceed liabilities and deferred inflows of resources. The difference between these categories is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of TSU is improving or deteriorating. Other nonfinancial factors, such as TSU's customer base and the condition of TSU's infrastructure, need to be considered to assess the overall health of TSU.

The statement of revenues, expenses, and changes in net position presents information showing how TSU's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method.

The statement of cash flows presents information about TSU's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The basic financial statements can be found after the MD&A within this report.

FINANCIAL ANALYSIS OF TSU

As noted earlier, net position may serve over time as a useful indicator of TSU's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$143,176,518.73 as of August 31, 2016. The largest portion of TSU's net position (79 percent) reflects its investments in capital assets (e.g., land, buildings and improvements, equipment, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. TSU uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although TSU's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

TEXAS SOUTHERN UNIVERSITY
 (An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended August 31, 2016

Condensed Statement of Net Position

The following table reflects the condensed Statement of Net Position:

CONDENSED STATEMENT OF NET POSITION

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 94,080,789.40	\$ 73,704,490.03
Restricted assets	60,845,189.51	55,290,976.47
Capital assets, net	<u>282,233,239.84</u>	<u>277,657,303.81</u>
Total Assets	<u>437,159,218.75</u>	<u>406,652,770.31</u>
Deferred Outflows of Resources	<u>3,221,750.00</u>	<u>3,395,966.91</u>
Current liabilities	107,722,297.56	97,946,855.50
Noncurrent liabilities	<u>185,590,302.46</u>	<u>175,036,122.11</u>
Total Liabilities	<u>293,312,600.02</u>	<u>272,982,977.61</u>
Deferred Inflows of Resources	<u>3,891,850.00</u>	<u>5,528,188.89</u>
Net investment in capital assets	112,874,585.65	119,797,093.34
Restricted for:		
Debt service	789,986.71	804,348.06
Other	50,696,583.81	46,737,644.30
Unrestricted	<u>(21,184,637.44)</u>	<u>(35,801,514.98)</u>
Total Net Position	<u>\$ 143,176,518.73</u>	<u>\$ 131,537,570.72</u>

Unrestricted net deficit decreased by \$14,616,877.54 from \$(35,801,514.98) to \$(21,184,637.44) at year end. Unrestricted net position represents amounts that can be used to finance day-to-day operations without constraints established by debt covenants and enabling legislation. The majority of the unrestricted deficit can be attributed to the implementation of GASB 68. More detailed information about GASB 68 is presented in Note 1.

TEXAS SOUTHERN UNIVERSITY
 (An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended August 31, 2016

Statement of Revenues, Expenses, and Changes in Net Position

	2016	2015
OPERATING REVENUES		
Tuition and Fees - Pledged	\$ 95,701,977.04	\$ 87,088,726.91
Discount on Tuition and Fees	(29,664,105.78)	(27,428,580.24)
Auxiliary Enterprises -Pledged	12,345,855.56	11,378,960.01
Other Sales of Goods and Services - Pledged	125,009.73	124,333.66
Federal Revenue	17,964,624.96	18,216,151.68
Federal Pass-Through Revenue	1,906,494.35	478,386.63
State Revenue	1,719,747.65	1,601,575.34
State Pass-Through Revenue	7,208,166.27	7,416,454.14
Other Contracts and Grants - Pledged	592,717.60	2,106,260.85
Other Operating Revenue	4,597,848.35	4,838,787.55
Total Operating Revenues	112,498,335.73	105,821,056.53
OPERATING EXPENSES		
Salaries and Wages	88,817,769.55	88,923,731.34
Payroll Related Costs	26,057,792.83	22,152,901.47
Professional Fees and Services	5,466,976.27	6,396,288.22
Travel	3,003,984.97	3,037,665.08
Materials and Supplies	9,164,863.58	8,531,285.11
Communication and Utilities	5,580,975.27	6,412,257.42
Repairs and Maintenance	5,906,883.47	5,289,718.99
Rentals and Leases	1,451,516.44	1,500,653.05
Printing and Reproductions	644,054.42	466,258.87
Bad Debt Expense	2,402,186.02	2,210,030.16
Scholarships	18,922,865.79	18,927,493.88
Other Operating Expenses	12,540,185.49	10,969,116.79
Depreciation and Amortization	17,375,435.65	16,925,511.92
Total Operating Expenses	197,335,489.75	191,742,912.30
Operating (Loss)	\$ (84,837,154.02)	\$ (85,921,855.77)

TEXAS SOUTHERN UNIVERSITY
 (An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended August 31, 2016

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

	<u>2016</u>	<u>2015</u>
NONOPERATING REVENUES (EXPENSES)		
Legislative Revenue	\$ 51,965,959.00	\$ 50,003,682.00
Additional Appropriations	10,963,527.85	10,498,723.11
Gifts	925,605.52	257,494.70
Federal Revenue Nonoperating	21,787,557.71	21,877,302.92
Interest Income	2,867,646.60	2,605,328.31
Investing Activities Expenses	(209,065.37)	(332,267.66)
Interest Expense and Fiscal Charges	(4,913,016.72)	(5,392,783.75)
Net Increase (Decrease) Fair Value	3,681,755.91	(896,446.45)
Other Nonoperating Revenue/Expense	(222,554.83)	(2,104,421.02)
Total Nonoperating Revenues (Expenses)	<u>86,847,415.67</u>	<u>76,516,612.16</u>
(Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	<u>2,010,261.65</u>	<u>(9,405,243.61)</u>
OTHER REVENUES, EXPENSES, AND TRANSFERS		
Capital appropriations (HEAF)	7,773,229.00	8,894,700.00
Contributions to Permanent and Term Endowments	320,488.39	73,449.39
Lapses	(498,746.48)	-
Transfer In	636,549.79	129,123.00
Transfer Out	(426,602.43)	(466,359.66)
Total Other Revenues, Expenses, and Transfers	<u>7,804,918.27</u>	<u>8,630,912.73</u>
Change in Net Position	<u>9,815,179.92</u>	<u>(774,330.88)</u>
Restatement, Note 1 Net Position Allocation GASB 68	-	(20,487,016.14)
Restatement, Note 14	1,823,768.09	
Beginning Net Position, as restated (Note 1)	<u>131,537,570.72</u>	<u>152,798,917.74</u>
Ending Net Position	<u>\$ 143,176,518.73</u>	<u>\$ 131,537,570.72</u>

For the year ended August 31, 2016, total revenue was \$213,420,655.50. This represents an increase in total revenue \$16,260,663.01 or (8 percent). The total net position increased by \$11,638,948.01 (or 9 percent). The primary increase in net position can be attributed to an increase in tuition and fees and a net increase in fair value.

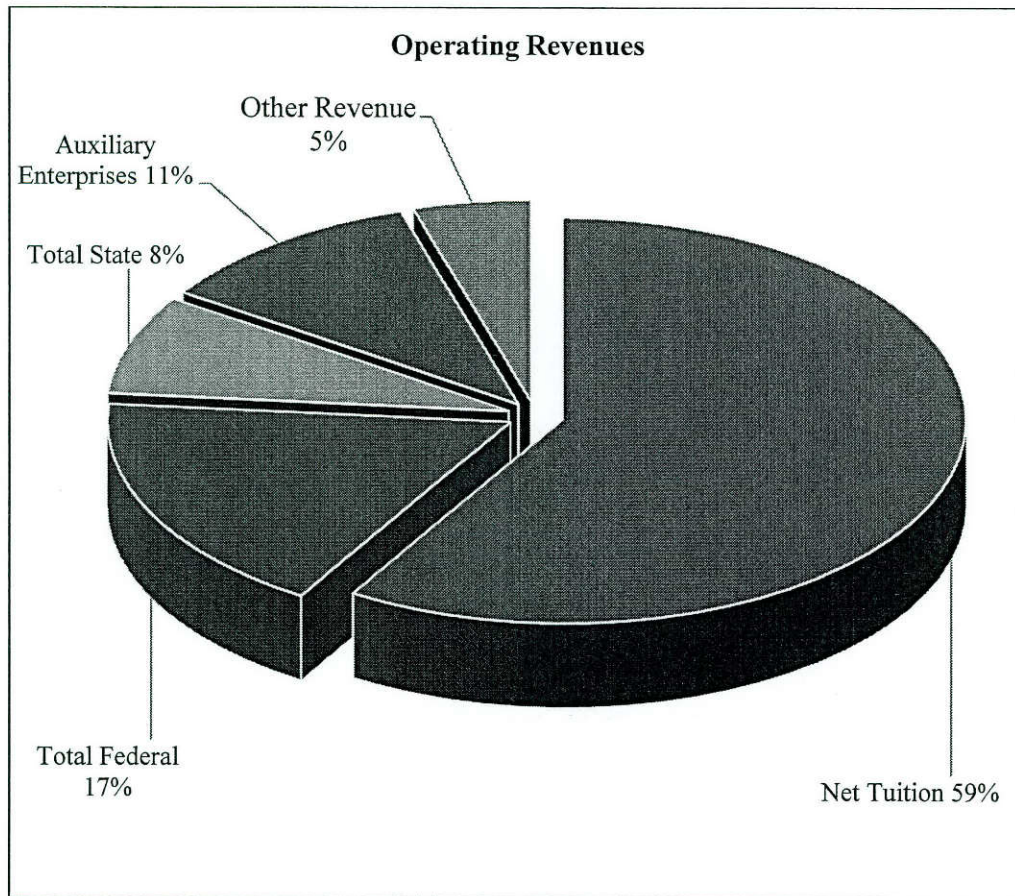
TEXAS SOUTHERN UNIVERSITY
 (An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended August 31, 2016

Expenses totaled \$203,605,475.58 for the year ended August 31, 2016. This represents an increase of \$5,671,152.21 last year. The majority of this increase can be attributed to salary and wages and other operating expenses.

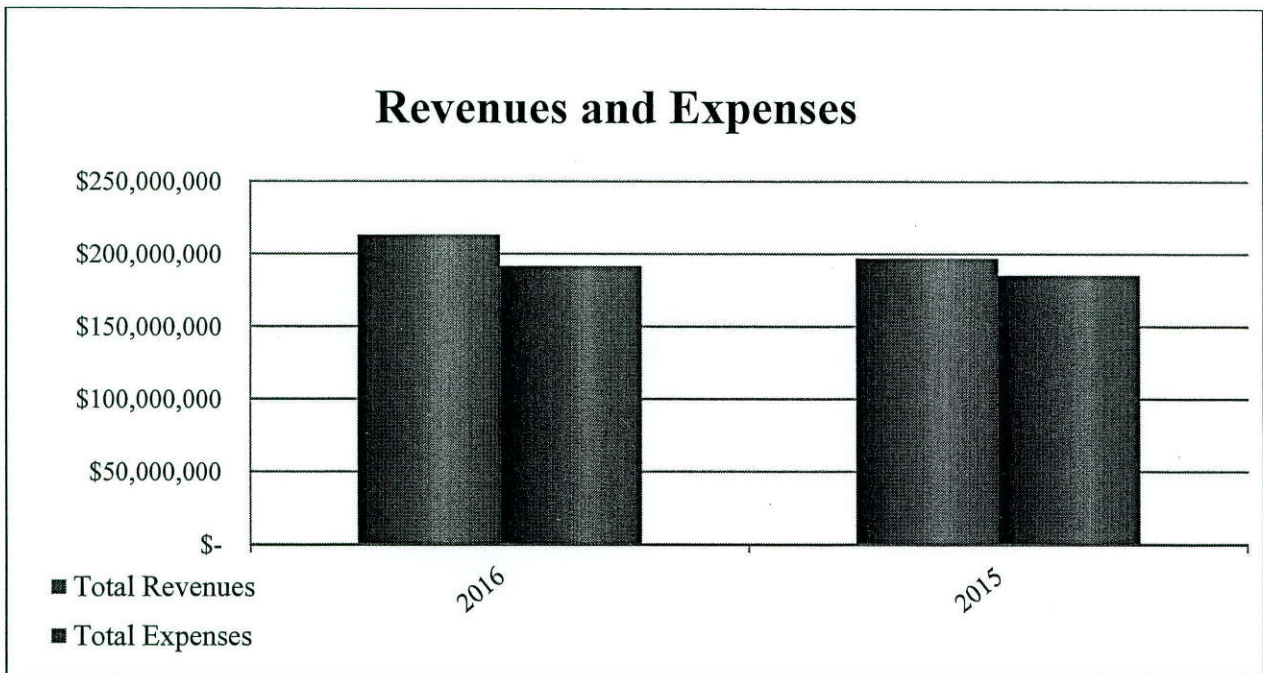
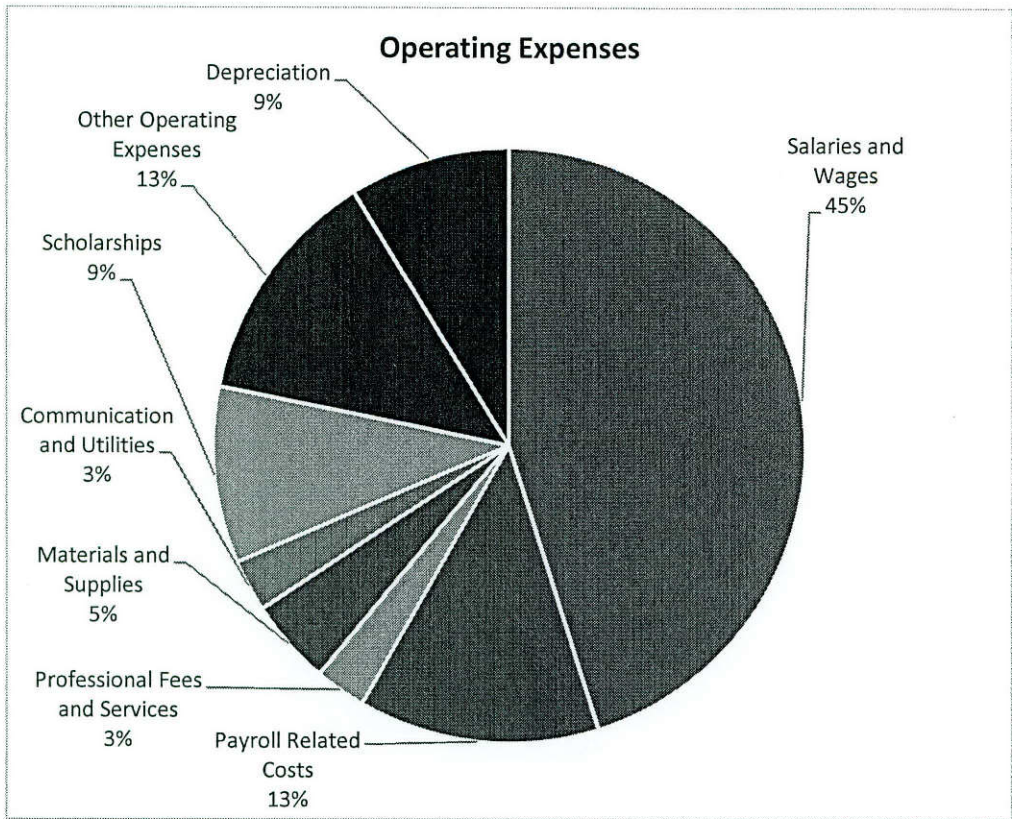
Key elements to these changes are as follows:

- Operating revenues increased by \$6,677,279.20 (6 percent) primarily due to increase in tuition and fees and federal revenue.
- Non-operating revenues increased by \$9,583,383.81 (10 percent) primarily due to the fair market value of investments.
- Operating expenses less depreciation increased by \$5,142,653.72 (3 percent) as a result of an increase in payroll related cost and other operating expenses.
- Non-operating expenses increased by \$78,574.76 (1 percent) due to a decrease in the interest expense and fiscal charges.
- Depreciation expense increased \$449,923.73 due to the new housing dormitory placed into operations in FY16.

Graphic presentations of selected data from the summary tables follow to assist in the analysis of TSU's activities.



TEXAS SOUTHERN UNIVERSITY
 (An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended August 31, 2016



TEXAS SOUTHERN UNIVERSITY
(An Agency of the State of Texas)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended August 31, 2016

CAPITAL ASSETS

At year end, TSU had invested \$282,233,239.84 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$4,575,936.03.

Major capital asset events during the current year include the following:

- Building improvements completed at a cost of \$49,823,617.29 including \$47,382,987.42 transferred from construction in progress upon the completion of an 800 bed Housing Unit.
- Various equipment and other capital assets at a total of \$4,020,583.29.
- Construction of a new library/learning center at a cost of \$60,000,000 was approved by the Board of Regents during FY16.

More detailed information about TSU's capital assets is presented in note 2 to the financial statements.

LONG-TERM DEBT

TSU's revenue bonds carry the rating of "Baa3" with Moody's Investors Service. At year end, TSU had \$68,448,214.66 in revenue bonds outstanding versus \$77,141,437 last year. Also, at year end, TSU had \$106,169,926.61 in capital loan notes payable to the Department of Education. This includes \$24,306,527.39 in advances drawn on \$55 million dollars in financing obtained to build an 800 bed Housing Unit.

More detailed information about TSU's long-term liabilities is presented in note 5 to the financial statements.

ECONOMIC FACTORS

TSU's revenue increased in fiscal year 2016 due to an increase in tuition and fees, and federal revenue.

CONTACTING TSU'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, alumni, citizens, taxpayers, and creditors with a general overview of TSU's finances and to show TSU's accountability for the money it received. If you have questions about this report or need additional financial information, contact the Texas Southern University Business Affairs Department, 3100 Cleburne Street, Houston, Texas 77004.

BASIC FINANCIAL STATEMENTS

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

STATEMENT OF NET POSITION

August 31, 2016

ASSETS	<u>Total</u>
Current Assets	
Cash and Cash Equivalents	
Cash on Hand	\$ 3,980.00
Cash in Bank	19,230,648.88
Cash in State Treasury	5,056,291.93
Restricted:	
Cash in Bank-Restricted	308,176.63
Cash Equivalent	18,165,846.02
Short-Term Investments	2,556,439.64
Legislative Appropriations	10,244,290.92
Receivables:	
Federal	4,603,291.24
Other Intergovernmental	4,514,498.68
Accounts, Net	28,137,056.16
Other	729,955.74
Due From Other Agencies	14,993.19
Consumable Inventories	515,320.37
Total Current Assets	<u><u>94,080,789.40</u></u>
Non-Current Assets	
Restricted:	
Investments	48,614,966.42
Loans and Contracts	521,635.63
Prepaid Cost	11,708,587.46
Total Non-Current Restricted Assets	<u><u>60,845,189.51</u></u>
Capital Assets:	
Land	17,326,799.60
Construction in Progress	96,070.00
Historical Treasures and Works of Art	2,829,312.50
Total Non-Depreciable or Non-Amortizable	<u><u>20,252,182.10</u></u>
Capital Assets Depreciable:	
Buildings and Building Improvements	470,246,848.22
Infrastructure	7,096,483.95
Equipment	32,135,916.22
Library Books	34,122,664.56
Less: Accumulated Depreciation	(281,620,855.21)
Total Depreciable or Amortizable, Net	<u><u>261,981,057.74</u></u>
Total Non-Current Assets	<u><u>343,078,429.35</u></u>
TOTAL ASSETS	<u><u><u>437,159,218.75</u></u></u>
Deferred Outflows	
Deferred Outflows of Resources-Pension	3,221,750.00
Total Deferred Outflows	<u><u>\$ 3,221,750.00</u></u>

See Notes to Financial Statements.

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

STATEMENT OF NET POSITION

August 31, 2016

LIABILITIES	<u>Total</u>
Current Liabilities	
Accounts Payable	\$ 14,936,763.58
Payroll Payable	5,307,298.41
Due to Other Agencies	82,711.73
Interest Payable	1,572,360.15
Escheat Payable	511,203.16
Unearned Revenues	58,996,950.50
Student Refunds Payable	44,640.56
Other Payables	9,695,954.72
Notes and Loans Current Payable	4,661,564.17
Revenue Bonds Current Payable, Net	8,951,797.22
Employees' Compensable Leave	2,961,053.36
Total Current Liabilities	<u>107,722,297.56</u>
Non-Current Liabilities	
Net Pension Liabilities	20,230,538.00
Notes and Loans Payable	101,508,362.44
Revenue Bonds Payable, Net	59,496,417.44
Employees' Compensable Leave	3,551,154.84
Due to Perkins Loan Program	803,829.74
Total Non-Current Liabilities	<u>185,590,302.46</u>
TOTAL LIABILITIES	<u>293,312,600.02</u>
Deferred Inflows	
Deferred Inflows of Resources-Pension	3,891,850.00
Total Deferred Inflows	<u>3,891,850.00</u>
NET POSITION	
Net Investment in Capital Assets	112,874,585.65
Restricted For:	
Debt Retirement	789,986.71
Other Restricted	1,397,611.41
Funds Held as Permanent Investments:	
Endowments	49,298,972.40
Unrestricted	(21,184,637.44)
TOTAL NET POSITION	<u>\$ 143,176,518.73</u>

See Notes to Financial Statements.

TEXAS SOUTHERN UNIVERSITY
(An Agency of the State of Texas)
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
as of August 31, 2016

	2016
OPERATING REVENUES	
Tuition and Fees-Pledged	\$ 95,701,977.04
Discount on Tuition and Fees	(29,664,105.78)
Auxiliary Enterprises-Pledged	12,345,855.56
Other Sales of Goods and Services-Pledged	125,009.73
Federal Revenue	17,964,624.96
Federal Pass-Through Revenue	1,906,494.35
State Revenue	1,719,747.65
State Pass-Through Revenue	7,208,166.27
Other Contracts and Grants-Pledged	592,717.60
Other Operating Revenue	4,597,848.35
Total Operating Revenues	112,498,335.73
OPERATING EXPENSES	
Salaries and Wages	88,817,769.55
Payroll Related Costs	26,057,792.83
Professional Fees and Services	5,466,976.27
Travel	3,003,984.97
Materials and Supplies	9,164,863.58
Communication and Utilities	5,580,975.27
Repairs and Maintenance	5,906,883.47
Rental and Leases	1,451,516.44
Printing and Reproduction	644,054.42
Bad Debt Expense	2,402,186.02
Scholarships	18,922,865.79
Other Operating Expenses	12,540,185.49
Depreciation and Amortization	17,375,435.65
Total Operating Expenses	197,335,489.75
Operating Income (Loss)	\$ (84,837,154.02)

See Notes to Financial Statements.

TEXAS SOUTHERN UNIVERSITY
(An Agency of the State of Texas)
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
as of August 31, 2016

	2016
NON-OPERATING REVENUES (EXPENSES)	
Legislative Revenue	51,965,959.00
Additional Appropriation	10,963,527.85
Gifts	925,605.52
Federal Revenue Nonoperating	21,787,557.71
Interest Income	2,867,646.60
Investing Activities Expenses	(209,065.37)
Interest Expense and Fiscal Charges	(4,913,016.72)
Net Increase (Decrease) Fair Value	3,681,755.91
Other Nonoperating Revenue/Expense	(222,554.83)
Total Non-Operating Revenues(Expenses)	86,847,415.67
 Income (Loss) Before other Revenues, Expenses, Gains/Losses and Transfers	 2,010,261.65
 OTHER REVENUES, EXPENSES, GAINS, AND TRANSFERS	
Capital Appropriations (HEAF)	7,773,229.00
Additions to Permanent and Term Endowments	320,488.39
Lapses	(498,746.48)
Transfer-In	636,549.79
Transfer-Out	(426,602.43)
Total Other Revenues, Expenses, Gain/Losses and Transfers	7,804,918.27
 Change in Net Position	 9,815,179.92
 Beginning Net Position	 131,537,570.72
 Restatement, Note 14	 1,823,768.09
 Ending Net Position	 \$ 143,176,518.73

See Notes to Financial Statements.

TEXAS SOUTHERN UNIVERSITY

(An Agency of the State of Texas)

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2016

	<u>2016</u>
<u>Cash Flows from Operating Activities</u>	
Proceeds from tuition and fees	\$ 63,741,881.65
Proceeds from auxiliary enterprises	12,345,855.56
Proceeds from federal grants and contracts	25,130,579.34
Proceeds from state grants and contracts	8,758,202.33
Proceeds from other revenues	9,948,872.40
Payments to employees for salaries and wages	(86,786,151.53)
Payments for employee related costs	(27,505,531.45)
Payments for other expenses	(63,506,373.25)
Net Cash (Used) by Operating Activities	<u>(57,872,664.95)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Receipts from state appropriations	66,992,254.37
Proceeds from federal grants and contracts	21,787,557.71
Receipts from gifts and endowments	1,246,093.91
Net Cash Provided by Noncapital Financing Activities	<u>90,025,905.99</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(21,951,371.68)
Principal paid on capital debt	(14,723,348.72)
Interest and fiscal agent fees paid	(5,079,979.88)
Loan receipts	24,306,527.39
Net Cash (Used) by Capital and Related Financing Activities	<u>(17,448,172.89)</u>
<u>Cash Flows from Investing Activities</u>	
Purchase/Sale of investments	644,643.13
Payments received on notes receivable	2,250.00
Interest received	2,658,581.23
Net Cash Provided by Investing Activities	<u>3,305,474.36</u>
Net Increase (Decrease) in Cash and Cash Equivalents	18,010,542.51
Beginning cash and cash equivalents	24,714,704.95
Ending Cash and Cash Equivalents	<u>\$ 42,725,247.46</u>
Unrestricted cash and cash equivalents	24,251,224.81
Restricted cash and cash equivalents	18,474,022.65
Ending Cash and Cash Equivalents	<u>\$ 42,725,247.46</u>

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS (Continued)
For the Year Ended August 31, 2016

	2016
Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities	
Operating gain (loss)	\$ (84,837,154.02)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation and amortization	17,375,435.65
 Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable, net	(2,450,316.50)
Due from federal government	5,259,460.03
Other receivables	(139,312.78)
Inventories	(28,181.58)
Prepaid items	(2,524,979.30)
Increase (Decrease) in:	
Accounts payable	107,459.70
Salaries payable	(209,103.61)
Due to state	14,383.36
Escheat payable	50,748.99
Deferred revenue	4,772,609.50
Student refunds payable	(15,384.70)
Other current liabilities	3,973,070.66
Compensated absences	778,599.65
Net Cash (Used) by Operating Activities	\$ (57,872,664.95)

See Notes to Financial Statements.

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(An Agency of the State of Texas)

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Texas Southern University (TSU), reported as a business-type activity in the State of Texas' Comprehensive Annual Financial Report, have been prepared in conformity with generally accepted accounting principles (GAAP) for local governmental units and with State statutes. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

TSU's annual financial report is prepared to satisfy both the requirements of GAAP and the Texas Comptroller of Public Accounts' (the "Comptroller") requirements as specified in the Comptroller's *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*. The Comptroller specifies, among other items, account captions, note organization, and does not allow the rounding of financial statement amounts to whole dollars.

The most significant accounting and reporting policies of TSU are described in the following notes to the financial statements:

A. Reporting Entity

TSU is an agency of the State of Texas (the "State"). No component units have been identified which should be presented within TSU's report.

B. General Background

TSU serves the State by providing education, research, and extension work in the fields of the arts, business, education, law, pharmacy, public affairs, science, and technology. TSU is located within the heart of Houston, Texas. It is home to an increasing diverse population of nearly 10,000 students with more than 80 undergraduate, graduate and professional degree programs.

C. Financial Statement Presentation

In fiscal year 2016, TSU implemented accounting standard GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 addresses accounting and reporting issues related to fair value measurements. The statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

Prior to FY16, TSU implemented the following accounting standards in the financial statements, notes to the financial statements and required supplementary information:

GASB Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*. GASB 68 established accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. The Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended August 31, 2016

GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (“GASB 71”) amended the transition provisions of GASB 68. GASB 71 required that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

GASB Statement No. 65 (“GASB 65”), *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities.

These financial statements include implementation of (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. Requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of TSU’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of TSU’s activities.

Statement No. 34 established standards for external financial reporting for all public colleges and universities, which includes a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws, regulations of other governments or constraints imposed by law through constitutional legislation.
- **Unrestricted** - This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

D. Measurement Focus and Basis of Accounting

For financial reporting purposes, TSU is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, TSU’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

E. Budgets and Budgetary Accounting

The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriation Act). Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position

1. Cash and Cash Equivalents

TSU's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Balance in State Appropriations

This item represents the balance of general revenue funds at August 31, 2016 as calculated in the Texas Comptroller's General Revenue Reconciliation.

3. Current Receivables – Other

Other receivables include year-end accruals. All receivables are shown net of an allowance for uncollectible accounts.

Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, TSU reports all investments at fair value. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position.

4. Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements, including those related to sponsored programs, donors, bond covenants, and loan agreements.

5. Inventories and Prepaid Costs

Inventories are valued at cost, utilizing the first-in and first-out method. The consumption method of accounting is used, meaning these items are expensed when the items are consumed. Certain payments to vendors made in advance of the scheduled due date have been recorded as prepaid costs.

6. Capital Assets

Capital assets are defined by the State as follows:

<u>Class of Asset</u>	<u>Threshold</u>
Land and Land Improvements	Capitalize all
Buildings and Building Improvements	\$100,000
Facilities and Other Improvements	\$100,000
Infrastructure-Depreciable	\$500,000
Infrastructure-Non-Depreciable	Capitalize all
Furniture and Equipment/Vehicles	\$5,000
Library Books (collections)	Capitalize all
Works of Art/Historical Treasures	Capitalize all
Leasehold Improvements	\$100,000

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

Internally Generated Computer Software	\$1,000,000
Other Computer Software	\$100,000
Land Use Rights – Permanent	Capitalize all
Land Use Right – Term	\$100,000
Other Intangible Capital Assets	\$100,000
Construction in Progress	Capitalize all

These assets are capitalized at cost. Donated capital assets, donated works of art, historical treasures and similar items acquired subsequent to fiscal year 2015, are recorded at acquisition value (marketplace value). Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is reported on all exhaustible assets. Inexhaustible assets such as works of art and historical treasures are not depreciated. Assets are depreciated or amortized over the estimated useful life of the asset using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	15 to 50 years
Machinery and equipment	3 to 10 years
Infrastructure	30 to 50 years
Computer software	5 to 6 years
Land use rights	10 years
Capital leases	5 years

8. 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.

9. Compensated Absences

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 noncurrent in the statement of net position. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid.

10. Bonds Payable – General Obligation Bonds

General obligation bonds are reported as short-term liabilities (current for amounts due within one year) and long-term liabilities (noncurrent for amounts due thereafter) in the statement of net position. The bonds are reported at par, net of unamortized premiums, discounts and gains (losses) on bond refunding activities, if applicable.

11. Bonds Payable – Revenue Bonds

Revenue bonds are reported as short-term liabilities (current for amounts due within one year) and long-term liabilities (noncurrent for amounts due thereafter) in the statement of net position. The bonds are reported at par, net of unamortized premiums, discounts and gains (losses) on bond refunding activities, if applicable.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended August 31, 2016

12. Net Position, Deferred Outflows/Inflows of Resources

Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Deferred outflows of resources represents a consumption of net assets by an entity that is applicable to a future reporting period. Deferred inflows of resources represents an acquisition of net assets by an entity that is applicable to a future reporting period. Deferred outflows of resources for pension – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the proportional share of pension liabilities. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

G. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Operating versus Non-operating Revenues

TSU categorizes revenues as operating versus non-operating following the Comptroller's guidelines. Generally, all revenues are considered operating revenue unless they are non-exchange transactions, such as State appropriations, gifts, or investment related earnings.

I. Restricted versus Unrestricted Resources

Expenses incurred by TSU for items that could be applied to restricted or unrestricted sources are first applied to unrestricted sources, unless such items were specifically budgeted for use from a restricted source.

J. Economic Dependency

TSU relies extensively on State appropriations as well as resources from grantor agencies to support its operations.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

NOTE 2: CAPITAL ASSETS

During fiscal year 2016, TSU collected \$ 221,998.68 in insurance recoveries that are reported in the financial statements as settlements and claims. In addition, donated land in the amount of \$78,000.00 is reported in the financial statements at acquisition value. A summary of changes in capital assets for the year ended August 31, 2016 is as follows:

	Balance 9/1/2015	Reclassify Completed CIP	Additions	Deletions	Balance 8/31/2016
Non-depreciable or Non-amortizable Assets					
Land and Land Improvements	\$ 17,248,799.60	\$ -	\$ 78,000.00	\$ -	\$ 17,326,799.60
Construction in Progress	33,851,846.19	(48,122,780.82)	14,367,004.63	-	96,070.00
Other Tangible Capital Assets	2,829,312.50	-	-	-	2,829,312.50
Total Non-depreciable/amortizable	53,929,958.29	(48,122,780.82)	14,445,004.63	-	20,252,182.10
Depreciable Assets					
Buildings and Building Improvements	403,774,337.39	47,382,987.42	2,440,629.77	-	453,597,954.58
Infrastructure	6,528,360.95	-	568,123.00	-	7,096,483.95
Facilities and Other Improvements	15,532,675.25	739,793.40	376,424.99	-	16,648,893.64
Furniture and Equipment	27,363,037.37	-	1,622,784.85	(16,822.00)	28,969,000.22
Vehicle, Boats and Aircraft	2,586,405.62	-	100,606.00	-	2,687,011.62
Other Capital Assets	32,099,631.44	-	2,397,798.44	(374,765.32)	34,122,664.56
Total Depreciable Assets	487,884,448.02	48,122,780.82	7,506,367.05	(391,587.32)	543,122,008.57
Less Accumulated Depreciation for:					
Buildings and Building Improvements	(214,766,627.90)	-	(12,216,461.57)	-	(226,983,089.47)
Infrastructure	(2,414,734.27)	-	(312,192.02)	-	(2,726,926.29)
Facilities and Other Improvements	(11,496,286.07)	-	(290,784.27)	-	(11,787,070.34)
Furniture and Equipment	(18,204,193.52)	-	(2,464,728.58)	16,822.00	(20,652,100.10)
Vehicle, Boats, and Aircraft	(1,547,802.75)	-	(198,916.62)	-	(1,746,719.37)
Other Capital Assets	(15,727,457.99)	-	(1,892,352.59)	374,765.32	(17,245,045.26)
Total Accumulated Depreciation	(264,157,102.50)	-	(17,375,435.65)	391,587.32	(281,140,950.83)
Depreciable Assets, Net	223,727,345.52	48,122,780.82	(9,869,068.60)	-	261,981,057.74
Intangible Capital Assets- Amortizable					
Computer Software - Intangible	479,904.38	-	-	-	479,904.38
Total Intangible Capital Assets	479,904.38	-	-	-	479,904.38
Less Accumulated Amortization for:					
Computer Software - Intangible	(479,904.38)	-	-	-	(479,904.38)
Total Accumulated Amortization	(479,904.38)	-	-	-	(479,904.38)
Intangible Capital Assets	-	-	-	-	-
Activities Capital Assets - Net.	\$ 277,657,303.81	\$ -	\$ 4,575,936.03	\$ -	\$ 282,233,239.84

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

Construction commitments outstanding at year end were as follows:

<u>Bldg No.</u>	<u>Project Description/ Project Manager</u>	<u>Overall Project Budget</u>	<u>Total Spent To Date</u>	<u>Remaining Balance</u>
201	Library\Learning Center	<u>\$ 60,000,000.00</u>	<u>\$ 96,070.00</u>	<u>\$ 59,903,930.00</u>

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NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended August 31, 2016

NOTE 3: DEPOSITS AND INVESTMENTS

A. Cash in Bank-Carrying Amount

As of August 31, 2016, the carrying amount of cash is:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, TSU 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 bank balances that were exposed to custodial credit risks are as follows:

<u>Carrying Amount-Cash in Bank</u>	<u>Amount</u>
Cash in Bank- Carrying Amount	\$ 19,230,648.88
Less: Nonnegotiable CD's included in Carrying Amount	-
Less: Uninvested Collateral Included in Carrying Amount	-
Total Cash In Bank	\$ 19,230,648.88
Current Assets Restricted Cash in Bank	308,176.63
Cash in Bank Per AFR	<u>\$ 19,538,825.51</u>

Fund Type	Uninsured and uncollateralized	Uninsured and collateralized with securities held by the pledging financial institution	Uninsured and collateralized with securities held by the pledging financial institution's trust department but not in the state's name
5	\$0.00	\$19,038,825.51	\$0.00

B. Investments

TSU has adopted written investment policies regarding the investment of its endowment and non-endowed funds. All investments shall be made in accordance with applicable laws, the investment policies, and resolutions of the Board of Regents. In summary, TSU is authorized to invest in the following:

- Direct obligations of the U.S. Government or its agencies and instrumentalities
- Obligations of this State, or its agencies or its instrumentalities
- Fully collateralized certificates of deposit
- Fully collateralized repurchase agreements or reverse repurchase agreements
- Bankers' acceptance notes
- Commercial paper
- Mutual funds
- Investment pools
- Cash management and fixed income funds exempt from federal income taxation
- Negotiable certificates of deposit
- Corporate bonds rated in one of the two highest categories
- Common or convertible preferred stock
- Foreign government bonds
- Foreign corporate bonds

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

As of August 31, 2016, TSU had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Government Agency Obligations	\$ 4,470,887.43
U.S. Treasury Securities	4,605,987.98
Equity	28,921,679.89
Corporate Obligations	5,364,267.67
International Equity	4,335,715.68
Fixed Income Money Market Funds	<u>21,638,713.43</u>
Total Fair Value	<u>\$ 69,337,252.08</u>

Credit risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. TSU's investment policy limits investments in obligations of states, agencies, counties, cities, and other political subdivisions of any investments rated greater than A or its equivalent. Corporate bonds, debentures, or similar debt instruments must be rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradation within those categories. The following table presents each applicable investment type grouped by rating as of August 31, 2016:

Investment Ratings

<u>Investment Type</u>	<u>AAA</u>	<u>AA</u>	<u>AA+</u>	<u>AA-</u>	<u>A</u>
U.S. Treasury Securities	\$ 4,605,987.98	\$ -	\$ -	\$ -	\$ -
Corporate Obligations	\$ 1,030,503.56	\$ 349,371.20	\$ 256,316.61	\$ 344,810.40	\$ 562,468.06

Investment Ratings

<u>Investment Type</u>	<u>A+</u>	<u>A-</u>	<u>BBB</u>	<u>BBB+</u>	<u>BBB-</u>
Corporate Obligations	\$ 388,331.67	\$ 949,410.74	\$ 316,233.12	\$ 920,753.23	\$ 246,069.08

Unrated

<u>Investment Type</u>	
U.S. Government Agency Obligations	\$ 4,470,887.43
Equity	\$ 28,921,679.89
International Equity	\$ 4,335,715.68
Fixed Income Money Market Funds	\$ 21,638,713.43

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NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended August 31, 2016

Concentration of credit risk – investments. TSU’s investment policy contains diversification as an investment risk but does not contain any limitation on a dollar amount that may be invested in a specific maturity, issuer, or class of investment for its non-endowment funds and endowment funds.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, TSU will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. TSU’s investment policy requires safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in TSU’s safekeeping account prior to the release of funds. The investments of \$69,337,252.08 are subject to Uninsured and Unregistered Fair Value, Securities Held by Counterparty Credit Risk.

Interest rate risk-investments. For an investment, this is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following table demonstrates TSU’s interest rate risk.

Investment Type	Fair Value	Less				
		Stocks	Than 1	1 to 5	6 to 10	More than 10
Agency Discount Securities	\$ 1,748,265.53	\$ -	\$ 1,748,265.53	\$ -	\$ -	\$ -
Agencies	2,722,621.90	-	-	-	-	2,722,621.90
Treasuries	4,605,987.98	-	-	2,307,460.65	1,249,460.98	1,049,066.35
Common Stock	28,921,679.89	28,921,679.89	-	-	-	-
Corporate Obligations	5,364,267.67	-	5,122.37	983,456.82	1,891,931.62	2,483,756.86
International Equity	4,335,715.68	4,335,715.68	-	-	-	-
Money Market Funds	21,638,713.43	-	21,638,713.43	-	-	-
Total	\$ 69,337,252.08	\$ 33,257,395.57	\$ 23,392,101.33	\$ 3,290,917.47	\$ 3,141,392.60	\$ 6,255,445.11

Fair value measurement – investments. GASB 72 addresses accounting and reporting issues related to fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at measurement date. GASB 72 establishes a Fair Value Hierarchy that includes three levels of input based on reliability and objectivity of the information:

Level 1 — inputs are quoted prices (unadjusted) in active markets for assets or liabilities identical to the ones being measured. Level 1 inputs receive the highest priority.

Level 2 — inputs are observable for similar assets or liabilities, either directly (quoted market prices for similar assets or liabilities) or indirectly (corroborated from observable market information).

Level 3 — inputs are unobservable (for example: management’s assumption of the default rate among underlying mortgages of a mortgage-backed security). Level 3 inputs receive the lowest priority.

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For the Year Ended August 31, 2016

Fair Value Hierarchy for TSU's investments as of August 31, 2016 is as follows:

Investments	Fair Value Hierarchy				Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value	
U. S. Government					
US Government Agency Obligations	\$ -	\$ 4,470,887.43	\$ -	\$ -	\$ 4,470,887.43
US Treasury Securities	4,605,987.98	-	-	-	4,605,987.98
Equity	28,921,679.89	-	-	-	28,921,679.89
Corporate Obligations	-	5,364,267.67	-	-	5,364,267.67
International Equity	-	4,335,715.68	-	-	4,335,715.68
Fixed Income Money Market Funds	21,638,713.43	-	-	-	21,638,713.43
Total Investments	<u>\$ 55,166,381.30</u>	<u>\$ 14,170,870.78</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,337,252.08</u>

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

NOTE 5: SUMMARY OF LONG-TERM LIABILITIES

During the year ended August 31, 2016, the following changes occurred in the long-term liabilities:

<u>Long-Term Liabilities</u>	<u>Balance 9/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 8/31/2016</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
Revenue Bonds Payable:						
Series 2011	\$ 25,300,000.00	\$ -	\$ 1,110,000.00	\$ 24,190,000.00	\$ 1,165,000.00	\$ 23,025,000.00
Series 2013	47,930,000.00	-	7,160,000.00	40,770,000.00	7,080,000.00	33,690,000.00
Premiums & discounts	3,911,437.48	-	423,222.82	3,488,214.66	706,797.22	2,781,417.44
Total revenue bonds	<u>77,141,437.48</u>	<u>-</u>	<u>8,693,222.82</u>	<u>68,448,214.66</u> *	<u>8,951,797.22</u>	<u>59,496,417.44</u>
Notes Payable:						
HBCU Loan 2011-4	56,691,386.71	-	2,246,104.13	54,445,282.58	2,309,686.53	52,135,596.05
HBCU Loan 2012-10	29,282,099.04	24,306,527.39	1,863,982.40	51,724,644.03	2,351,877.64	49,372,766.39
Total notes payable	<u>85,973,485.75</u>	<u>24,306,527.39</u>	<u>4,110,086.53</u>	<u>106,169,926.61</u>	<u>4,661,564.17</u>	<u>101,508,362.44</u>
Other Liabilities:						
Compensated Absences	5,733,608.55	820,663.29	42,063.64	6,512,208.20	2,961,053.36	3,551,154.84
Total other liabilities	<u>5,733,608.55</u>	<u>820,663.29</u>	<u>42,063.64</u>	<u>6,512,208.20</u>	<u>2,961,053.36</u>	<u>3,551,154.84</u>
Total	<u>\$ 168,848,531.78</u>	<u>\$ 25,127,190.68</u>	<u>\$ 12,845,372.99</u>	<u>\$ 181,130,349.47</u>	<u>\$ 16,574,414.75</u>	<u>\$ 164,555,934.72</u>
Long-term Debt Due in More Than One Year				<u>\$ 164,555,934.72</u>		
*Debt associated with capital assets				<u>\$ 174,618,141.27</u>		

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending August 31,	Revenue Bonds	
	Principal	Interest
2017	\$ 8,245,000.00	\$ 3,334,337.50
2018	7,845,000.00	2,927,887.50
2019	6,695,000.00	2,559,987.50
2020	7,040,000.00	2,214,987.50
2021	7,405,000.00	1,850,618.76
2022-2026	18,615,000.00	5,227,456.28
2027-2030	9,115,000.00	1,588,275.00
Total	\$ 64,960,000.00	\$ 19,703,550.04

Interest expense incurred on revenue bonds for the year ended August 31, 2016 totaled \$3,599,734.83.

A. Notes and Loans Payable

1. Student Housing-University Towers

On September 27, 2012, pursuant to the Board resolution made on July 6, 2012, TSU secured financing to construct new student housing, consisting of 800 beds, to be located on the eastside of the campus at Wheeler and Sampson streets. The financing of this project is through the U.S. Department of Education's Historically Black Colleges and Universities loan program initiative. The amount of the loan is not to exceed \$55,000,000.00. As of August 31, 2016, the total amount of proceeds advanced under this loan is \$53,588,626.43. Pursuant to the terms of the loan agreement, the last day to advance funds was March 1, 2016. The building was placed into service during August 2016. Interest expense was capitalized through July 31, 2016. The interest rate will be fixed for each advance equal to U.S. Treasury yields prevailing at the dates at each advance plus 22.5 basis points (.225%). Scheduled payment dates are May 1st and November 1st of each year. The first principal payment date is November 2, 2016 and the maturity date is May 1, 2034. The debt service is secured by Housing rental revenues.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

Estimated loan debt requirements are as follows:

Year Ending August 31,	Principal	Interest	Total Estimated Annual Amounts
2017	2,351,877.64	1,169,106.38	3,520,984.02
2018	2,408,530.31	1,112,453.71	3,520,984.02
2019	2,463,624.45	1,057,359.57	3,520,984.02
2020	2,517,293.25	1,003,690.77	3,520,984.02
22021	2,572,414.63	948,569.39	3,520,984.02
2022-2026	13,803,563.39	3,801,356.71	17,604,920.10
2027-2031	15,455,819.61	2,149,100.79	17,604,920.40
2033-2035	10,151,520.75	411,430.72	10,562,951.47
	<u>\$ 51,724,644.03</u>	<u>\$ 11,653,068.04</u>	<u>\$ 63,377,712.07</u>

Interest incurred for the year ended August 31, 2016 totaled \$1,093,614.52 which is comprised of \$97,050.77 in interest expense and \$996,563.75 in capitalized interest.

2. Parking Garage

On September 26, 2011, pursuant to the Board resolution made in June 2011, TSU acquired the East and West parking garages from the Central Houston Parking, L.L.C. The acquisition was financed through U.S Department of Education's Historical Black Colleges and Universities loan program initiative. The loan amount was \$64,180,000.00. Existing debt service funds and reserves held by the trustees in Bank of New York Trust Company, NA., were also applied in the satisfaction of the purchase agreement and terms. Consequently, Central Houston Parking has since relinquished all beneficial interests, rights and title of the properties. The cost of the purchase was \$33,307,026.59. The debt service is secured by parking revenues.

3. Student Housing - Tierwester Oaks and Richfield Manor Apartments

On September 26, 2011, pursuant to the Board resolution made in June 2011, TSU acquired the Tierwester Oaks and Richfield Manor Apartments from the Houston Student Housing II, L.L.C. The acquisition was financed through U.S Department of Education's Historical Black Colleges and Universities loan program initiative. The loan amount was \$64,180,000.00. Existing debt service funds and reserves held by the trustees in Bank of New York Trust Company, NA., were also applied in the satisfaction of the purchase agreement and terms. Consequently, Houston Student Housing II has since relinquished all beneficial interests, rights and title of the properties. The cost of the purchase was \$21,442,969.78. The debt service is be secured by housing rental revenues.

4. Student Housing – The University Courtyard Apartments

On September 26, 2011, pursuant to the Board resolution made in June 2011, TSU acquired the University Courtyard apartments from the Houston Student Housing, L.L.C. The acquisition was financed through U.S Department of Education's Historical Black Colleges and Universities loan program initiative. The loan amount was \$64,180,000.00.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

Existing debt service funds and reserves held by the Trustees in Bank of New York Trust Company, NA., were also applied in the satisfaction of the purchase agreement and terms. Consequently, Houston Student Housing has since relinquished all beneficial interests, rights and title of the properties. The cost of the purchase was \$9,817,505.80. The debt service is secured by Housing rental revenues.

Estimated loan debt requirements are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Estimated Annual amount</u>
2017	2,309,686.53	1,256,171.43	3,565,857.96
2018	2,360,474.69	1,205,383.27	3,565,857.96
2019	2,415,985.14	1,149,872.82	3,565,857.96
2020	2,469,845.88	1,096,012.08	3,565,857.96
2021	2,525,179.55	1,040,678.41	3,565,857.96
2022-2026	13,578,247.95	4,251,041.85	17,829,289.80
2027-2031	15,246,379.01	2,582,910.79	17,829,289.80
2032-2035	13,539,483.83	723,947.76	14,263,431.59
	<u>\$ 54,445,282.58</u>	<u>\$ 13,306,018.41</u>	<u>\$ 67,751,300.99</u>

Interest expense incurred for the year ended August 31, 2016 totaled \$1,197,825.57.

B. Compensated Absences

A State employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. An expense and liability are recorded as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. This obligation is usually paid from the same funding source from which the employee's salary or wage compensation was paid.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

NOTE 6: BONDED INDEBTEDNESS

Revenue Bonds, Series 2011

Purpose	To construct the new Leonard Spearman Technology Building
Amount of Issue	\$31,500,000; all authorized have been issued
Issue Date	11-01-2010
Type of Bond	Revenue Bond – Self Supporting
Reporting	Business-type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

Revenue Bonds, Series 2013

Purpose	On August 28, 2013 TSU defeased \$64,485,000 of outstanding revenue bonds. The transaction refunded bonds 1998A-1, 1998A-2, 1998B, 2002 and 2003 series.
Amount of Issue	\$62,355,000; all authorized have been issued
Issue Date	08-28-2013
Type of Bond	Revenue Bond – Self Supporting
Reporting	Business-type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

Revenue Bonds, Series 2016

Purpose	On 06/23/2016, the TSU Board of Regents authorized the issuance of revenue financing system bonds for the purpose of constructing a library/learning center.
Amount of Issue	\$55,490,000 authorized- none issued
Issue Date	09-15-2016
Type of Bond	Revenue Bond – Self Supporting
Reporting	Business-type Activities
Source of Revenue	Pledged Revenues
Change in Debt	None

NOTE 8: LEASES

Operating Leases

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

<u>Fund Type</u>	<u>Amount</u>
Proprietary Fund	<u>\$ 785,715.53</u>

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

<u>Year Ending August 31,</u>	<u>Minimum Lease Payments</u>
2017	594,015.28
2018	567,700.98
2019	123,802.08
2020	-
2021	-
Total	<u><u>\$ 1,285,518.34</u></u>

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NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended August 31, 2016

Capital Leases

TSU entered into an agreement with TPFA to purchase capital equipment for \$420,226.00 in fiscal year 2016.

Agencies that enter into a contractual agreement with Texas Public Finance Authority (TPFA) to finance capital projects are required to record the asset acquired and the related depreciation. TPFA records the related liability and interest. The decision to record the asset and related liability separately, in two different agencies, is based on the fact the CAFR combines all agencies and thus matches the assets and related liabilities on the statewide basis. Each agency must enter the annual capital outlay transfer in/out in USAS.

NOTE 9: EMPLOYEE RETIREMENT PLANS

A. Teacher Retirement System (TRS)

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which TSU participates is a cost-sharing, multi-employer, public employee retirement system administered by the Teacher Retirement System of Texas ("TRS"). TRS is primarily funded through State and employee contributions. Depending upon the source of funding for a participant's salary, TSU may be required to make contributions in lieu of the State.

All TSU personnel employed in a position on a half time or greater basis for at four and a half months or more are eligible for membership in TRS. Members with at least five years of service at age 65 or any combination of age plus years of service which equals 80, have a vested right to retirement benefits. Additionally, reduced benefits are available at age 55 with at least five years of service or at any age below 50 with 30 years of service. Members are fully vested after five years of service and are entitled to any benefits for which the eligibility requirements have been met.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.7 percent of gross earnings. Depending upon the source of funding for the employee's compensation, the State or TSU contributes a percentage of participant salaries totaling 6.8 percent of annual compensation. TSU's contributions to TRS for the year ended August 31, 2016 were \$1,174,302, which equaled the amount of the required contributions for the year.

Each of TRS's component government agencies accounts for its share of the pension fund based on its proportionate share of the State of Texas TRS Pension Fund. Disclosures regarding TSU's proportionate share as well as the underlying actuarial assumptions and conclusions are discussed in a separate note.

Optional Retirement Program (ORP)

The State of Texas has also established an Optional Retirement Program ("ORP") for institutions of higher education. Participation in the ORP is in lieu of participation in TRS. The ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. The contributory percentages of participant salaries currently provided by the State of Texas and each participant are 6.60 percent and 6.65 percent, respectively. Depending upon the source of funding for the employee's compensation, TSU may be required to make the employer contributions in lieu of the State. Additionally, the State or TSU must make additional contributions above six percent depending upon the employee's date of hire. Since these are individual annuity contracts, the State and TSU have no additional or unfunded liability for this program.

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For the Year Ended August 31, 2016

	<u>Aug. 31, 2016</u>
Employee Contributions	2,217,494.18
Employer Contributions	<u>2,486,237.29</u>
Total	<u><u>4,703,731.46</u></u>

NOTE 9A: TRS PENSION FUND- TSU's PROPORTIONATE SHARE

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

- ERS – the Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS 1) and Judicial Retirement System of Texas Plan Two (JRS2).
- TRS – the Teacher Retirement System of Texas (TRS) plan
- TESRS – the Texas Emergency Services Retirement System (TESRS) plan.

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

TRS plan

Teacher Retirement System is the administrator of the TRS plan, a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation.

The employers of the TRS Plan include the state of Texas, TRS, the state's public schools, education service centers, charter schools, community and junior colleges. TRS membership is in employee class. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS plan.

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

Audited Comprehensive Annual Financial Report (CAFR) for Teacher Retirement System may be obtained from:

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For the Year Ended August 31, 2016

Teacher Retirement System of Texas

1000 Red River Street

Austin, Texas 78701-2698

During the measurement period of 2015 for fiscal 2016 reporting, the amount of TSU's contributions recognized by the plan was \$1,694,645. The contribution rates for the state and the members in the measurement period are presented in the table below:

Required Contribution Rates

	<u>TRS Plan</u>
Contribution Rates	
Employer	6.8%
Employees	6.7%

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2015 measurement date.

Actuarial Methods and Assumptions

	<u>TRS Plan</u>
Actuarial Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percent, Open
Actuarial Assumptions:	
Discount Rate	8.00%
Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increase	3.50% to 9.50% including inflation
Mortality	
Active	90% of the RP 2014 Employee Mortality Tables for males and females.
Post-Retirement	2015 TRS Healthy Pensioner Mortality
Ad Hoc Post-Employment Benefit Changes	None

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the four-year period ending August 31, 2014 and adopted September 2015. There have been changes in inflation, salary increase and mortality assumptions since the prior measurement date. The inflation assumption changed from 3.00% to 2.50%. The salary increase assumption changed from a range of 4.25% to 7.25% to a range of 3.50% to 9.50%

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For the Year Ended August 31, 2016

including inflation. The mortality assumption changed from the one based on 1994 Group Annuity Mortality Table to the one based on the RP 2014 employee Mortality tables for the active members. For the retired members, the new 2015 TRS Healthy Pensioner Mortality Tables were used for the mortality assumption.

There have been no changes to the benefit and contribution provisions of the plan since the prior measurement date. The discount rate of 8% was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement period. The projected cash flows into and out of the pension plan assumed that members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. Under this assumption, the pension plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8% long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

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

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

Asset Class	Target Allocation	Long- Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18%	4.6%
Non-U.S. Developed	13%	5.1%
Emerging Markets	9%	5.9%
Directional Hedge Funds	4%	3.2%
Private Equity	13%	7.0%
Stable Value		
U.S. Treasury	11%	0.7%
Absolute Return	0%	1.8%
Stable Value Hedge Funds	4%	3.0%
Cash	1%	-0.2%
Real Return		
Global Inflation Linked Bonds	3%	0.9%
Real Assets	16%	5.1%
Energy and Natural Resources	3%	6.6%
Commodities	0%	1.2%
Risk Parity		
Risk Parity	5%	6.7%
Total	<u>100%</u>	

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For the Year Ended August 31, 2016

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

Sensitivity of TSU's Proportionate Share of Net Pension Liability to Changes in Discount Rate

1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
\$ 31,697,440	\$ 20,230,538	\$ 10,679,321

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Teacher Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2015 Comprehensive Annual Financial Report.

At August 31, 2016, TSU reported a liability of \$20,380,538 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. TSU's proportion at August 31, 2015 was .0572314 percent which was a decrease from the .0676941 percent measured at the prior measurement date. TSU's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period September 1, 2014 through August 31, 2015.

For the year ending August 31, 2016, TSU recognized pension expense of \$1,614,362. At August 31, 2016, TSU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 232,571	\$ 777,478
Changes of assumptions	977,501	721,737
Net difference between projected and actual investment return	837,376	-
Change in proportion and contribution difference	-	2,392,635
Contributions subsequent to the measurement date	1,174,302	-
Total	<u>\$ 3,221,750</u>	<u>\$ 3,891,850</u>

The \$ 1,174,302 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2017.

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

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

Year Ending August 31,	Amortization of deferred outflows/inflows
2017	\$ (550,500.00)
2018	(550,500.00)
2019	(550,499.00)
2020	831,151.00
2021	(428,965.00)
Thereafter	(595,089.00)
Total	\$ (1,844,402.00)

NOTE 12: INTERFUND ACTIVITY AND TRANSACTIONS

TSU reports their financial statements in accordance with GASB Statement No. 35. The statement requires TSU to report as one fund. Accordingly, no interfund balances and activities are reported.

NOTE 14: RESTATEMENT OF NET POSITION

Net position was restated at August 31, 2015 to properly reflect audited balances in the Statewide CAFR for fiscal 2015:

Net Position, 09/01/15	\$ 131,537,570.72
Restatements:	
Contributions to pension fund by TSU to measurement date	1,694,645.09
Inter-fund payable	129,123.00
Net Position, 09/01/15, Restated	\$ 133,361,338.81

NOTE 15: CONTINGENCIES AND COMMITMENTS

A. Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although TSU expects such amounts, if any, to be immaterial.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

B. Lawsuits

TSU is a defendant in numerous lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of TSU's management that resolution of these matters will not have a materially adverse effect on the financial condition of TSU.

C. Perkins Loan

TSU is recording maximum liability – Due to Perkins Loan Program for \$ 803,829.74.

NOTE 16: SUBSEQUENT EVENT

TSU issued the following bonds:

<u>Bond Issuance</u>	<u>Series</u>	<u>Amount</u>	<u>Date of Issuance</u>	<u>Purpose</u>
Revenue Financing System Bonds	2016	\$55,490,000	09/15/2016	For construction of learning center

NOTE 17: RISK FINANCING AND RELATED INSURANCE

TSU is exposed to a variety of civil claims resulting from the performance of its duties. It is TSU's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. TSU assumes substantially all risks associated with tort and liability claims due to the performance of its duties.

TSU has commercial insurance policies for general liability, directors and officers, and commercial property. There were no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements for the past three years. Currently, TSU is not involved in any risk pools with other government entities.

TSU has various self-insured arrangements for coverage in the areas of employee health insurance, workers' compensation, unemployment compensation, and medical malpractice. Employee health and medical malpractice plans are funded.

The State provides coverage for workers' compensation and unemployment benefits from appropriations made to other State agencies for TSU employees. The current General Appropriations Act provides that TSU must reimburse the general revenue fund, consolidated from TSU appropriations, one-half of the unemployment benefits and 25 percent of the workers' compensation benefits paid for former and current employees. The Comptroller determines the proportionate amount to be reimbursed from each appropriated fund type. TSU must reimburse the general revenue fund 100 percent of the cost for workers' compensation and unemployment compensation for any employees paid from funds held in local bank accounts and local funds held in the State treasury. Workers' compensation and unemployment plans are on a pay-as-you-go basis, in which no assets are set aside to be accumulated for the payment of claims. No material outstanding claims are pending at August 31, 2016.

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 \$20,000 / \$40,000 bodily injury and \$15,000 property damage. However, TSU has chosen to carry liability insurance on its licensed vehicles in the amount of \$250,000 / \$500,000 bodily injury and \$100,000 property damage, the extent of the waivers of State sovereign immunity specified in the tort claims act.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

NOTE 18: MANAGEMENT'S DISCUSSION AND ANALYSIS

Although normally included as Note 18 following the Comptroller's requirements, Management's Discussion and Analysis is included as a separate section in the front of this report to comply with GASB.

NOTE 19: THE FINANCIAL REPORTING ENTITY

A. Related Parties

TSU is affiliated with the Texas Southern University Foundation. The stated purpose of the foundation is "to solicit and receive gifts, grants, devices, or bequests and to maintain, use, and apply the income there from and the principal thereof exclusively for charitable, scientific, literary or educational activities in order to aid and benefit Texas Southern University." According to foundation bylaws, the President of TSU and a representative of TSU's Board of Regents shall be ex officio members of the foundation's Board of Directors with full voting rights.

TSU is also affiliated with the Texas Southern University Alumni Association. The alumni association is a non-profit organization created for the purpose of promoting, fostering, and advancing the educational goals of TSU and the interests and welfare of its students; to provide the means for continuing relationships between TSU, former students, and the community; and to enable them to contribute to and share in the progress of TSU. All former students are eligible for membership in the alumni association. The Board of Directors of the alumni association is elected by the membership. TSU administration has no controlling interest in the alumni association.

The financial statements of TSU encompass the financial activity only of TSU. TSU does not have any component entities that should be included in these financial statements.

NOTE 20: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

TSU has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, TSU cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net position.

NOTE 22: DONOR-RESTRICTED ENDOWMENTS

	Amount of Net Appreciation	
<u>Donor-Restricted Endowment (Depreciation)</u>		<u>Reported in Net Position</u>
True Endowments	\$ 14,616,017.99	Restricted for expendable
Term Endowments	5,349,915.15	Restricted for expendable
Total	<u>\$ 19,965,933.14</u>	

In the table above, amounts reported as "Net Appreciation" represent net appreciation (cumulative and unexpended) on investments of donor or constitutionally restricted endowments that are available for authorization and expenditure by the TSU Board of Regents. For donor restricted endowments, pursuant to the Uniform Management of Institutional Funds Act, as adopted by Texas, the TSU Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent.

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

TSU's spending policy for endowments reflects an objective to distribute as much of the total return as is consistent with overall investment objectives while protecting the real value of the endowment corpus. The primary long-term investment objective of the endowment is to earn a total rate of return that exceeds the spending rate plus the cost of managing the investment fund. The university all inclusive spending rate of 7%, which includes 5% spending rate, 1.5% university advancement assessment and 0.5% costs of managing the investment fund. In order to preserve purchasing power parity, the Endowment's spending policy shall not exceed 5%. The calculation of the 5% spending rate will be based upon a three year moving average of Endowment Fund earnings with the most recent year removed. The 5% annual spending rate is required to be applied to each individual endowment. The University will calculate the average market value based upon the time period that these endowments are in existence.

Endowment Funds	Changes from Prior Years Balances	
	Increase/Decrease	Reason For Change
Expendable Balances		
True Endowments	\$ 3,409,885.37	Fair value increase in portfolio
Term Endowments	\$ 271,870.54	Fair value increase in portfolio

NOTE 23: EXTRAORDINARY AND SPECIAL ITEMS

TSU does not have any extraordinary and special items to report during the year ended August 31, 2016.

NOTE 24: DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES

Aggregate receivables and other payables as reported on the statement of net position as of August 31, 2016, are detailed as follows:

<u>Receivables</u>	<u>Balance</u>
Student Accounts	\$ 31,323,310.10
Third Party Accounts	5,068,117.06
Other	647,754.89
Non-Federal Grants	490,703.64
Less Allowance	(9,392,829.53)
Total	\$ 28,137,056.16

<u>Other Payables</u>	<u>Balance</u>
Escheat payable	\$ 511,203.16
Student refund payable	44,640.56
Other payables	9,695,954.72
Total	\$ 10,251,798.44

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NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended August 31, 2016

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

In fiscal year 2016, TSU reported deferred outflows of resources and deferred inflows of resources in connection with the implementation of GASB 68 related to pension plan.

<u>As of August 31, 2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected	\$ 232,571	\$ 777,478
Changes of assumptions	977,501	721,737
Contributions to measurement date	1,174,302	-
Change in proportion	-	2,392,635
Net difference in projected and actual	837,376	-
Total	<u>\$ 3,221,750</u>	<u>\$ 3,891,850</u>

Deferred outflows of resources of \$ 3,221,750 were related to differences and changes in assumptions for pension plan. Deferred inflows of resources of \$ 3,891,850 were related to changes in proportion and net difference between projected and actual investment return.

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SUPPLEMENTARY INFORMATION

TEXAS SOUTHERN UNIVERSITY

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SCHEDULE OF OPERATING EXPENSES

For the Month Ended August 31, 2016

<u>Expenses by Natural Classification</u>		<u>2016</u>
Salaries and Wages	\$	88,817,769.55
Payroll Related Costs		26,057,792.83
Professional Fees and Services		5,466,976.27
Travel		3,003,984.97
Materials and Supplies		9,164,863.58
Communication and Utilities		5,580,975.27
Repairs and Maintenance		5,906,883.47
Rentals and Leases		1,451,516.44
Printing and Reproductions		644,054.42
Bad Debt Expense		2,402,186.02
Scholarships		18,922,865.79
Other Operating Expenses		12,540,185.49
Depreciation		17,375,435.65
Total Operating Expenses by Natural Class	\$	197,335,489.75

<u>Expenses by NACUBO Classification</u>		<u>2016</u>
Instruction	\$	76,352,343.78
Research		4,495,276.41
Public Service		1,658,574.70
Academic Support		12,496,382.57
Student Services		12,973,335.68
Institutional Support		31,436,534.30
Operation and Maintenance of Plant		11,559,467.70
Scholarships and Fellowships		10,013,994.89
Auxiliary		18,974,144.07
Depreciation		17,375,435.65
Total Operating Expenses by NACUBO Class	\$	197,335,489.75

TEXAS SOUTHERN UNIVERSITY

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SCHEDULE 1B - STATE GRANT PASS THROUGH FROM/TO STATE AGENCIES

For the Year Ended August 31, 2016

Pass Through From:

2016

TSBPA(Agency#457.0001)	\$ 15,000.00
University of Texas System (Agency# 720.0002)	13,229.00
Texas Higher Education Coordinating Board (Agency# 781.0005)	295,529.27
Texas Higher Education Coordinating Board (Agency# 781.0008)	6,674,864.00
Texas Higher Education Coordinating Board (Agency# 781.0020)	12,900.00
Texas Higher Education Coordinating Board (Agency# 781.0023)	71,644.00
Texas Higher Education Coordinating Board (Agency# 781.0029)	125,000.00
Total Pass Through From Other Agencies	\$ 7,208,166.27

TEXAS SOUTHERN UNIVERSITY

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SCHEDULE 2A - MISCELLANEOUS BOND INFORMATION

For the Year Ended August 31, 2016

Business-Type Activities

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>		<u>First Call Date</u>	<u>Original Issue</u>
		<u>First Year</u>	<u>Last Year</u>		
Revenue Bonds- Self Supporting					
Series 2011	4.00-6.75%	2011	2030	5/1/2021	\$ 31,500,000.00
Series 2013	2.00-5.00%	2013	2023	n/a	62,355,000.00
Total General Bonded Debt					<u>\$ 93,855,000.00</u>

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SCHEDULE 2B - CHANGES IN BOND INDEBTEDNESS

For the Year Ended August 31, 2016

Description	Bonds Outstanding 09/01/2015	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Par Value Adjustments	Bonds Outstanding 8/31/2016	Unamortized Premium	Unamortized Discount	Adjustments	Net Bonds Outstanding 8/31/2016	Amounts Due Within One Year	Bonds Outstanding 8/31/2016
Revenue Bonds- Self Supporting												
Series 2011	25,300,000.00	-	1,110,000.00	-	-	24,190,000.00	-	(164,386.39)	-	24,025,613.61	1,152,823.22	24,190,000.00
Series 2013	47,930,000.00	-	7,160,000.00	-	-	40,770,000.00	3,652,601.05	-	-	44,422,601.05	7,798,974.00	40,770,000.00
Total General Bonded Debt	<u>\$ 73,230,000.00</u>	<u>\$ -</u>	<u>\$ 8,270,000.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,960,000.00</u>	<u>\$ 3,652,601.05</u>	<u>\$ (164,386.39)</u>	<u>\$ -</u>	<u>\$ 68,448,214.66</u>	<u>\$ 8,951,797.22</u>	<u>\$ 64,960,000.00</u>

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SCHEDULE 2C - DEBT SERVICE REQUIREMENTS

For the Year Ended August 31, 2016

Year Ending Aug. 31	Series 2013 Revenue Bonds Refunding			Series 2011 Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 7,080,000.00	\$ 1,823,850.00	\$ 8,903,850.00	\$ 1,165,000.00	\$ 1,510,487.50	\$ 2,675,487.50
2018	6,615,000.00	1,481,475.00	8,096,475.00	1,230,000.00	1,446,412.50	2,676,412.50
2019	5,395,000.00	1,181,225.00	6,576,225.00	1,300,000.00	1,378,762.50	2,678,762.50
2020	5,675,000.00	904,475.00	6,579,475.00	1,365,000.00	1,310,512.50	2,675,512.50
2021	5,965,000.00	613,475.00	6,578,475.00	1,440,000.00	1,237,143.76	2,677,143.76
2022-2026	10,040,000.00	417,175.00	10,457,175.00	8,575,000.00	4,810,281.28	13,385,281.28
2027-2031	-	-	-	9,115,000.00	1,588,275.00	10,703,275.00
2032-2035	-	-	-	-	-	-
Total	\$ 40,770,000.00	\$ 6,421,675.00	\$ 47,191,675.00	\$ 24,190,000.00	\$ 13,281,875.04	\$ 37,471,875.04

Year Ending Aug. 31	Financing Note Series 2011-4			Financing Note Series 2012-10		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 2,309,686.53	\$ 1,256,171.43	\$ 3,565,857.96	\$ 2,351,877.64	\$ 1,169,106.38	\$ 3,520,984.02
2018	2,360,474.69	1,205,383.27	3,565,857.96	2,408,530.31	1,112,453.71	3,520,984.02
2019	2,415,985.14	1,149,872.82	3,565,857.96	2,463,624.45	1,057,359.57	3,520,984.02
2020	2,469,845.88	1,096,012.08	3,565,857.96	2,517,293.25	1,003,690.77	3,520,984.02
2021	2,525,179.55	1,040,678.41	3,565,857.96	2,572,414.63	948,569.39	3,520,984.02
2022-2026	13,578,247.95	4,251,041.85	17,829,289.80	13,803,563.39	3,801,356.71	17,604,920.10
2027-2031	15,246,379.01	2,582,910.79	17,829,289.80	15,455,819.61	2,149,100.49	17,604,920.10
2032-2035	13,539,483.83	723,947.76	14,263,431.59	10,151,520.75	411,430.72	10,562,951.47
Total	\$ 54,445,282.58	\$ 13,306,018.41	\$ 67,751,300.99	\$ 51,724,644.03	\$ 11,653,067.74	\$ 63,377,711.77

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SCHEDULE 2D - ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE

For the Year Ended August 31, 2016

Business-Type Activities

Revenue Bonds	Pledged and Other Sources and Related Expenditures for FY 2016			
	Net Available for Debt Service		Debt Service	
	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Principal	Interest
BOND SERIES 2011, 2013	\$ 85,974,231.50	\$ 47,893,228.53	\$ 8,270,000.00	\$ 3,710,037.50
Total	\$ 85,974,231.50	\$ 47,893,228.53	\$ 8,270,000.00	\$ 3,710,037.50

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Required Supplementary Information

For the Year Ended August 31, 2016

Schedule of TSU's Proportionate Share of the Net Pension Liability* Teacher Retirement System of Texas

	2016	2015
TSU's proportion of the net pension liability (asset)	0.0572%	0.0677%
TSU's proportionate share of the net pension liability (asset)	\$20,380,538	\$18,085,720
TSU's covered payroll	\$ 21,992,327	\$ 24,812,792
TSU's proportionate share of the net pension liability (asset) as a percentage of the total pension liability	91.94%	72.89%
Plan fiduciary net position as a percentage of the total pension plan	78.43%	83.25%

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

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Required Supplementay Information

For the Year Ended August 31, 2016

Schedule of Employer Contributions*

Teacher Retirement System of Texas

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statorily required contributions	\$ 1,174,302	\$ 1,694,645	\$ 2,151,269
Contributions in relation to the statorily required contributions	1,174,302	1,694,645	1,702,626
Contribution deficiency (excess)	-	-	448,643
Covered payroll	\$ 21,992,327	22,004,400	24,812,792
Contribution as a percentage of covered-employee payroll	5.34%	7.70%	6.86%

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

